LIBOR Transition

Market update:
November 16 - 30, 2020

396 days to **December 31, 2021**
941 **June 30, 2023?**

1 Highlights

USD LIBOR: Sit Down. Stand Up.

What happened? The ICE Benchmark Administration (IBA), LIBOR's administrator, provided some clarity with respect to the timing of LIBOR's cessation. First, it announced that it will soon consult on its intention to cease publication of all tenors of GBP, EUR, CHF and JPY LIBOR after December 31, 2021. A little more than a week later, IBA announced its intention to cease the publication of one-week and two-month tenors of USD LIBOR after December 31, 2021, while all remaining tenors of USD LIBOR would continue to be published until June 30, 2023. IBA declared that it would issue a single consultation covering all currencies sometime in December, with comments expected by the end of January 2021.

IBA notes that its plans are the result of discussions between the panel banks, the official sector and IBA itself on the possibility of continuing the publication for more widely-used tenor and currency pairs of LIBOR.

The Financial Conduct Authority, IBA's primary regulator, issued a statement supporting the USD LIBOR "extension by panel banks and IBA, together with the proposal to consult on a clear end date to the US$ LIBOR panel, following discussions with the US$ LIBOR panel banks."

The Federal Reserve Board (Fed) issued a similar statement of support. In parallel, the Fed, Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) issued guidance encouraging banks to transition away from USD LIBOR as soon as practicable. The statement also suggested that banks should not enter into new transactions referencing USD LIBOR after December 31, 2021. While there may be limited instances in which entering into new USD LIBOR-based contracts would

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be appropriate — such as for market making or purposes of hedging existing LIBOR-based exposures — the agencies warned banks that they would examine bank practices in light of potential safety and soundness concerns about new USD LIBOR contracts.

Our take: With IBA's announcements, we enter the final act of LIBOR's demise. The possible extension of the timeline for USD LIBOR's cessation, which depends on the outcome of IBA's upcoming consultation, aligns with recent remarks made by Randal Quarles in front of Congress. There, the Fed's Vice Chair for Supervision referenced a potential "mechanism" that would allow some legacy contracts tied to LIBOR to mature on their existing terms. The ongoing publication of USD LIBOR based on panel bank submissions would achieve that goal for contracts maturing prior to June 2023.

Additional time to remediate existing contracts

For contracts maturing after that date, the possible extension provides market participants with additional time to amend fallback language or negotiate a direct switch to an alternative reference rate. It would also allow more time to enact a legislative solution to aid in addressing contracts containing no or inadequate fallback language at the time of LIBOR's cessation.

The additional time to remediate existing contracts will likely prompt banks to reconsider their remediation strategy. Given that there remain uncertainties around ongoing liquidity in LIBOR beyond 2021, especially as new products continue their transition to risk-free rates (RFRs), banks may look to retain control over the timing and economic impacts of a switch in reference rates. Rather than employing hardwired fallback language, we expect some banks to make use of flexible opt-in language or switch mechanisms that would allow for contracts to transition away from LIBOR prior to its cessation in June 2023. That flexibility would also be welcome for exposures that require a term reference rate as replacement, such as certain trade finance transactions.

Limitations on use of USD LIBOR beyond 2021

The interagency guidance provides a clear expectation that there will be no new USD LIBOR contracts after 2021, although a narrow set of exceptions are permitted (e.g., market-making activities, novation and risk management) — provided they relate only to LIBOR transactions entered into prior to January 1, 2022. The Fed's explicit reference to safety and soundness concerns provides an indication for how the regulator could compel US-based institutions to comply with these limitations on the use of LIBOR.

Cessation of USD LIBOR in June 2023

Five Things To Do Now:

1. Continue, or even accelerate, efforts to develop new RFR products in USD and other currencies
2. Identify population of contracts that could mature on their existing terms prior to LIBOR cessation
3. Develop likely scenarios for consultation outcomes and potential impacts on existing portfolios
4. Develop contingency plans for consultation outcomes, including impacts on transaction pricing, hedging costs, resource requirements for contract remediation and client communications
5. Don't slow down!

The FCA may also decide to curtail the use of USD LIBOR, in alignment with the approach taken by US regulators. What is not yet clear is which legislative mechanism it would rely upon to limit USD LIBOR's use after the end of 2021.

The FCA's primary tool to prevent the continued use of a benchmark would be a declaration of non-representativeness. Under both the UK and EU BMR, declaring USD LIBOR non-representative would prevent UK and EU institutions from using USD LIBOR in new contracts. For existing contracts it would also a) immediately trigger the calculation of the spread adjustment intended to address the tenor and credit basis between LIBOR and replacement rates, and b) set in motion the eventual transition of all derivative contracts that contain the pre-cessation triggers included in ISDA's IBOR Fallbacks Supplement and related Protocol to their respective RFR replacement.

In that scenario, market participants that signed on to ISDA's Fallbacks Protocol would then need to amend any derivative contracts they would want to preserve once USD LIBOR becomes non-representative — for example, to preserve alignment with a hedged cash product that continues to reference USD LIBOR. Such a declaration would likely also impact the decision of the clearing houses as to when rulebook changes to transition existing LIBOR contracts to their RFR replacements would become effective.

It is also not clear how the FCA, once declaring USD LIBOR as non-representative, would allow for exceptions similar to those suggested by the Fed. As a result, the FCA may look to legislative or other, less formal, approaches to curtail the use of USD LIBOR beyond 2021. On the other hand, both the FCA and

IBA have made it clear that the ongoing publication of any iteration of LIBOR after 2021 would depend on the benchmark's continued representativeness. While the FCA might be reluctant to declare USD LIBOR as non-representative at this point, there remains the possibility that the FCA could make such a determination at some point in 2022 or 2023.

Difficulties in risk management beyond 2021

The additional time provided to address legacy contracts potentially comes at an economic cost. The continued publication of USD LIBOR with a simultaneous call for termination of new production will undoubtedly have significant adverse impacts on USD LIBOR liquidity. With liquidity in hedging instruments past 2021 possibly reduced to a fraction of today's level, hedging and risk management of USD LIBOR exposures might become a rather costly affair. In addition, managing a balance sheet or portfolio of instruments tied to different rates — potentially employing different conventions to calculate interest for an extended period of time — may prove to be complex.

The path ahead

Those treating the announcement as an excuse to take an 18-month breather may risk falling further behind and would surely subject themselves to additional regulatory scrutiny. Many of the market participants we've spoken to continue to push ahead unabatedly. In addition, the reprieve on legacy contracts should further increase regulatory expectations to issue new RFR-based products, if nothing else to promote alignment with global efforts and target dates.

Hence, there shouldn't be any change in the urgency to progress on new product development and to establish the operational capabilities to transact in RFRs. Efforts to complete system and process changes, adapt and validate models, and gain a complete understanding of the portfolio of contracts will need to continue as planned.

While the additional time may lower the urgency to amend legacy USD LIBOR contracts by the end of 2021, retaining LIBOR exposures beyond 2021 will likely pose risk management, pricing, valuation and liquidity challenges.

The final act of LIBOR cessation will require careful choreography between the various cash and derivative markets, across multiple currencies, industry and regulatory bodies. Institutions should carefully consider the different scenarios that may play out, and make their voices heard as these critical industry consultations take place over the coming months.

FCA's new powers

What happened? The FCA announced two initial consultations on its planned approach to apply these new powers, seeking market participants' input on 1) the factors the FCA should take into consideration when deciding to designate a benchmark as critical and 2) the methodology to be employed in requiring the continued publication of a critical benchmark[1]. To allow for the continued publication of a critical benchmark, the FCA could mandate a modification of the rate's calculation methodology to end its reliance on panel bank submission. The use of the resulting benchmark, a so-called "synthetic LIBOR," would be restricted to a narrowly defined set of tough legacy contracts, i.e., contracts that cannot be amended or transitioned away from LIBOR prior to LIBOR's cessation.

In support of the consultations, the FCA hosted a joint webinar with HM Treasury to answer questions on the consultations. The FCA noted that it expects to apply its powers to compel the continued publication of the most widely used GBP tenors, including one-, three- and six-month tenors. While the FCA remained non-committal with respect to JPY or USD LIBOR, euro and CHF LIBOR are likely to be left behind.

Our take: Any synthetic LIBOR that might become available will not represent a universal solution to address any and all legacy LIBOR exposures. First of all, its use is expected to be restricted to a narrow set of contracts, primarily those that cannot be remediated prior to LIBOR's cessation. Second, questions remain on which currency tenor pairs would be in scope for such a solution. If the FCA does indeed use its powers to allow for continued publication of a calculation-based LIBOR, there is a good chance that it would do so only for a limited number of GBP LIBOR tenors. And lastly, there remains the possibility of litigation that might challenge the use of a synthetic GBP LIBOR as a reference rate in legacy contracts, specifically with respect to contracts governed by the laws of jurisdictions outside of the UK.

The message from the FCA and HM Treasury has been steadfast and clear: firms should not treat the prospect of a synthetic LIBOR as an excuse to limit active transition efforts. Firms should not only continue their efforts to proactively transition legacy LIBOR exposures, but even accelerate their efforts wherever possible. There are good reasons for firms to heed that advice. Most importantly, there aren't any potential benefits associated with relying on synthetic LIBOR as a solution for contracts that haven't been remediated prior to LIBOR becoming non-representative. Economically, synthetic LIBOR is an IBOR in name

[1]For more information, please read *At a Glance: FCA consults on the proposed tough legacy powers*

only. While the minutiae of the calculation methodology is subject to further consultations from the FCA, it is expected to be based on a specific LIBOR's RFR replacement, plus any recommended spread adjustment. In other words, there won't be a material economic difference between synthetic LIBOR and the recommended hardwired fallback. On the other hand, the inclusion of a hardwired fallback, or repapering a contract to directly reference an alternative reference rate, would allow banks to stay clear of the various uncertainties and eventualities associated with relying on synthetic LIBOR.

Consultations on €STR-based EURIBOR fallbacks and triggers

What happened? The WG on Euro RFRs published consultations on EURIBOR fallback trigger events and on €STR-based EURIBOR fallback rates. Comments are requested by January 15, 2021, with final recommendations expected to be published by the end of Q1 2021. The resulting recommendations are expected to provide guidance to organizations looking to comply with the EU Benchmarks Regulation (BMR) requirement to incorporate robust fallbacks addressing the permanent cessation of a reference rate. Even in contracts not subject to the BMR, the inclusion of more robust fallback language would provide additional legal and economic certainty.

The working group's consultation on fallback trigger events includes a set of seven potential triggers that market participants could include in cash product and derivative contracts referencing LIBOR. The recommendations include permanent cessation and pre-cessation triggers similar to those included in ISDA's IBOR Fallbacks Supplement, as well as a set of additional triggers that seek to address specific legal and jurisdictional idiosyncrasies of the eurozone.

The consultation on €STR-based fallbacks includes recommendations for a fallback waterfall, similar to the approach adopted by ISDA and recommendations for fallbacks made by the ARRC. Depending on the asset class and sophistication of borrowers, the first step in the recommended waterfall includes either a forward-looking €STR term rate or backward-looking compound €STR. The working group is also seeking input on a possible recommendation and methodology of a spread adjustment that would account for the economic differences between EURIBOR and €STR. Lastly, market participants are asked to comment on the working group's recommendations on conventions for the use of compound €STR in cash products.

While the proposed spread adjustment methodology and conventions for the use of RFRs broadly align with the recommendations made by other working groups, such as the WG on Sterling RFRs and the ARRC, the euro working group consultation takes a markedly strong stance against the use of simple averaging. Noting that the use of simple averaging "ignores the fundamental principle of the time value of money," the working group suggests that its use would be inappropriate in RFR-based cash products. The European Central Bank (ECB) announced a roundtable on the consultations for December 14, 2020.

Our take: While there are no current plans to retire EURIBOR, market participants should make every effort to future-proof contracts to the greatest extent possible, not only where required by the BMR. The market's current struggles to address LIBOR-based contracts, which contain no or inadequate fallback language, should serve as a warning — and provide ample motivation to prevent a similar situation in regard to EURIBOR-based contracts at some point in the future. Banks' future selves are certain to appreciate the effort.

There are few surprises with respect to the working group's specific recommendations. As has been the case with other national working groups, the need for alignment between derivatives and cash products has been made a priority, especially where maintaining hedging relationships is crucial. Similarly, the recommendations acknowledge the market's desire for an €STR-based forward-looking term rate as a fallback option in cash products. Given that the availability of such a term rate isn't guaranteed, market participants need to consider how to establish the operational capabilities needed to process backward-looking compound averages in the event of a temporary or permanent cessation of EURIBOR.

Asset managers will likely appreciate that the consultation paper also examines fallbacks for investment funds — the first time any of the national working groups has done so. The selection of fallbacks for fund benchmarks is highly complex, requires a clear understanding of the funds' investors sophistication level and a formal process for updating fund-level documentation, such as prospectuses. Even though the consultation does not include specific recommendations, highlighting the challenges and complexities for investment funds should provide some momentum for the development of common industry standards.

The working group's explicit dismissal of simple averaging as an appropriate convention for the use of

RFRs in cash products might frustrate some market participants that had hoped for common industry standards to emerge. The LSTA, for instance, has published RFR-based facility templates that allow for the use of simple averaging. We'd expect that feedback to the fallback rates consultation will reflect some of that frustration, with organizations calling for additional flexibility.

ARRC conventions for bilateral business loans

What happened? The ARRC published its recommended conventions for the use of SOFR in arrears in bilateral business loans. The suggested use of either daily simple SOFR or daily compounded SOFR aligns with the committee's previous recommendations made for syndicated business loans. The ARRC's new guidance again makes specific, yet non-binding recommendations for conventions related to business day lookback, observation shifts, day count conventions and rounding, but acknowledges that market participants might choose to follow different conventions under certain circumstances.

Our take: As was the case with the ARRC's recommendations for syndicated business loans, it's "choose your own adventure" for market participants. Given that different institutions will have different priorities with respect to alignment between derivatives and cash products, trade-offs between the operational ease of calculating simple average vs. accuracy of compound average, and other tactical and strategic considerations, it is difficult to envision that a single industry standard will emerge in lending markets.

For now, many firms will likely have to develop capabilities to support multiple conventions. It's not unreasonable to think that lenders, along with loan administration and other third-party service providers, could over time develop solutions, standards and capabilities to address the operational complexities associated with using compound interest — eventually leading to more institutions showing a preference for using compound over simple interest. But until that day comes (if it does at all), we will continue to see a mix of different offerings that reflect the diverse landscape of market participants and their priorities.

FRB NY's forum on credit-sensitive benchmarks for commercial lending

What happened? The FRB NY published the meeting materials from its "Forum on Ongoing innovation in Reference Rates for Commercial Lending," the first of two additional working sessions scheduled as a follow-up to the Credit Sensitivity Group (CSG) workshops held earlier this year. That group had been convened in response to concerns voiced by a series of US banks about SOFR's viability as a lending benchmark, noting that SOFR might not accurately reflect banks' marginal funding costs, especially in times of stress.

The session included presentations from IHS Markit, professors Antje Berndt and Darrell Duffie, IBA,, Bloomberg and the American Financial Exchange on their respective proposals to develop a credit-sensitive spread for use in USD lending markets. A recording of the event, which did not include discussions on the potential merits of the presented proposals, has been made available as well.

While there are nuanced differences between the various approaches, they generally look to long- and short-term data indicative of bank funding costs, such as CD rates, bond spreads and other market data.

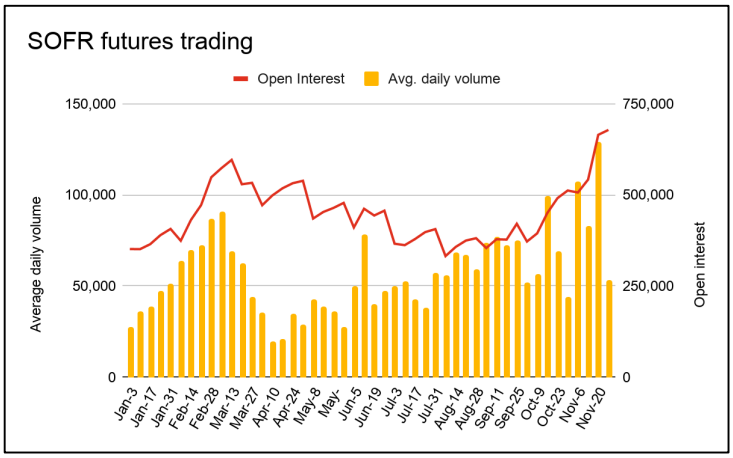
Our take: The clock is running out on launching new products based on RFRs. Even amid the news of a possible continued publication of USD LIBOR beyond the end of 2021, regulatory pressure to start lending based on alternative reference rates in volume will intensify over the next few months. It appears highly unlikely that the industry will be able to settle on and implement a credit-sensitive spread in new products in short order — and banks' transition planning will need to reflect that reality. Furthermore, the concerns are not universally voiced. For example, we are not aware of any plans to develop a credit-sensitive spread component for SONIA in the UK.

Other than a lack of time, a potential credit-sensitive spread faces additional headwinds. As of today, there are no known plans by US regulators to convene or sponsor a working group that could assume a central role in facilitating the development of — and advocate for — the adoption of such a spread. In the case of SOFR, the ARRC played a crucial role in helping the industry navigate complex operational, legal, regulatory, accounting and tax challenges. The results of these efforts, including various reliefs from the regulatory impacts of transitioning from USD LIBOR to SOFR may not easily extend to a credit-sensitive spread, should it become available.

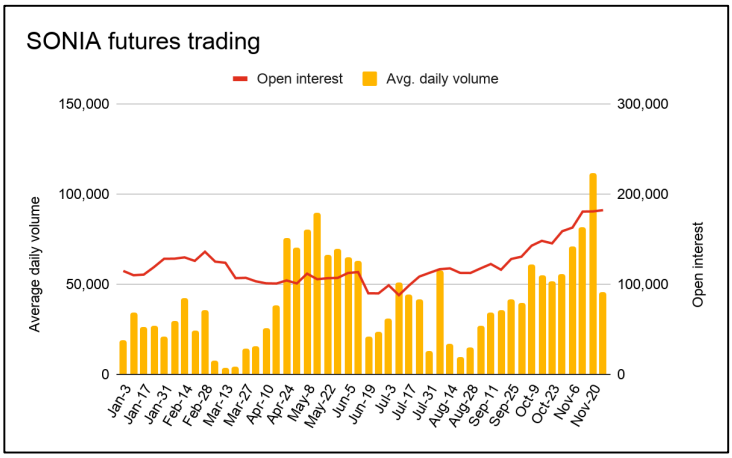
Gaining market acceptance of any potential credit-sensitive spread may present additional challenges. Some borrowers are questioning whether the volatility in bank funding costs should best be managed by the banks. Based on feedback from prior CSG workshops and industry forums, lenders are certain to face pushback to such a credit spread add-on to loan pricing that would explicitly place their funding risks on the borrower's shoulders.

2 RFR adoption: Derivatives

Futures and options



Source: CME, ICE (accessed November 30, 2020)

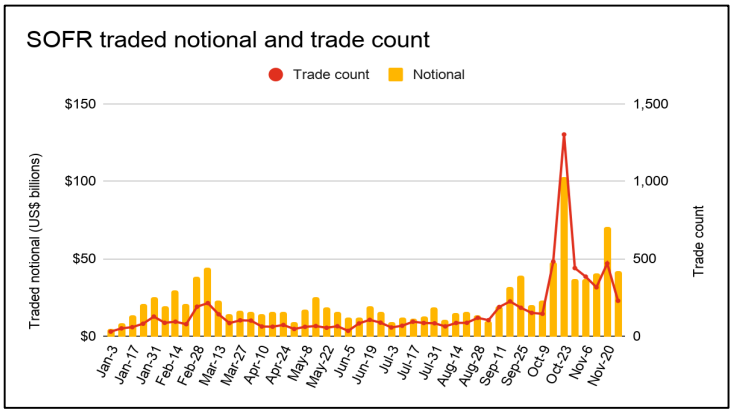


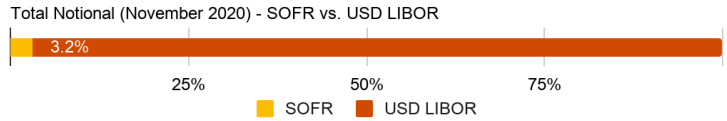
Source: CME, LCH, ICE (accessed November 30, 2020)

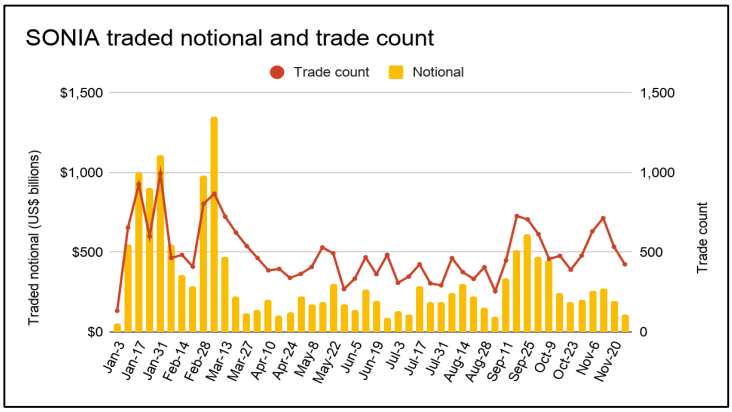
Our take

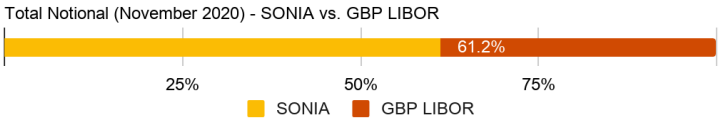
It has long been suggested that tryptophan, an amino acid found most prominently in turkey meat, causes sleepiness. While this assumption has recently been challenged, the US Thanksgiving holiday almost certainly impacted trading volumes of SOFR futures at both the CME and ICE. It seems our UK colleagues may have had a bit of turkey as well, as SONIA futures saw a decline as well. While open interest in both currencies held steady, average daily trading volumes saw a sharp drop-off, even after adjusting for the shorter trading week. We will monitor volumes and open interest closely over the coming weeks, as we expect volume levels to continue their upward trends seen over the second half of this year.

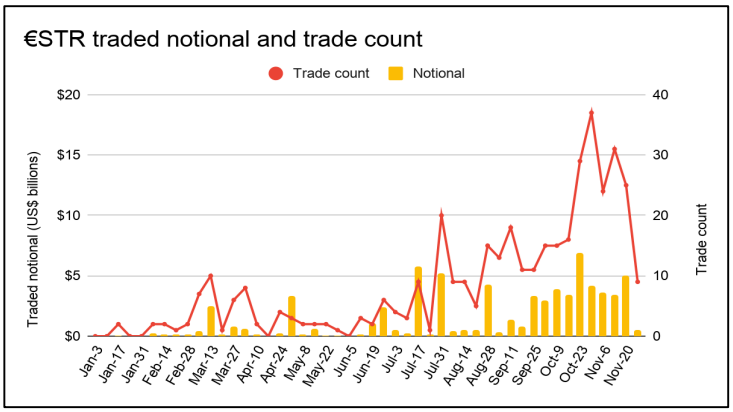
Swaps trading

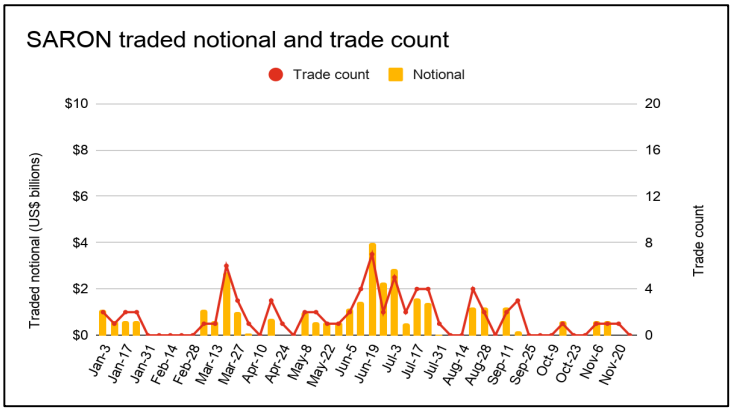


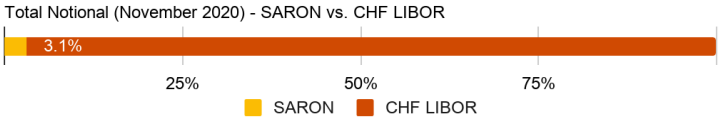






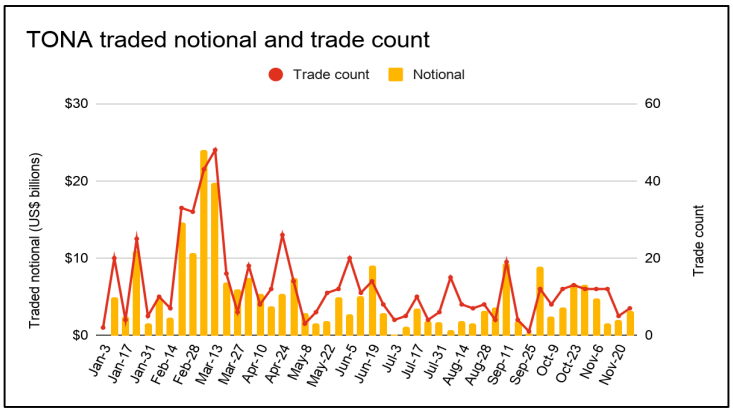


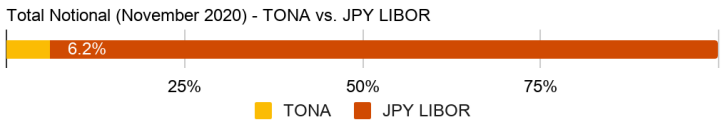




Our take:

The shortened trading week did not impact SOFR swaps trading to the same extent it did SOFR futures trading. While we saw a drop off in both volume and open interest between the third and fourth week of November, average trading volumes remain at elevated levels following the central counterparties' (CCP) switch to SOFR as the rate used for price alignment interest (PAI, the interest paid on variation margin) and discounting for cleared USD interest rate derivatives. It now remains to be seen what effect the recent announcements regarding the future of USD LIBOR will have on trading volumes. Any further reduction in trading activity might indicate a slowdown in market participants' efforts to bring new SOFR-based products to market, as they await additional details and certainty on the mechanics of USD LIBOR's continued publication beyond December 2021.





IBOR Fallbacks Protocol adherence (as of Nov. 30)

- 1,391 total entities
- 24 out of 30 G-SIBs (up from 22)

Source: ISDA

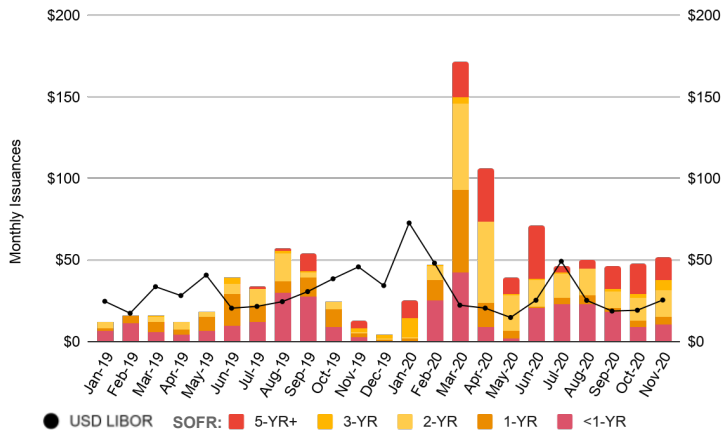
Source: analysis.swapsinfo.org (Interest rate and credit derivatives weekly trading volume: Week ending November 27, 2020, accessed November 30, 2020)

3 RFR adoption: Cash products

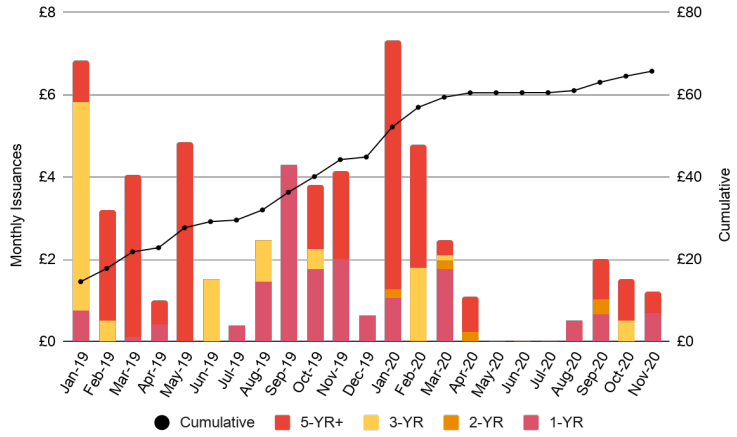
FRN issuances *(as of November 30, 2020)*

Source: Bloomberg

USD FRN issuances (in billions)



SONIA FRN issuances (in billions)



Our take:

SOFR FRN issuances for the month of November were just over $50 billion — again more than double the amount issued in USD LIBOR FRNs. The slow but steady shift toward SOFR continues to be driven by GSEs. Since the beginning of the year, GSEs have issued $64.5 billion in USD LIBOR FRNs, compared to $483 billion in FRNs tied to SOFR. With only one month to go until ARRC's stated target date to cease issuances of new USD LIBOR FRNs, it is clear that the private sector has to accelerate its efforts to switch from USD LIBOR to SOFR.

Notable cash product issuances and other RFR adoption

RFR	Company	Detail	Resources
SOFR	Seastar	The bulk operator closed a new loan with a switch agreement based on LMA's template, agreeing with the unknown lender on a specific date in 2021 after which the loan will reference SOFR.	Press Release (outside counsel)
	AstraZeneca	Signed a series of lending agreements including a switch mechanism to SOFR based on LMA's draft rate switch agreement.	Press Release (outside counsel)
	Freddie Mac	Priced its 20th and 21st K-Certs referencing SOFR.	Press Release: #20 / #21
SONIA	Barclays	Began the consent solicitation process to switch a series of tier-one bonds from GBP LIBOR to SONIA.	Notice to bondholders
	New Day Funding	Announced its plan to switch a series of asset-backed FRNs from USD LIBOR to daily compounded SOFR.	Reset Announcement
	Lloyds	Adjourned meetings related to two consent solicitations.	Notice of meeting results
SORA	OCBC	Issued a SORA-based green loan to property developer Tong Eng Group.	Press Coverage

For additional details on employed conventions and other parameters of recent RFR-based loans, see the LMA's regularly updated list of RFR referencing syndicated and bilateral loans.

4 Publications at a glance

National working groups

Alternative Reference Rates Committee (ARRC)

- Published recommended conventions for the use of daily simple or daily compounded SOFR in arrears in bilateral business loans.
- Published a set of FAQs in support of its previously released recommendations for hardwired fallback language in business loans.
- Issued a statement welcoming statements by IBA and the Fed that outline a timeline for the cessation of USD LIBOR.

WG on Sterling RFRs

- Published considerations on the transition from LIBOR in non-linear derivatives, suggesting that a functioning market based on SONIA-referencing instruments could be created.
- Published its newsletter for November 2020 and minutes of the working group's September 16, 2020 meeting.

WG on Euro RFRs

- Published consultations on EURIBOR fallback trigger events and €STR-based EURIBOR fallbacks. Comments due by January 15, 2021.
- Announced that the ECB will host its third roundtable on RFRs on December 14, 2020, focused on the working group's recent consultations on EURIBOR fallback triggers and fallbacks for cash products.
- Published a brief statement in support of the launch of ISDA's IBOR Fallbacks Protocol.

Cross-Industry Committee on JPY IR Benchmarks

- Published the results of its second consultation on JPY IR Benchmarks.

Canadian Alternative Reference Rate (CARR) working group

- Issued a consultation on the publication of backward-looking CORRA averages and a CORRA index. The paper also proposes CDOR fallback language for FRNs. Comments are due December 22, 2020.

Regulators

- **FCA:** Announced two consultations on its additional benchmark powers proposed under the UK's Financial Services Bill. Issued a statement supporting the extension of certain USD LIBOR tenors until June 30, 2023 by the panel banks and IBA. Updated its list of questions and answers about conduct risk during the transition away from LIBOR.
- **Fed:** Issued a press release in support of statements on the proposed timing of USD LIBOR's cessation, noting that the extension of certain USD LIBOR tenors until mid-2023 would promote safety and soundness.
- **Fed/FDIC/OCC:** Issued a joint statement in response to IBA's announcement of a possible extension of certain USD LIBOR tenors, encouraging banks to cease entering into new LIBOR-based contracts as soon as possible, but at the very least by December 31, 2021.
- **FSB:** Published its 2020 progress report on interest rate benchmark reform.
- **CFTC:** Chairman Tarbert issued a statement on ISDA's Fallbacks protocol, noting that "now it is time for market participants to act."
- **EC:** Announced that the European Parliament and Council had reached initial agreement on BMR amendments that would facilitate a statutory replacement of a discontinued benchmark in contracts containing no or inadequate fallback language.
- **ECB:** Discussed the (slow) process in the transition to the €STR in its latest Financial Stability Report.
- **EFRAG:** Published a feedback statement to respondents to its IASB Phase 2 comment letter, explaining how that feedback was considered as part of EFRAG's comment letter.
- **FRB NY:** Published meeting materials from its forum on ongoing innovations in reference rates.
- **Canadian Securities Administrators:** Issued a staff notice summarizing recent developments and urging participants to prepare themselves for the transition away from IBORs.
- **ASIC:** Issued guidance on managing conduct risk during the transition away from LIBOR, including frameworks, best practices and buy-side specific considerations.
- **Reserve Bank of Australia:** Christopher Kent, Assistant Governor (Financial Markets), delivered remarks on benchmark reform at the Australian Securitisation Symposium.
- **Bangko Sentral ng Pilipinas (BSP):** Sent a letter to banks requesting quarterly reports on LIBOR exposures, beginning in December.
- **Bank of Thailand (w/ SC on Commercial Banks' Preparedness on LIBOR Discontinuation):** Announced milestones for the transition from THBFIX to THOR. The BOT is expressly prohibiting the issuance of new products referencing THBFIX after July 1, 2021.

Industry groups, infrastructure providers and other items

- **ICE Benchmark Administration (IBA):** Announced it would consult on its intention to cease publication of the most used USD LIBOR tenors after June 30, 2023, and its intention to cease publication of GBP, EUR, CHF and JPY LIBOR after December 31, 2021.
- **ISDA:** Clarified that neither statements by IBA nor the FCA constituted a cessation event for the purpose of triggering IBOR fallbacks.
- **SFA:** Issued a statement in support of the extended publication of USD LIBOR.
- **LMA:** Published an updated version of its list of syndicated and bilateral loans referencing RFRs.
  LMA: Published a series of new or revised templates and documentation, including draft rate switch facility agreements (versions for both lookback with and without observation shift) and commentary, a term sheet for facility agreements with a rate switch provision, and RFR terms for use with the revised replacement of screen rate clause (member-access only).
- **LSTA:** Issued a market advisory suggesting that transactions to incorporate ARRC recommended fallback language prior to June 30, 2021 should not incur an amendment fee (member-access only).
- **Bankers Association for Trade & Finance:** Published a white paper on the transition to SOFR, noting that it believed "most [trade finance] transactions require a forward-looking rate to provide certainty to trade buyers and sellers."
- **Freddie Mac:** Published a report on SOFR features from a pricing and capital markets perspective.
- **NZ Financial Markets Association:** Began publication of an Official Cash Rate Compound Index. OCR is the local risk-free rate.
- **Japanese Bankers Association:** Issued an educational document on preparing for the permanent cessation of LIBOR (in Japanese).
- **Industry groups:** Various trade organizations (14 in all) sent a letter to the European Commission urging it to adapt the European Council's proposed extension of the transition period for third-country benchmarks from December 31, 2021 to December 31, 2025.

5 LIBOR transition target dates

Apr 1, 2021 (~~Oct 1 2020~~)
BoE haircut add-ons to LIBOR-linked collateral

by Q1
- Sterling RFR WG: significant reduction in stock of LIBOR-based contracts
- CIC: system & ops readiness for RFR compounding
- ARRC: dealers quote USD derivatives in SOFR

Q1 2021 (~~Q3 2020~~)
Sterling RFR WG: no new LIBOR loans or linear derivatives

Q1 2021 (~~Q4 2020~~)
Recommendations on EURIBOR Fallbacks

by June 30/Q2
- ARRC: no new LIBOR business loans, securitizations (excluding CLOs) or derivative trades that increase LIBOR risk
- SOFR Term Rate
- CIC: no new LIBOR loans or bonds
- FSB: system and process changes complete

Subsequent target dates under construction...

TODAY · 2021 · 2022 · 2023

by December 31
- SONIA provisional live term rate
- ARRC: vendor readiness (securitizations)
- ARRC: no new USD LIBOR FRNs
- FNMA/FHLMC stop purchasing LIBOR ARMs
- Dealers should amend interdealer CSAs to use and make markets in SOFR-linked interest rate volatility products
- FINMA: substantial move from CHF LIBOR to SARON cash products
- FSB: ability to offer non-LIBOR linked loans

by Q3
- CIC: significant reduction in LIBOR loans and bonds
- JPY OIS term rates
- ARRC: no new LIBOR CLOs

December 31, 2021
Agreement with contributor banks to submit LIBOR ends.
(Or does it?)

- - - ▶ Delayed milestone

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