



IBOR TRANSITION

Market Update as of 01/02/2021

1. ISDA-NEW IBOR FALLBACKS TAKE EFFECT FOR DERIVATIVES

On 25 January 2021, the **new ISDA fallbacks** for derivatives linked to key IBORs **have come into effect**.

These Fallbacks will be **incorporated into all new derivatives contracts** that reference ISDA's standard interest rate derivatives definitions. They will **also be included in legacy non-cleared derivatives** if the counterparties have bilaterally agreed to include them or both have adhered to the IBOR Fallbacks Protocol. More than 12,000 entities across 80 jurisdictions have adhered to the protocol, which will remain [open for adherence](#).

The [fallbacks](#) cover BBSW, CDOR, EUR LIBOR, EURIBOR, HIBOR, SGD SOR, GBP LIBOR, CHF LIBOR, THBFX, TIBOR, Euroyen TIBOR, JPY LIBOR and USD LIBOR.

Note that the inclusion of the **ISDA Fallbacks in the LCH, CME & EUREX rulebooks** started on 25 January 2021.

2. US MARKET DEVELOPMENTS

IMPLICATIONS OF LATE-2020 ANNOUNCEMENTS - ARRC CHAIR URGES ACTION ON TRANSITION TO SOFR

Tom Wipf, Chairman of the ARRC, authored a Bloomberg opinion-editorial [“Libor’s Endgame in U.S. Requires Urgent Preparation”](#) where he explains the significance of late-2020 announcements [on the proposed endgame](#) for LIBOR and **provides concrete advice to market participants with USD LIBOR exposures**.

Wipf notes in his piece, *“Now that a proposed path is mapped out, the public and private sectors must work together with renewed urgency toward our common goal: preparing for no new LIBOR by transitioning all new activity to SOFR by the end of this year.”*

He highlights two specific areas of focus for market participants this year, noting that they:

- “Should **immediately stop issuing USD LIBOR-based instruments** and start writing SOFR into new contracts,” and;
- “Should also **protect any outstanding LIBOR contracts from uncertainty** by amending them to account for LIBOR’s end” by **adopting the ISDA’s IBOR Fallbacks Protocol** or **ARRC’s recommended fallback language** wherever possible”.

NEW YORK STATE LIBOR LEGISLATION IN THE BUDGET PLAN

[Bloomberg reports](#) that the New York Governor, Andrew Cuomo, has included LIBOR-related legislation as part of the [state budget plan](#) (see page 233: Article 18-C LIBOR Discontinuance). The article also states: “The final budget deal is due by March 31, the end of the state’s fiscal year. The Libor discontinuation legislation would take effect immediately after the passage of the budget, according to the bill language.”

The proposal includes **language providing some safety measures**, allowing the use of the **replacement rate only in situations where it is reasonable** and comparable to Libor. The replacement benchmark should not “prejudice, impair, or affect any person’s rights or obligations under or in respect of any contract, security or instrument,” according to the bill language.

3. EURO MARKET DEVELOPMENTS

EU BMR LIBOR LEGISLATION ADOPTED BY THE EUROPEAN PARLIAMENT

On 19 January, the European Parliament adopted certain amendments to the EU BMR, including new **“statutory replacement of a benchmark” provisions designed to cater for LIBOR cessation**. The [provisional edition of the adopted text](#) and a [press release](#) are available. The timing for publication in the Official Journal is not yet known, but some contacts have indicated that it could be in February.

4. STERLING MARKET DEVELOPMENTS

IBA, REFINITIV GO LIVE WITH REGULATED TERM SONIA REFERENCE RATES

On 11 January 2021, after six months of testing, [IBA](#) and [Refinitiv](#) launched Term SONIA Reference Rates (TSRR) for use as a benchmark in financial instruments by licensees. They are offering TSRR in **one, three, six and 12-month tenors with a waterfall of back-up data**.

FTSE Russel is also developing a term Sonia rate although it has not specified a launch date.

In a recent [consultation](#) on proposed policy with respect to the exercise of its powers, the FCA indicated its intention to **create a “synthetic LIBOR” for tough legacy contracts that would likely be based on term Sonia** with a credit spread adjustment.

[Click here to view](#) BoE updated summary of the key attributes of the versions of Term SONIA Reference Rates (TSRRs).

USE OF TERM SONIA REFERENCE RATE

The UK RFRWG has engaged closely with the FICC Markets Standards Board (FMSB) to support development of a **market standard for appropriately limited use of Term Sonia Reference Rates**, consistent with the Working Group’s objectives and existing recommendations on [use cases of benchmark rates](#). The proposed FMSB standard was under review by key stakeholders during January and is expected to be released for public comment in February.

FCA – CREDIT SPREAD ADJUSTMENT FOR LOANS

As **loan market participants are being encouraged to focus on active transition**, this [paper](#) from the UK working group “credit adjustment spread methods for active transition of GBP LIBOR referencing loans” is designed to **facilitate consideration of the key methodologies emerging in the loan market**, and how these compare to those taken in the bond and derivative markets.

This [paper](#) is addressed to lenders, borrowers and investors who are considering an active transition.

5. ASIAN MARKET DEVELOPMENTS

CROSS INDUSTRY COMMITTEE ON JPY INTEREST RATE PUBLISHES RESULTS ON CONSULTATION ON TONA LOAN CONVENTIONS

On 25 December 2020, the Sub-Group on Loans of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks (the Committee) published the results of its [consultation](#) on the (TONA) (fixing in arrears) conventions to use in loans (**TONA Conventions Consultation**).

Amongst other things, the results of the TONA Conventions Consultation showed that most members of the Committee's sub-group **preferred the use of a lookback of five business days without observation shift**, where lookback with observation shift was considered a viable and robust alternative. This is **consistent with the SONIA and SOFR conventions in the sterling and US dollar markets**.

6. MARKET NEWS

- ICMSA LIBOR Bulletins:
 - [Implications for English-law note trustees and agency roles](#);
 - [Operational and procedural considerations for Consent Solicitations and Written Resolutions](#).
- ISDA Clarus [RFR Adoption indicator](#) increased to 10.0% **in December** compared to **8.3% the prior month**. On a traded notional basis, the percentage of RFR-linked IRD increased to 13.3% of total IRD in December, up from 10.4% in November.
- [Updated LMA list](#) of loans referencing risk-free rates including The Renewables Infrastructure Group Limited ('TRIG') securing £500m ESG-linked SONIA [credit facility](#).
- HKEX OTC Clear will introduce [New Cross Currency Swap](#) featuring RFR by end of April 2021 (pending SFC).
- ISDA Research: Transition to RFRs [Review: Full Year 2020 and the Fourth Quarter of 2020](#).

7. STAY INFORMED ON THE IBOR TRANSITION

More information on our website: [click here to access our dedicated IBOR transition webpage](#).

Contact us for any queries: sgcib-regulatory-support.par@sgcib.com.

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