

IBOR Transition Newsletter

NEWSLETTER | FEBRUARY 2022

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.

UNITED STATES

- SOFR swaps now [account](#) for majority of interest risk traded in the outright linear swaps markets according to the Alternative Reference Rates Committee (ARRC). This shows a continuous positive momentum in the transition from LIBOR to SOFR.
- ARRC has identified its key objectives for 2022 which fall into two key [priority areas](#): (1) to promote and monitor the adoption of SOFR for new contracts and (2) support the transition of legacy contracts. This will include pursuing federal and state legislation as appropriate.
- CME Group [reported](#) an exponential growth in SOFR futures and options in 2022 with an average of more than 65,000 daily contracts in February. This confirms a wide acceptance of clients turning to SOFR-based products to manage their risk.
- Ginnie Mae (GNMA) [published](#) a “LIBOR Index Transition Reference Guide” which highlighted the impact of LIBOR transition on its mortgage backed securities and multiclass securities program. GNMA partnered with Federal Housing Administration (FHA) to ensure transition synergies and timeline alignment.
- Nearly 90% of new issuances in the floating-rate debt markets now reference SOFR according to the Fed’s Monetary Policy [Report](#). In the securitization markets, government sponsored enterprises are now accepting only SOFR adjustable-rate mortgages (ARMs) and have tied all associated Mortgage-Backed Security (MBS) issuance to SOFR.
- SOFR Academy [announced](#) a new solution, Invesco/SOFR Academy Across-the-Curve Credit Spread Index (AXI), which hopes to provide a smooth transition in the SOFR based lending market. AXI will also offer transparency and certainty to market participants.
- ICE [launched](#) beta Term SOFR reference rates to measure forward looking SOFR rates over 1,3,6 and 12 month tenor periods. These rates will benefit market participants who value forward-looking term rates for certainty in calculating interest expenses and other contractual payments in advance.

CANADA

- Refinitiv [published](#) its consultation on CDOR cessation highlighting key factors such as the sustainability of CDOR, consultation questions, regulatory obligations and policy requirements. Comments and feedback for consultation closed on February 28, 2022.
- The Canadian Alternative Reference Rate working group (CARR) [welcomed](#) Refinitiv’s publication of a consultation document following the [white paper](#) publication on the potential permanent cessation of CDOR.
- A panel discussion [hosted](#) by ISDA analyzed the risks identified in the efficacy of CDOR ahead of its cessation. One of these risks is the shrinking supply of issued Bankers Acceptances which erodes the foundation on which CDOR is built.

INTERNATIONAL

- The Bank of England, Financial Conduct Authority (FCA) and the Working Group on Sterling Risk-Free Reference Rates issued a joint [press release](#) which reflected on progress made, what more needs to be done and the Working group’s mode of operation in the future.
- On January 1, 2022, the European Securities and Markets Authority (ESMA) [commenced](#) supervision of EU critical benchmarks administrators and EU recognized third-country administrators under the Benchmarks Regulation
- The ESMA [updated](#) its Q&A on the EU Benchmarks Regulation (EU BMR) to include details for temporary disruptions to the provision of a benchmark in the context of Article 28(2).
- Refinitiv [confirmed](#) its decision to make substantial changes to the Tokyo Swap Rate methodology for swaps referencing TIBOR with the aim to support continued publication of the rates temporarily.
- The Reserve Bank of New Zealand has [adhered](#) to the December 2021 Benchmark Module of the ISDA 2021 Fallbacks Protocol which includes fallback arrangements for the Bank Bill Benchmark Rate (BKBM), New Zealand’s key interest rate benchmark.

FOR MORE INFORMATION ON THESE TOPICS, OR TO BE ADDED TO THIS MONTHLY DISTRIBUTION LIST, PLEASE CONTACT IBOR.TRANSITIONOFFICE@BMO.COM | IBOR TRANSITION OFFICE