

IBOR Transition Newsletter

NEWSLETTER | JUNE 2021

The purpose of this newsletter is to provide the latest updates and industry developments regarding the transition from Interbank Offered Rates (IBORs) to alternative reference rates (ARRs). In this issue, you will find summarized jurisdictional highlights from the global regulatory community, industry working groups, and various industry news sources.

INTERNATIONAL

- The Financial Stability Board (FSB) [published](#) a set of documents to support a smooth transition away from LIBOR by the end of 2021.
- ISDA launched a new [consultation](#) on how to implement fallbacks for certain swap rates published by the ICE Benchmark Administration (IBA).
- The Financial Conduct Authority (FCA) has published a [consultation](#) on their proposed decision to use their powers under the Benchmarks Regulation (BMR) to require the IBA to change the benchmark's methodology.
 - ◆ The FCA proposes to use BMR powers to require a synthetic LIBOR to be calculated using a forward-looking term version of the relevant risk-free rate and the fixed ISDA spread adjustment published for the purposes of the ISDA IBOR Fallbacks Supplement and Protocol for the respective LIBOR setting.

UNITED STATES

- IHS Markit is [publishing](#) forward-looking dynamic term rates that measure the daily USD cost of funding in institutional markets. These rates are the IHS Markit USD Credit Inclusive Term Rate (CRITR) and the IHS Markit USD Credit Inclusive Term Spread (CRITS), which are designed to provide banking institutions a broad measure of USD funding costs on a senior unsecured basis.
 - ◆ IHS Markit does not currently offer any licences that allow for use of these rates. CRITR and CRITS are currently not available for use and are subject to regulatory approval.
- The CFTC's Market Risk Advisory Committee's Interest Rate Benchmark Reform Subcommittee voted to [recommend](#) a market best practice for switching interdealer trading conventions from LIBOR to SOFR for USD linear interest rate swaps.
 - ◆ The Subcommittee recommends that on July 26, 2021 and thereafter, interdealer brokers replace trading of LIBOR linear swaps with trading of SOFR linear swaps.
- The Financial Stability Oversight Council (FSOC) Principals Meeting held June 11th included a [discussion](#) about the importance of accelerating the transition from LIBOR and using sufficiently robust reference rates for derivatives and capital markets products.
 - ◆ The full recording of the open session is available [here](#).
- The Federal Housing Finance Agency (FHFA) published a [supervisory letter](#) to the Federal Home Loan Banks to support a smooth transition away from USD LIBOR.
 - ◆ The letter encourages the continued use of SOFR and SOFR averages and warns against the adoption of rates that have similar shortcomings as those associated with LIBOR.
- Bloomberg published the [BSBY Report: Additional Analysis and Key Facts](#), which provides information on how credit sensitive rates—including BSBY—can facilitate the orderly transition from the LIBOR to ARR.
 - ◆ The report illustrates how BSBY is fundamentally different from LIBOR and has been tested to demonstrate robustness during recent periods of market stress, as well as resistance to potential manipulation.

UNITED KINGDOM

- To support the US-led 'SOFR First' initiative, the FCA and Bank of England [support](#) and encourage liquidity providers in the US dollar linear interest rate swaps market to adopt new trading conventions for interdealer trading based on SOFR instead of LIBOR from 26 July 2021.
 - ◆ This is to facilitate a shift in market liquidity towards SOFR, bringing benefits for a wide range of users as they move away from LIBOR.

EUROZONE

- The European Commission, the European Central Bank (ECB), the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) issued a [joint statement](#) in which they strongly encourage market participants to use the time remaining until the cessation or loss of representativeness of USD LIBOR, GBP LIBOR, JPY LIBOR, CHF LIBOR and EUR LIBOR to substantially reduce their exposures to these rates.
 - ◆ The statement also encourages market participants to cease using the 35 LIBOR settings, including USD LIBOR, as a reference rate in new contracts as soon as practicable and by December 31, 2021 at the latest.
 - ◆ Participants are also called on to limit the use of any LIBOR setting published under a changed methodology and to include robust fallback clauses nominating alternative rates in all contracts referencing LIBOR.

CANADA

- Consistent with international efforts, the Office of the Superintendent of Financial Institutions (OSFI) issued a [letter](#) which outlines their expectations of federally regulated financial institutions (FRFIs) as they transition away from LIBOR.
 - ◆ OSFI expects that FRFIs with transactions linked to LIBOR will complete their efforts to ensure a seamless transition to new reference rates prior to the cessation dates.