



Deloitteⁱ US LIBOR Transition Newsletter

A summary of US regulatory and market updates related to the transition from LIBOR

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Executive Summary

On March 5, 2021, the United Kingdom (UK)'s Financial Conduct Authority (FCA) officially announced the future date of LIBOR's cessation and/or loss of representativeness across all 35 settings currently published by the Intercontinental Exchange (ICE) Benchmark Administration (IBA). The IBA communicated to the FCA its intent to cease publishing LIBOR rates after many banks notified the IBA of their future departure from the panel. Upon review of the IBA's plans to cease publishing LIBOR rates, the FCA has determined it will not compel panel banks to submit LIBOR rates beyond their notified departure dates, nor will the IBA be required to publish LIBOR. Consequently, all 35 LIBOR settings will cease being provided by any administrator or will no longer be deemed representative after December 31, 2021 for all GBP, EUR, CHF and JPY settings, and the 1-week and 2-month USD settings, and after June 30, 2023 for the remaining USD settings. This extension for popular USD LIBOR settings to mid-2023 comes as relief to many market participants in light of the Federal Reserve Board's recent guidance (SR 21-7) to examiners to review progress made by supervised firms to prepare for the LIBOR transition, to which most institutions are completing or have completed a gap analysis.

On March 24, 2021, the New York State (NYS) legislature passed a bill aimed at providing clarity to market participants as trillions of dollars of financial contracts transition away from the USD LIBOR standard. Despite the work from the Alternative Reference Rates Committee (ARRC), the International Swaps and Derivatives Association (ISDA), and other market participants, “tough legacy” contracts (contracts without robust fallback provisions which contemplate LIBOR’s permanent cessation) remain subject to significant uncertainty and risk. Under the new legislation, a “safe harbor” was created for administrators who convert these contracts from LIBOR to the Secured Overnight Funding Rate (SOFR) plus an adjustment. On April 7, 2021, the ARRC endorsed this legislation being signed into law, marking a crucial step in achieving market stability in the transition away from LIBOR. This legislation should reduce the burden on the court system in potential adversarial proceedings related to the transition.

The ARRC held the first in a series of webinars titled “The SOFR Symposium – The Final Year” to discuss progress in the transition from LIBOR to SOFR. The transition in the loan market was an important topic, and progress has been slower than anticipated. Following this first session, the ARRC released a statement confirming that they will not yet be able to recommend a forward-looking SOFR term rate by mid-2021. The ARRC, however, continues to emphasize that market participants should increase their efforts to implement SOFR in newly issued contracts. Different solutions using tools currently available were discussed during the first symposium.



Our Perspective

LIBOR’s Formal Cessation Dates Confirmed

The FCA’s announcement of LIBOR’s formal cessation dates represents an important step in the overall LIBOR transition. Although the announcement came as no surprise to market participants, this formal confirmation reduces a certain level of risk and uncertainty within the markets inherent in a transition of this scale. ISDA confirmed that the FCA announcement represented an index cessation event under the IBOR Fallbacks supplement and protocol. The ARRC subsequently confirmed that the FCA’s announcement is to be considered a “Benchmark Transition Event” with respect to USD LIBOR settings in cash products. This announcement is also in line with ARRC’s recommended fallback language which has been incorporated into loan documentation by many lenders and administrative agents for syndicated loan facilities. Lenders and agents may now need to send a notice to borrowers and other lenders of the occurrence of the cessation event. Although the cessation will not occur until the end of 2021 or mid-2023, depending on the LIBOR tenor, notice is still required under the ARRC fallback language.

New York State Legislation for “Tough Legacy” Contracts

The passing of the proposed LIBOR legislation in NYS marks a big win in the effort to promote stability in financial markets through the LIBOR transition, which has been one of the main goals of the regulating authorities in the transition. The New York City Bar Association issued a statement providing its support for the new legislation, specifically citing its aim “to avoid substantial disruption to the rights of parties to trillions of dollars of financial contracts that may be affected by the cessation of U.S. Dollar LIBOR.” (The statement can be found [here](#).) The legislation offers security where contracts do not have embedded language which contemplates LIBOR’s cessation and provides a targeted solution for market participants who hold legacy contracts that have no effective fallbacks when LIBOR is discontinued. As this provided major relief to NYS governed contracts, NYS may serve as an example for other states to follow in their potential LIBOR legislations.

The SOFR Symposium

The SOFR Symposium series was scheduled due to the slow adoption of SOFR across the market, specifically in the loan markets. This delay can be explained in part by the efforts of regulators to provide financial institutions ample time to transition away from LIBOR in the least disruptive way possible. However, this flexibility has provided an incentive to issue LIBOR-linked products longer than expected, keeping the volume of SOFR trades at a reduced level and impeding growth in the growth of SOFR as a benchmark. Regulators and market leaders will continue collaborating on their efforts to promote the shift to SOFR across the industry.



Regulatory Updates

Summary of ARRC Office Hours Q&A with David Bowman (The Federal Reserve Board (FRB))

This section represents a summary of the ARRC office hours Q&A with David Bowman from March 1, 2021 until March 31, 2021. Weekly office hour information can be found [here](#). The information below does not represent the view of the Federal Reserve but represents the personal views of David Bowman outside of his official capacity. Below are some of the specific topics discussed:

NYS Legislation Scope

- The recent NYS legislation applies to any securities instrument governed by NYS law which references LIBOR (however, this does not cover references to the ICE LIBOR swap rate), has no fallback language, has fallback language that references polling banks to re-create LIBOR, or references some last published value of LIBOR. The legislation does not list products covered/not covered, but rather provides a set of conditions to satisfy. The language has a safe harbor provision for contracts that allows one party to name a new rate based on information comparable to LIBOR or determine a rate as a direct substitute. It does not apply to any contract that falls back to a different floating rate or in the event parties decide to opt out.

Synthetic LIBOR

- Synthetic LIBOR could be built by taking some version of SOFR (usually the term rate) and adding to it the ISDA median lookback spread. As of today, it looks as though a synthetic GBP (based off term Sterling Overnight Index Average (SONIA)) and possibly a JPY LIBOR may be published. However, a USD synthetic LIBOR is unlikely. A synthetic USD LIBOR is not a suitable solution for contracts under US law since LIBOR will be declared non-representative as of June 30, 2023 which will trigger fallbacks. Specific legislation may need to be passed for a synthetic LIBOR to work in the US, hence the ARRC's continued push for the passage of the NYS proposed legislation, and potentially a similar federal legislation. In the UK, synthetic LIBOR is already codified into law which could prove to be a more effective solution.

Synthetic LIBOR Coverage

- Under current UK legislation, the FCA has the power to compel the publication of synthetic LIBOR and limit the use of the critical benchmark (with regards to types of products and tenors used). The FCA has no power, however, with regards to how or where it can be used in a US contract. Synthetic LIBOR is not recognized under US law, and thus is not enforceable. US legislation may be needed to be passed to enforce a synthetic LIBOR US based contract.

Non-Representativeness and Synthetic LIBOR

- The ISDA protocol and ARRC recommended fallback language states that every interest reset/determination day entails a re-test to determine if there is a more representative version of LIBOR to use. If no representative rate exists on that date, the contract would default to the next successor rate. The switch is performed at the beginning of a new interest period, not in the middle of one. If a synthetic LIBOR rate were ever to be used, it would likely not be calculated in arrears (at the end of the period) since the rate is needed at the beginning of that period.

FCA Cessation Announcement Ramifications

- ISDA made it clear that the FCA's cessation announcement is considered an index cessation event, meaning the ISDA spreads are set as of the announcement date (but do not transition until the actual cessation date). The ARRC fallback language for other cash products is similar to ISDA in that the recommended spread adjustment is set since the FCA's announcement is similarly considered an index cessation event.

ISDA Spread Adjustment Publication

Both Bloomberg and Refinitiv plan to publish ISDA spreads for different reasons. Bloomberg plans to publish the spread and spread adjusted rate for ISDA and derivatives which are compound averages of SOFR in arrears with a lookback structure. However, not only does the ARRC fallback language not require compound SOFR in arrears, but the first fallback in the waterfall is a term SOFR and the second a version of SOFR in arrears (simple or compound). Refinitiv will provide these alternative calculations, as well as other non-consumer cash products like lookbacks, in arrears, and in advance.

Regulatory Highlights

- On March 5, 2021, the FCA officially announced the future date of LIBOR's cessation and/or loss of representativeness across all 35 settings. The press release is available [here](#).
- On March 24, 2021, the NYS legislature passed a bill providing clarity to market participants as floating-rate financial contracts transition away LIBOR. The article is available [here](#).
- On April 7, 2021, ARRC endorsed NYS Governor Andrew Cuomo's decision to sign the NYS LIBOR legislation into law. The article is available [here](#).
- On March 22, 2021, the ARRC held its first in a series of webinars titled "The SOFR Symposium – The Final Year" to discuss progress in the transition from LIBOR to SOFR. The meeting announcement is available [here](#) the key developments from the meeting are available [here](#).

ARRC

- The ARRC confirms that the IBA and FCA announcements constituted a benchmark transition event under the ARRC fallback language. The statement is available [here](#).
- The ARRC published a statement on the passage of LIBOR legislation by the NYS Legislature. The statement is available [here](#).
- The ARRC published a statement on decisions outlining the definitive endgame for LIBOR. The statement is available [here](#).
- The ARRC selected Refinitiv as the vendor for the publication of the spread adjustment rates for cash products. The press release is available [here](#).
- The ARRC published a statement on a forward-looking SOFR term rate. The statement is available [here](#).
- The ARRC published a white paper on suggested fallback formula for the USD LIBOR ICE swap rate. The white paper is available [here](#).
- The ARRC released a supplemental recommendation of hardwired fallback language for business loans. The supplemental fallback language is available [here](#).
- The ARRC published a progress report on transition from USD LIBOR. The press release is available [here](#).
- The ARRC published their newsletter for February-March 2021. The newsletter is available [here](#).

ISDA Updates

- ISDA published a statement on the UK FCA LIBOR announcement. The statement is available [here](#).
- ISDA issued guidance on the UK FCA announcement on the LIBOR benchmarks. The announcement is available [here](#).
- ISDA issued comments on LIBOR cessation and the impact on fallbacks. The comments are available [here](#).
- ISDA issued a statement on Japanese Bankers Association Tokyo Interbank Offered Rate Administration (JBATA) announcement on Yen TIBOR and Euroyen TIBOR. The statement is available [here](#).
- ISDA released its ISDA-Clarus RFR Adoption Indicator for February 2021. The indicator is available [here](#).

Other News/ Useful Reading

- "SOFR adoption stalls after US LIBOR delay". The article is available [here](#).
- "Summary of House Financial Services committee Hearing with Fed Chairman Jerome Powell". The statement is available [here](#).
- "Federal Reserve Bank Examiner Guidance for assessing LIBOR transition efforts at supervised firms with \$100 billion or more in total consolidated assets". The report is available [here](#).
- "Federal Reserve Bank Examiner Guidance for assessing LIBOR transition efforts at supervised firms with less than \$100 billion in total consolidated assets". The report is available [here](#).
- "Chicago Mercantile Exchange (CME) Group SOFR futures skyrocket as market transfers from LIBOR". The article is available [here](#).
- "Basis spreads re-price as FCA confirms LIBOR end dates". The article is available [here](#).
- "ISDA plans modular RFR conventions". The article is available [here](#).
- "Fed warns banks they face consequences for slow LIBOR shifts". The article is available [here](#).
- "LIBOR timing certainty and spread fix increase transition momentum". The article is available [here](#).
- "USD LIBOR deadline extension reduces risk to affected structured finance ratings". The article is available [here](#).
- "Support for the enactment of LIBOR replacement legislation". The article is available [here](#).
- "SOFR is the interest rate solution, not another problem". The article is available [here](#).
- "LIBOR's end leaves nearly \$2 trillion of debt facing legal limbo". The article is available [here](#).
- "LIBOR Wall Street fix gets a boost as N.Y. Senator backs move". The article is available [here](#).
- "Dollar LIBOR transition still struggles in many areas, ARRC says". The article is available [here](#).
- "Fed group: SOFR term rate unlikely in 2021". The article is available [here](#).
- "US stumbles in pursuit of term SOFR". The article is available [here](#).



Market Updates

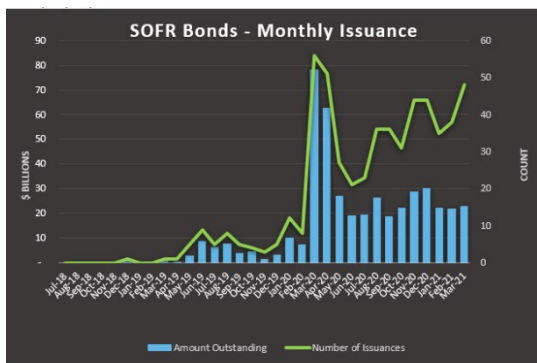
* Please note that the change in numbers and trend lines for bonds compared to figures in previous newsletters is due to change in the data source. Issuance data for bonds has been sourced from Reuters.

Increase in Debt Issuance Referenced to SOFR

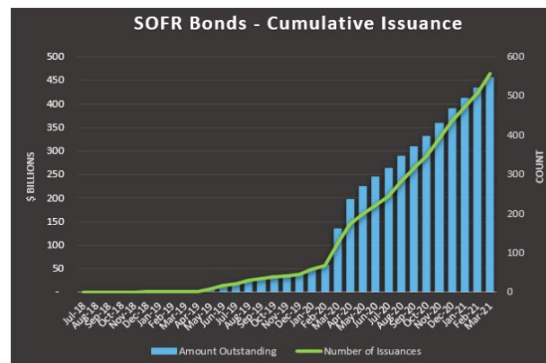
The issuance of SOFR referenced debt increased in March 2021 compared to issuance in February 2021. The issuance size was \$22.78 billion in March 2021, which increased from \$21.91 billion in February 2021. The graphs below represent data through March 31, 2021.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$458.26 billion with 577 bonds through April 14, 2021. There were 48 new issuances in March 2021 compared to 38 in February 2021 and 35 in January 2021.

In March 2021, federal agencies issued 26 SOFR referenced Floating Rate Notes (FRNs) worth \$8.13 billion. There were 22 other institutions which contributed \$14.65 billion to the outstanding amount of SOFR referenced debt.



Source: Reuters, compiled by Deloitte
*Data as of March 31, 2021

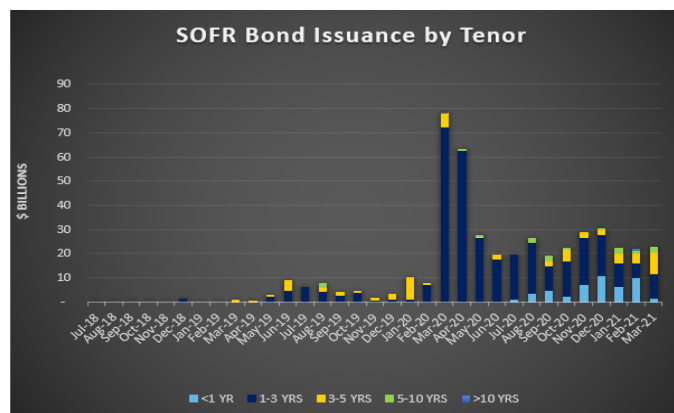


Source: Reuters, compiled by Deloitte
*Data as of March 31, 2021

Increase in Longer Dated Debt Issuance (maturity >=5 years) Referenced to SOFR

SOFR debt issuances with a maturity greater than or equal to five years increased in March 2021 compared to February 2021. During March 2021, there were 5 bonds issued which have a maturity between five and ten years. There were no issuances during March 2021 which have a maturity greater than or equal to ten years, compared to 3 bonds amounting to \$673.02 million in February 2021.

There were 24 issuances of SOFR bonds outstanding worth \$14.35 billion, with a maturity greater than or equal to five years, through April 14, 2021 including 4 issuances worth \$1.75 billion with a term greater than or equal to 10 years.

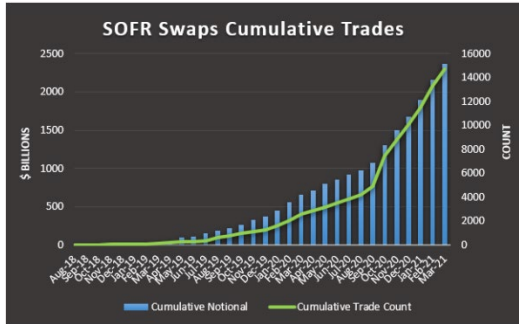


Source: Reuters, compiled by Deloitte
*Data as of March 31, 2021

Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

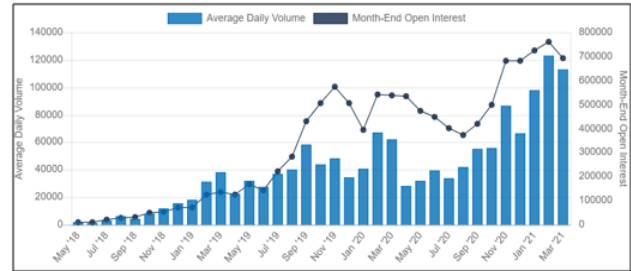
- The cumulative traded notional amount for SOFR based interest rate and basis swaps totaled \$2,371.8 billion through March 26, 2021.
- For the month of March 2021, the notional volume of SOFR-based interest rate and basis swaps totaled \$206.9 billion compared to \$267.4 billion in February 2021, and \$215.3 billion in January 2021.



Source: <http://swapsinfo.org/>, compiled by Deloitte
*Data as of Mar 31, 2021

SOFR Futures

- According to data available on CME, for March 2021, SOFR futures average daily volume reached 113K contracts/ day. The data is available [here](#).
- The month-end open interest for SOFR 1 month and 3 months futures as of March 2021 was ~694K contracts.



Source: CME Group
*Data as of Mar 31, 2021

Global IBOR Activity

The market activity in Sterling Overnight Index Average (SONIA), Swiss Average Rate Overnight (SARON), Tokyo Overnight Average Rate (TONA) and Euro Short-Term Rate (€STR) based debt issuances and swaps have continued to increase. The table below represents the cumulative bond issuances (does not exclude matured bonds) and the cumulative notional of swaps outstanding through March 31, 2021.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	36,896.7	105.7
SARON	66.7	NA
TONA	689.5	NA
€STR	123.9	5.7

Source: Reuters, <http://swapsinfo.org/>, compiled by Deloitte
Data as of March 31, 2021



Global Highlights

United Kingdom

- Bank of England (BoE)'s Working Group on Sterling Risk-Free Reference Rates (RFR WG) recommended milestone relating to GBP loans and multi-currency loans containing a GPR LIBOR option. The recommended milestones are available [here](#).
- BoE's RFR WG released a best practice guide for GBP loans. The guide is available [here](#).
- BoE's Prudential Regulation Authority (PRA) and FCA issued a Dear CEO Letter on March 26, 2021. The letter is available [here](#).
- The Fixed Income Clearing Corporation (FICC) Markets Standards Board (FMSB) published a transparency draft of a new standard on use of term SONIA reference rates. The press release is available [here](#) and the transparency draft is available [here](#).
- "FCA Benchmarks Regulation: our new powers, policy and decision-making". The article is available [here](#).
- Loan Syndications and Trading Association (LSTA) released an analysis of the FCA statement on LIBOR cessation. The analysis are available [here](#).
- "BoE will consult on SONIA clearing mandate". The article is available [here](#).
- "IBA rolls out SONIA indexes for lending markets". The article is available [here](#).
- "Transitioning from LIBOR from a UK Perspective". The article is available [here](#).

European Union

- European Central Bank (ECB) starts publishing compounded euro short-term rate (€STR) average rates on April 15, 2021. The article is available [here](#).
- The European Commission published a targeted consultation on the designation of a statutory replacement rate for CHF LIBOR. The consultation is available [here](#).
- "CME looks to life after Eurodollars, as rivals circle". The article is available [here](#).
- "EURIBOR and global IBOR overview". The article is available [here](#).
- "Interest rate benchmarks - an update from the Eurozone". The article is available [here](#).

Asia

- Bank of Japan (BoJ) issued a press release on the cessation of LIBOR and intention to consult on synthetic LIBOR. The press release is available [here](#).
- "Reserve Bank of Australia RBA keeping 'close eye' on LIBOR transition progress". The article is available [here](#).
- "Philippines weighs options for replacing swaps benchmark". The article is available [here](#).
- "New risk-free rate in Korea gets industry thumbs-up". The article is available [here](#).
- "Hong Kong banks await guidance on Interest rate risk in the Banking Book (IRRBB) for risk-free rates". The article is available [here](#).
- "Japan debuts swaptions linked to risk-free rate". The article is available [here](#).

Contact Us

For further details on how we can help firms experience an effective transition away from LIBOR, please visit our website:

[DELOITTE LIBOR TRANSITION WEBSITE](#)

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