

# IBOR Transition Newsletter

NEWSLETTER | SEPTEMBER 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 Conduct Authority (“FCA”) [mandated](#) LIBOR benchmark administrators to publish LIBOR settings under a ‘synthetic’ methodology.
  - ◆ In order to ensure zero disruption to legacy contracts that reference the 1-, 3- and 6-month sterling and Japanese yen LIBOR settings, the Financial Conduct Authority (FCA) requires LIBOR benchmark administrators to adopt a ‘synthetic’ methodology to publish the settings based on term risk-free rates throughout 2022.
  - ◆ It is expected that these LIBOR settings above will be available for use in some legacy contracts and not for use in new business.
  - ◆ The ICE Benchmark Administration will continue to publish these settings (overnight, and 1-, 3-, 6- and 12-month) on a representative basis until the end of June 2023.

## UNITED STATES

- The International Swaps and Derivatives Association (“ISDA”) [modifies](#) its fallback language for Bloomberg Short-Term Bank Yield Index (“BSBY”) and AMERIBOR after the FCA and Federal Reserve Board (“FRB”) voiced concerns.
  - ◆ The concerns stem from the ISDA’s definitions of BSBY and AMERIBOR which stated that the FCA or FRB could officially endorse or convene a committee to recommend a replacement rate for any credit sensitive rates.
- The Vice Chair for Supervision at the Federal Reserve, Randal K. Quarles, [noted](#) that the Fed is working with other agencies to provide directions on the LIBOR transition plans.
  - ◆ In his opinion, the “new” use of LIBOR would be inclusive of creating additional LIBOR exposure for a supervised institution or an extension of the term of an existing LIBOR contract.
  - ◆ He reiterated that the Fed, Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) stance on not endorsing a specific replacement rate still stands.
  - ◆ It was emphasised that one of the highest priorities of the Fed bank’s supervisors in the coming months will be reviewing banks’ cessation of LIBOR.

## UNITED KINGDOM

- The UK put [forward](#) a safe harbor legislation in the Critical Benchmarks (References and Administrators’ Liability) Bill which applies only to the transition from LIBOR to synthetic LIBOR.
  - ◆ The provisions of the Bill are not applicable for the transition to Alternative Reference Rate (ARR) from LIBOR
  - ◆ Clause 1 of the Bill provides for contractual continuity from LIBOR’s change to synthetic LIBOR, contractual fallback provision not cutting across transitions from LIBOR to an ARR and no creation of right, obligation or liability as regards acts or omissions.
  - ◆ Clause 2 of the Bill grants a limited immunity for a benchmark administrator mandated by the FCA to calculate synthetic LIBOR using the specific methodology.

## EUROZONE

- The European Banking Foundation (“EBF”) [signalled](#) its support for the European Commission to replace the statutory LIBOR CHF with a Swiss Average Rate Overnight (SARON) Compound Rate plus a tenor specific spread adjustment (Spread Adjustment Value). The EBF’s support will provide legal certainty and optimum consumer protection.
- The Riksbank, Sweden’s Central Bank, [issued](#) a press release confirming that the reference rate – SWESTR (Swedish krona Short Term Rate) can now be officially used in financial contracts from September 2, 2021. The existing reference rate STIBOR (Stockholm Interbank Offered Rate) which has a similar maturity has been switched to SWESTR.
- Poland [urges](#) the EU to make a timely decision ahead of the franc LIBOR rates expiration in December 2021 as the country has foreign-currency mortgages worth \$31billion linked to these rates.

## ASIA-PACIFIC

- The Reserve Bank of India (RBI) [issued](#) a circular authorizing sanctioned dealer banks on the use of ARR rather than LIBOR for export/import transactions.
- The government of Bangladesh is [working](#) out a transition plan to SOFR ahead of LIBOR’s cessation in December 2021. The finance ministry has requested the Economic Relations Divisions (ERD) to examine the possibilities and identify prospects and risk factors inherent for a smooth transition.