

IBOR Transition Newsletter

NEWSLETTER | OCTOBER 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 International Swaps and Derivatives Association (ISDA) [revised](#) its standard documentation which references key IBORs. This amendment will be applied after the cessation of those IBORs, and in the event of LIBOR, if LIBOR becomes 'non-representative'. This modification may be included with the fallback triggers and rates in legacy transactions by either adhering to a 'protocol' published by ISDA or entering bilateral amendments.
- 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.

UNITED STATES

- Five federal financial institutions regulatory agencies which include the Board of Governors of the Federal Reserve System [issued](#) a joint statement which highlighted the expectations of supervised institutions in respect to LIBOR exposure and transition.
- The Acting Comptroller of the Currency, Michael J. Hsu, [remarked](#) at a symposium on the need for bankers to avoid complacency with the emerging risks surrounding LIBOR replacement. He made it clear that federal financial regulators will no longer allow for new LIBOR exposures after December 2021.
- The Commodity Futures Trading Commission's Interest Rate Benchmark Reform Subcommittee [selected](#) November 8, 2021 as the date for switching interdealer trading conventions from LIBOR to the Secured Overnight Financing Rate (SOFR) for U.S. Dollar (USD) non-linear derivatives under the MRAC's SOFR First initiative.
- The ICE Benchmark Administration Limited (IBA) will be [introducing](#) 'Beta' USD SOFR ICE Swap Rate® and USD SOFR Spread-Adjusted ICE Swap Rate® to support the non-linear market in the ongoing transition to SOFR. These new rate settings are published simultaneously as the current USD LIBOR 1100 ICE Swap Rate benchmark.

UNITED KINGDOM

- Refinitiv [announced](#) the introduction of Tokyo Swap Rate (for swaps referencing TONA) – a new version of Tokyo Swap Rate, the Japanese yen (JPY) interest rate swap (IRS) benchmark family. The benchmark will be managed by Refinitiv Benchmark Services (UK) Limited (RBSL) and tenors from 1 to 40 years will be available based on dealer-to-client quotes.
- The Financial Conduct Authority (FCA) [updated](#) the list of derivatives subject to the derivatives trading obligation (DTO) in line with the Bank of England's modifications to reflect the interest rate benchmark reforms.

EUROZONE

- The European Commission has selected new risk-free rates to replace Swiss franc LIBOR (CHF LIBOR) and the Euro Overnight Index Average (EONIA). While CHF LIBOR will be replaced by Swiss Franc risk-free rate (SARON), EONIA will be replaced by references to euro risk-free rate €STR. These two benchmark rates will no longer be published after December 31, 2021.

CANADA

- BMO participates in some of the first interest rate swaps linked to CME Term SOFR as clients migrate their risk away from LIBOR. In the first week of November, BMO's trading desk dealt two separate swaps in competition with other dealers, with several more deals in the pipeline. As expected, the pricing on Term SOFR was wider than Daily Compounded SOFR but should tighten as the index gains traction.

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