

IBOR Transition Newsletter

NEWSLETTER | NOVEMBER 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 FSB [highlighted](#) key points to be noted as some key USD LIBOR tenors will be continued through to June 30, 2023. This is with the intention that only legacy contracts are allowed to mature in contrast with supporting new USD LIBOR activity. The key points include:
 - ◆ Market participants need to finalize plans to cease new use of LIBOR by end-2021.
 - ◆ Transitions should be mainly to overnight RFRs which are the most robust benchmarks available.
 - ◆ Transition of legacy contracts should be actively managed to ensure control and certainty over prevailing arrangements.
- The Financial Conduct Authority (FCA) [established](#) an impermanent use of 'synthetic' sterling and yen LIBOR rates in all legacy LIBOR contracts, except for cleared derivatives, that have not moved to an alternative rate by December 31, 2021. To avoid the risk of disruption to markets and consumers due to LIBOR cessation and allow for more time to complete transition, the FCA is requiring the publication of 1-, 3-, and 6-month LIBOR rates for sterling and Japanese yen on a synthetic basis until the end of 2022.
- Refinitiv will [launch](#) USD IBOR Consumer Cash Fallbacks 1-week and 2-month settings on January 3, 2022 pending board approval from Refinitiv Benchmark Services (UK) Limited (RBSL). This comes after its announcement that USD IBOR Institutional Cash Fallbacks are now production benchmarks.

UNITED STATES

- Bloomberg Index Services Limited (BISL) provided an [update](#) on consultations made from Bloomberg Index Services Limited (BSBY) users to enhance its methodology. Going forward, BISL will include clear steps on the publishing of any use of BSBY lock-up (a sixth and final step in the calculation waterfall) via the BSBY webpage, and newswire to ensure alignment with contractual fallback mechanisms.
- The Federal Reserve [issued](#) frequently asked questions (FAQs) to assist its supervised firms in the transition away from using LIBOR as a reference rate. The excerpt below demonstrates the increased regulatory focus on transition progress and controls;

"Consistent with [SR Letter 21-7](#), examiners first assess whether a Board-supervised institution has exposure to LIBOR. For institutions with LIBOR exposure, examiners have focused on (1) transition planning; (2) financial exposure measurement and risk assessment; (3) operational preparedness and controls; (4) legal contract preparedness; (5) communication; and (6) oversight.

Board-supervised institutions that are not making adequate progress toward transitioning away from LIBOR could create safety and soundness risks for themselves and for the financial system. Accordingly, examiners will consider issuing supervisory findings and other supervisory actions if a firm is not making adequate progress."

EUROZONE

- The EU's securities regulator, European Securities and Markets Authority (ESMA) [published](#) a report on the clearing obligation (CO) and derivative trading obligation (DTO) to accompany LIBOR transition. The final report includes draft regulatory technical standards (RTS) and ESMA's proposal to remove interest rates derivatives (IRD) classes that reference GBP and USD LIBOR and introduce IRD classes that reference €STER, SONIA and SOFR to the CO.

ASIA - PACIFIC

- The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks [published](#) a paper - "Public Consultation on the Treatment of Tough Legacy Contracts in Japan. Key points highlighted on the use of synthetic yen LIBOR include the introduction of permanent cessation and re-cessation triggers concerning conditions on which fallback provisions are activated. Key points highlighted on the use of synthetic yen LIBOR include:
 - ◆ The introduction of permanent cessation and re-cessation triggers concerning conditions on which fallback provisions are activated.
 - ◆ In certain types of bonds where there are indeterminate number of bondholders, communication measures between contracting parties should include a notice that specifies 'negative consent' procedure and a written notice to organize bondholders' meeting.
- The Hong Kong Monetary Authority (HKMA) [enables](#) the adoption and usage of HONIA by [tendering](#) a HONIA-indexed floating rate notes (FRNs) of HK\$1billion (\$128million). The HKMA hopes that this issuance will encourage private sector participants to issue similar products.