

IBOR Transition Newsletter

NEWSLETTER | AUGUST 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 Transition to Risk-free Rates (RFRs) [Review](#) analyzes the trading volumes of over-the-counter (OTC) and exchange-traded interest rate derivatives (IRD) that reference selected alternative RFRs, including SOFR, SONIA, the Swiss Average Rate Overnight, the Tokyo Overnight Average Rate, the Euro Short-Term Rate and the Australian Overnight Index Average.
- The Board of the International Organisation of Securities Commissions (IOSCO) advises that alternative financial benchmarks will need to be [compliant](#) with the IOSCO Principles on Financial Benchmarks (IOSCO Principles).
 - ◆ Demonstrating compliance with the IOSCO Principles is not a one-time exercise and alternative benchmarks should be IOSCO compliant at all times.
 - ◆ Regulators are concerned that some of LIBOR's shortcomings may be replicated through the use of credit sensitive rates that lack sufficient underlying transaction volumes.

UNITED STATES

- Following the ARRC's announcement that Refinitiv is to publish its recommended spread adjustments and spread adjusted rates for cash products, Refinitiv [announced](#) the launch of a prototype rate.
 - ◆ The Refinitiv USD IBOR Cash Fallbacks, as the rates will be known, will create a family of USD fallback rates for use in cash markets.
 - ◆ There are two versions of the Refinitiv USD IBOR Cash Fallbacks: one for consumer cash products, the other for institutional cash products. Both will be published to 5 decimal places.
- Many large U.S. financial institutions are providing SOFR to corporate borrowers as part of the transition away from LIBOR, however, SOFR may not cover all companies' needs.
 - ◆ Lenders are [considering](#) making index rates such as the American interbank offered rate (AMERIBOR) or the Bloomberg short term bank yield index (BSBY) available as alternatives. Still more research needs to be done to determine how these alternative rates would fare in an economic downturn and if there is enough transaction volume to generate a reliable reference metric.
 - ◆ While regulators are urging banks to offer SOFR for capital markets and derivative transactions, the Federal Reserve says it is open to other rate options for loans and other financial instruments.
- Chicago Board Options Exchange (Cboe), a leading provider of global market infrastructure and tradable products, [announced](#) plans to launch futures on the American Interbank Offered Rate (AMERIBOR) Term-30 interest rate benchmark.
 - ◆ The new futures are expected to be available for trading on Cboe Futures Exchange, LLC (CFE) on Monday, September 13, 2021, subject to regulatory review.
 - ◆ The AMERIBOR Term-30 benchmark is designed for financial institutions in need of forward-looking short-term interest rates as the cessation of LIBOR approaches.
- The ARRC released [FAQs](#) on best practices related to the scope of use of the CME SOFR term rates. This update follows the ARRC's formal recommendation of the SOFR Term Rate.
- The LSTA has published its [Term SOFR Concept Document](#). This document illustrates a term loan facility referencing Term SOFR as its benchmark rate of interest.

UNITED KINGDOM

- The ICE Benchmark Administration Limited ("IBA") has [published](#) a feedback statement on its intention to cease the publication of ICE Swap Rate settings based on GBP LIBOR.
 - ◆ Based on the feedback received, IBA has announced that it will cease the publication of GBP LIBOR ICE Swap Rate for all tenors immediately after publication on December 31, 2021.

ASIA-PACIFIC

- The Hong Kong Monetary Authority ("HKMA") issued [Circular B1/15C](#) to all authorised institutions ("AIs"). HKMA has required AIs to cease entering into new LIBOR-linked contracts after 2021.
 - ◆ However, AIs may need to issue new USD LIBOR-linked contracts under certain exceptional circumstances until June 2023 in order to manage risks associated with pre-existing USD LIBOR-linked contracts. The circumstances under which AIs are permitted to issue new USD LIBOR-linked contracts after 2021 are:
 - > transactions that reduce or hedge an AI's or its clients' USD LIBOR exposures connected with contracts entered into before 1 January 2022;
 - > market making in support of client activities related to USD LIBOR transactions executed before 1 January 2022;
 - > novations of USD LIBOR transactions executed before 1 January 2022; and
 - > transactions executed for purposes of required participation in a central counterparty auction procedure in the case of a member default, including transactions to hedge the resulting USD LIBOR exposure.