



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 January 19, 2023, the Alternative Reference Rate Committee (ARRC) held a meeting to discuss the progress in the transition from London Interbank Offered Rate (LIBOR) to Secured Overnight Financing Rate (SOFR). The data indicated predominance of SOFR across cash and derivative markets. In the most recent sentiment survey of ARRC members, respondents continued to characterize the LIBOR transition overall as progressing smoothly or generally smoothly into 2023 with slower progress noted in remediation of syndicated loans. The ARRC members discussed how to encourage further transition progress, particularly in syndicated loans. Respondents noted the Federal Reserve Board's (FRB) publication of its final rule under the LIBOR Act which allows for the final transition of tough legacy contracts from US Dollar (USD) LIBOR to the SOFR.

On February 9, 2023, the ARRC held a subsequent meeting to discuss the progress in the transition from LIBOR to SOFR. Members noted some improvement had been made in the pace of remediation of leveraged loans, one of the key remaining market segments needing to accelerate the transition away from LIBOR ahead of June 30, 2023.

ARRC released a list of key recommendations for the market participants to facilitate a smooth transition in its current stages. These include the following:

1. Remediation of legacy contracts ahead of June 30, 2023

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2. Communication of planned rate changes and utilizing the Depository Trust & Clearing Corporation's (DTCC) enhanced LENS system as soon as available to effectively disseminate information on rate changes for securities.
3. Using the SOFR rate as the replacement rate for USD LIBOR and as the basis of the transition in cash and derivatives markets. The ARRC and official sector recommend that use of term SOFR remain limited to support financial stability
4. Remediating contracts by moving off LIBOR which can allow counterparties to set the terms of the LIBOR transition that best suit them rather than needing to rely on fallback language or the LIBOR Act to set those terms

On January 26, 2023, FRB's published its final rule under the LIBOR Act, which went into effect on February 27, 2023. The final rule establishes benchmark replacements for contracts governed by U.S. law that reference certain tenors of USD LIBOR (the overnight and one-, three-, six-, and 12-month tenors) and that do not have terms that provide for the use of a clearly defined and practicable replacement benchmark rate following the first London banking day after June 30, 2023. The final rule also provides additional definitions and clarifications consistent with the Adjustable Interest Rate (LIBOR) Act. The Final Rule addresses many of the comments received on the proposed rule and sets forth the FRB's final decision on a number of substantive and technical issues related to the planned cessation of USD LIBOR on a representative basis

The Financial Conduct Authority (FCA) decided to require publication of the one-, three- and six- month synthetic USD LIBOR settings for a short period of time, which is expected to continue until September 30, 2024. The FCA also decided to use Chicago Mercantile Exchange (CME) term SOFR plus the relevant International Swaps and Derivatives Association (ISDA) fixed spread adjustment as the methodology for these synthetic USD LIBOR settings and will permit use of these synthetic USD LIBOR settings in all contracts except cleared derivatives. On March 31, 2023, the FCA has ceased allowing one- and six- month sterling LIBOR. From July 1, 2023, after the USD LIBOR panel ends, all new use of synthetic USD LIBOR will be prohibited under the Benchmarks Regulation (BMR). This will override the exemptions to the prohibition on new use that the FCA previously imposed, and consequently these exemptions will cease when the USD LIBOR panel ends. The synthetic settings are intended for use in legacy contracts only, to help ensure an orderly wind-down of LIBOR.

On February 7, 2023, the CME released a rates recap indicating that there were inflows topping 13.4M contracts, and SOFR options set the single largest month-over-month gain in open interest of any product in CME Group history in January. Trading volume in SOFR options soared during the month, averaging a record 1.8M contracts/day, as traders hedged portfolios and expressed views around the uncertain path for rates in 2023. SOFR futures volumes were equally elevated, averaging 2.6M contracts/day. Total open interest in SOFR now exceeds 43.7M contracts (34M in options and 9.7M in futures).

Companies, institutional investors and lending institutions have fewer than six weeks to prepare for the day that USD LIBOR will be discontinued in representative form. On June 30, the Intercontinental Exchange (ICE) will cease publishing the LIBOR dollar-denominated tenors, the benchmark interest rate that has been used for pricing loans and other debt instruments. Organizations will need to adopt the new dollar-denominated SOFR—the benchmark interest rate at which institutions can borrow US dollars while posting US Treasuries as collateral—in their new financial agreements. At the same time, they will need to swap out LIBOR references for SOFR references in existing contracts that remain in effect after the transition deadline.



ARRC'S Assessment of LIBOR Transition Readiness

The timely reconventions of ARRC's meetings, their discussions with related working groups, and circulation of the outcomes of their meeting serve as important inputs to market participants who are working steadfast to address their USD LIBOR inventory.

The surveys conducted by ARRC, are an important milestone in enabling ARRC to assess LIBOR transition readiness and any potential operational issues involved in assessing the readiness of loan market. The responses to the loan remediation survey indicate that a major proportion of the market participants are in line to achieve LIBOR transition in the stipulated time frame. These surveys also allow market participants to highlight any roadblocks experienced/anticipated in a timely manner and determine the next focus areas to achieve smooth transition.

ARRC'S Key Recommendations

The recommendations released by ARRC in the final phases of the LIBOR transition provides market participants with a clear outlook on the areas of focus to navigate the transition process with less than six weeks left for the cessation of LIBOR. It will also allow market participants an opportunity to reduce unnecessary uncertainty, avoid unintended adverse outcomes, and to mitigate associated operational risk.

FRB's Final Rule Making on LIBOR Act

The FRB's Final Rule restates safe harbor protections contained in the LIBOR Act for selection or use of the replacement benchmark rate selected by the FRB and clarifies who would be considered a "determining person" able to choose to use the replacement benchmark rate selected by the FRB for use in certain LIBOR contracts. Consistent with the LIBOR Act, the Final Rule also ensures that LIBOR contracts adopting a benchmark rate selected by the FRB will not be interrupted or terminated following LIBOR's replacement. The effectiveness of the Final Rule set clear rules, regulations, and expectations for market participants.

FCA Consultation and Announcements on Synthetic LIBOR and the Wind-Down of LIBOR

The FCA advised that firms must continue to actively transition contracts that reference USD LIBOR. In line with the previous Dear CEO Letter, the FCA continues to expect firms to take action and deliver demonstrable progress. Synthetic LIBOR is only a temporary bridge, and synthetic settings will not continue simply for the convenience of those who could have transitioned their contracts but have not done so.

CME Rates Recap

The CME released a rates-recap in January 2023 and February 2023, and stated that 2022, was arguably the most critical year yet for the LIBOR transition. As a result, SOFR futures and options kicked off in 2023 as the leading tools for hedging short-term interest rates, with expansive liquidity supporting an unparalleled range of linear and non-linear strategies across the forward curve.

Cessation of LIBOR dollar-denominated tenors

The ICE will cease to publish USD LIBOR for all tenors after June 30, 2023. Market participants have only few more weeks to unwind the mechanisms associated with LIBOR transition and ensure readiness to incorporate SOFR or other rates in their contracts. Market participants should ensure readiness for the upcoming cessation which will have a huge impact on trade and supply chain finance.



Summary of ARRC Office Hours Q&A with David Bowman, FRB

This section represents a summary of the ARRC office hours Q&A with David Bowman from January 1, 2023, until March 31, 2023. Weekly office hour information can be found [here](#). The information below does not represent the view of the FRB but represents the personal views of David Bowman outside of his official capacity. Below are some of the specific topics discussed:

Recommended practices for Communicating Rate Change

- The ARRC put out a leading practice recommendation 2 years ago, that said for business loans and securities, an issuer/determining party should communicate to borrowers/investors the rate change 6 months before LIBOR's end. The ARRC's operations and infrastructure group has determined that an enhanced version of DTCC's LENS system will be the method to do this. The LENS system is currently in progress, and it will provide a variety of alternative rates for LIBOR contracts. ARRC's specific recommendation is to use the DTCC LENS system once it is live. The DTCC system will allow a practical way to organize the information security by security and will allow all parties to see what rates securities are changing to upon LIBOR's cessation.

Recommended practices for supporting documentation of alternative rates

- In a loan contract, even if covered by operational law, it is advised to update the agreement to reflect the rate that will be used going forward. For securities, if a trustee or agent is the submitting person, supporting documentation from the issuer stating that the issuer agrees with the changes that the submitting person is entering would be of importance.

Replacement for 2-month CME Term SOFR

- The FRB's final rule making does not provide a replacement including a fallback for 2-month CME Term SOFR if this rate were ever to stop. There is one provision in the rulemaking that states if the FRB selected benchmark is not available on a specific date, then use the most recent available one.

"Waterfall" of Fallbacks

- Mr. Bowman believes that for derivatives it would be fair to say that reliance on legislation will provide a fallback for LIBOR, however adherence to protocols will be required if a "waterfall" of fallbacks is desired.

Refinitiv Replacement Index

- Spread adjustment for consumer products has a transition period, which can be a challenge to communicate; therefore, Refinitiv has been selected as the benchmark vendor for consumer fallback rates for simplicity and ease of communication. David mentions that by using the Refinitiv rates, market participants will have the security of knowing that rates are calculated in a way that uses the FRB's rulemaking, but there is no requirement to use Refinitiv rates.

Hedging Term SOFR Assets

- The ARRC scope of use recommendations recommends the use of overnight SOFR, and the use of term SOFR for business loans and any associated derivatives. For derivatives, the ARRC scope of use recommendations state that an end user can hedge with a term SOFR derivative.

Fallback language where the reset date is after June 30th, 2023

- The ARRC's fallback language states that if the date in question is post 6/30/23, the stated fallback language will be implemented. Even if the reset date is after June 30th and if the contract references the value of LIBOR, then the contract will use that value of LIBOR. Fallback language would replace contract terms after June 30th.

Unavailability of FRB selected benchmark replacement rate

- The FRB LIBOR rule provides a conforming change that if the FRB selected benchmark rate is not available, this would be covered in the LIBOR contract and the most recently available rate (business day prior) would apply.

Regulatory Highlights

- The ARRC published the meeting readout for the January 19, 2023 meeting. Meeting readout available [here](#)
- The ARRC published the meeting readout for the February 9, 2023. Meeting readout available [here](#)
- ARRC released a summary of key messages and recommendations for 2023. Key messages available [here](#)
- CME published the rates recap for January 2023. Report available [here](#)
- CME published the rates recap for February 2023. Report available [here](#)
- FRB issued Final Rule implementing the LIBOR Act. Article available [here](#)
- Corporates and banks face a tight deadline to finalize migration from LIBOR. Article available [here](#)
- FCA announcement on the wind-down of LIBOR and details of proposed final publication dates synthetic LIBOR post June 2023 cessation. Consultation available [here](#) and key dates below:
 - The effect of these announcements and proposals is that the final LIBOR publication would be end-September 2024:
 - the three synthetic yen LIBOR settings ceased at end-2022
 - the one- and six-month synthetic sterling LIBOR settings will cease at end-March 2023
 - the overnight and twelve-month USD LIBOR settings will cease at end-June 2023
 - the three-month synthetic sterling LIBOR setting will cease at end-March 2024
 - the one-, three- and six-month synthetic USD LIBOR settings would cease at end-September 2024 (proposed)
- FCA consultation on 'synthetic' USD LIBOR settings and proposed methodology. Consultation available [here](#) and decision available [here](#)

ARRC Working Group Updates

- The ARRC's disagreement over term SOFR use. Article available [here](#)
- The ARRC published the meeting readout for the March 9, 2023. Meeting readout available [here](#)
- Term SOFR trading ban remains as easing talks collapse. Article available [here](#)
- The ARRC published a paper on the recommended fallbacks for implementation of its hardwired fallback language. Statement available [here](#)
- The ARRC/DTCC released the LIBOR Replacement Index Communication Tool document. Guide available [here](#)

ISDA Updates

- ISDA published the ISDA-Clarus RFR Adoption Indicator for February 2023. Report available [here](#)
- ISDA published the ISDA-Clarus RFR Adoption Indicator for January 2023. Report available [here](#)
- ISDA published the ISDA-Clarus RFR Adoption Indicator for December 2022. Report available [here](#)
- ISDA published the ISDA-Clarus RFR Adoption Indicator for November 2022. Report available [here](#)
- ISDA published the Transition to RFRs Review for the full year 2022 and fourth quarter of 2022. Report available [here](#)
- ISDA updated and revised the IBOR Fallback Rate Adjustment FAQ. FAQ available [here](#)
- The final LIBOR hurdle. Article available [here](#)

ICE / CME Updates

- CME published the rates recap for March 2023. Report available [here](#)
- CME published the rates recap for December 2022. Report available [here](#)
- CME published Euro short-term rate €STR futures trading information. Report available [here](#)
- ICE published the Interest Rates Report for February 2023. Report available [here](#)
- ICE published the Interest Rates Report for December 2022. Report available [here](#)
- CME webinar "Trading SOFR Packs in Short-Term Interest Rate Strategies". Webinar available [here](#)
- CME announced €STR first and rates recap for March 2023. Report available [here](#)
- ICE Benchmark Administration announced its intention to launch SOFR spread-adjusted ICE swap rate as a benchmark. Article available [here](#)

Other News / Useful Reading

- FCA proposal for using CME's term SOFR for synthetic USD LIBOR. Article available [here](#)
- USD LIBOR transition: the role of central counterparties (CCPs) in conversion. Article available [here](#)
- SOFR remains elusive in USD collateral agreements. Article available [here](#)
- Numerix paper on LIBOR transition remaining challenges and core issues. Report available [here](#)

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- CME's last open-outcry pit makes leap to post-LIBOR world. Article available [here](#)
- Six months into term SOFR. Article available [here](#)
- World Bank priced its first SOFR-linked floating rate bond of 2023. Article available [here](#)
- LIBOR phase-out leads to record SOFR derivatives volumes. Article available [here](#)
- The FRB adopted a final rule that implements the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR. Press release available [here](#) and article available [here](#)
- Progress report on LIBOR and other benchmarks transition issues: Reaching the finishing line of LIBOR transition and securing robust reference rates for the future. Report [here](#)
- Video of Financial Stability Oversight Council (FSOC) Principals Meeting Open Session. Video available [here](#)
- Freddie Mac and Fannie Mae announced replacement rates for legacy LIBOR contracts. Press releases available [here](#) and [here](#)
- FCA update on approach to exercising powers and decisions to manage an orderly wind-down of LIBOR. Guidance available [here](#)
- LIBOR eclipses the peak it reached in wake of financial crisis. Article available [here](#)
- Debt investors losing millions on LIBOR switch start to fight back. Article available [here](#)
- Transitioning from LIBOR: Legal Considerations For The Nigerian Financial Market. Article available [here](#)
- Loan Syndications & Trading Association published two webinars on implementing the LIBOR act. Webinars available [here](#) and [here](#)
- Synthetic LIBOR and what it means for the LIBOR transition. Article available [here](#)
- Podcast on implementing the LIBOR act. Podcast available [here](#)
- NY Federal Reserve Bank paper warns of systemic risks from SOFR credit lines. Article available [here](#)
- Replacing discontinued interest rates does not trigger taxable gain or loss. Article available [here](#)
- Refinitiv to supplement existing USD IBOR cash fallbacks with new rates. Announcement available [here](#)
- Analysis: Clock ticking for loan market as LIBOR nears its end. Article available [here](#)
- The DTCC launched a new centralized communication solution as part of its lens service in support of LIBOR cession. Press release available [here](#) and tool available [here](#)
- US Department of Housing and Urban Development rule for transitioning from LIBOR to alternative indices. Rule available [here](#)
- Term SOFR trading bans remain as easing talks collapse. Article available [here](#)
- Swaps market braces for \$60 trillion LIBOR conversion. Article available [here](#)
- Strict term SOFR trading rules 'permanent' says FRB's Bowman. Article available [here](#)
- Funding, wealth transfer, and financial stability in the post-LIBOR era. Article available [here](#)
- LIBOR sunset could get stirred up by banking turmoil. Article available [here](#)
- Bank of America Corporation announced CME term SOFR as benchmark replacement rate for certain outstanding USD LIBOR securities after June 30, 2023. Article available [here](#)
- LIBOR transition service market trends, industry demand and scope, top players analysis, forecast 2023–2031. Article available [here](#)

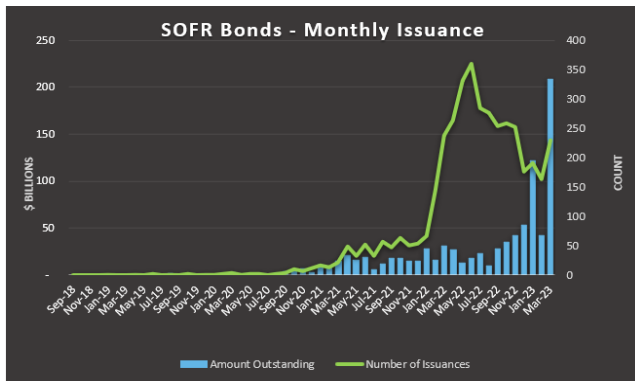


Increase in Debt Issuance Referenced to SOFR

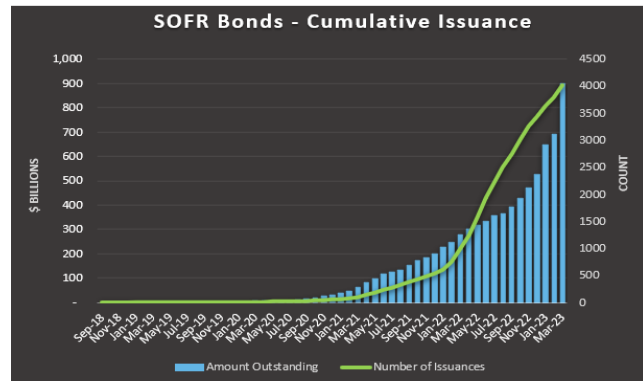
The issuance of SOFR referenced debt increased in March 2023 compared to issuance in February 2023. The issuance size was \$208.7 billion in March 2023, which increased from \$41.8 billion in February 2023. The graphs below represent data through March 2023.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$891.6 billion with 4,067 bonds through April 19, 2023. There were 229 new issuances in March 2023 compared to 163 in February 2023 and 190 in January 2023.

In March 2023, federal agencies issued 76 SOFR referenced floating rate notes (FRN)s worth \$200.4 billion. There were 153 issuances from other institutions that contributed \$8.3 billion to the outstanding amount of SOFR referenced debt.



Source: Reuters, compiled by Deloitte
*Data as of March 31, 2023

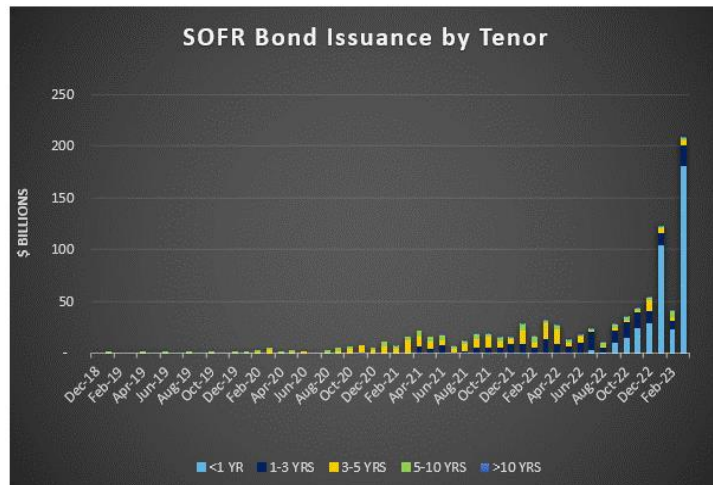


Source: Reuters, compiled by Deloitte
*Data as of March 31, 2023

Increase in Longer Dated Debt Issuance (maturity between 5- 10 years) Referenced to SOFR

SOFR debt issuances with a maturity between 5 and 10 years increased in March 2023 compared to February 2023. During March 2023, there were 36 bonds issued that have a maturity between 5 and 10 years, compared to 19 issuances in February 2023. There were 8 issuances during March 2023 that had a maturity greater than or equal to 10 years, as compared to 10 such issuances with a maturity greater than or equal to 10 years for February 2023.

There were 901 issuances of SOFR bonds outstanding worth \$88.3 billion, with a maturity greater than or equal to 5 years, through April 19, 2023, including 159 issuances worth \$9.3 billion with a term greater than or equal to 10 years.

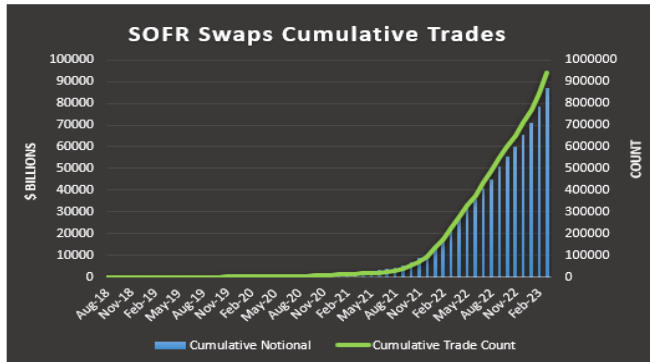


Source: Reuters, compiled by Deloitte
*Data as of March 31, 2023

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Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

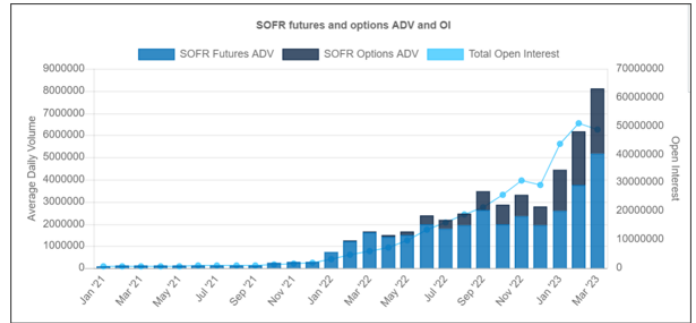
- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$87,575 billion through March 31, 2023.
- For the month of March 2023, the notional volume of SOFR-based interest rate and basis swaps totaled \$8,822.1 billion compared to \$7,330.6 billion in February 2023 and \$5,732.6 billion in January 2023.



Source: <http://swapsinfo.org/>, compiled by Deloitte
 *Data as of March 31, 2023

SOFR Futures

- According to data available on CME, for March 2023, SOFR futures and options average daily volume reached ~5.2M and ~2.9M contracts/day, respectively. The data is available [here](#).
- The month-end open interest for SOFR 1-month and 3-month futures as of March 2023 was ~48.6M contracts.



Source: CME Group
 *Data as of March 31, 2023

Global IBOR Activity

The market activity in Sterling Overnight Index Average (SONIA), Tokyo Overnight Average Rate (TONAR), Euro Short-Term Rate (€STR), and Swiss Average Rate Overnight (SARON)-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, 2023.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	85,930.6	221.7
SARON	1,576.9	NA
TONAR	6,834.6	NA
€STR	52,451.3	14.9

Source: Reuters, <http://swapsinfo.org/>, compiled by Deloitte
 Swaps and Bonds data are as of March 31, 2023



United Kingdom

- The Working Group on Sterling Risk-free rate (RFR) published the December 13, 2022 meeting minutes. Meetings available [here](#)
- Update on Bank of England and Financial Conduct Authority Memorandum of Understanding on the supervision of market infrastructure and payment systems. Article available [here](#)
- Swaps market braces for \$60 trillion LIBOR conversion. Article available [here](#)
- Analysis: LIBOR sunset could get stirred up by banking turmoil. Article available [here](#)

European Union

- Access streaming €STR liquidity across outrights, basis spreads, and ICS. Article available [here](#)
- The Euro Working Group published the December 13, 2022 meeting minutes. Minutes available [here](#)
- The European commission published an initiative to review the scope and regime for non-EU benchmarks. Consultation available [here](#)
- Is Euribor on borrowed time, or here for the duration? Article available [here](#)

Asia

- Bank Indonesia (BI) starts publishing compounded IndONIA and IndONIA index. Article available [here](#)
- Data shines light on Tokyo InterBank Offered Rate (TIBOR) fragility. Article available [here](#)
- Alternative benchmarks critical for stability of financial system: Reserve Bank of India (RBI) Dy Gov. Article available [here](#)
- Some Lenders still Continuing with LIBOR Contracts, says RBI. Article available [here](#)
- Hong Kong Monetary Authority (HKMA) letter on the progress of transitioning away from LIBOR. Letter available [here](#)
- Steering committee for Swap Offered Rate (SOR) and Singapore Interbank Offered Rate (SIBOR) published a supplementary guidance on the adjustment of spreads for the conversion of legacy loans. Report available [here](#)
- A calculator to assist in computing adjustment spreads for SOR and SIBOR. Calculator available [here](#)
- Tokyo financial exchange to launch TONAR derivatives in mid-March 2023. Article available [here](#)
- YES Bank adopts Bloomberg's Multi-Asset Risk System (MARS) to support transition to RFR. Article available [here](#)
- Hong Kong to amend clearing rules to account for IBOR reforms. Article available [here](#)
- JBA TIBOR Administration (JBATA) finalizes fallback methodology for TIBOR contracts. Article available [here](#)
- All SIBOR retail loans to be converted to reference Singapore Overnight Rate Average (SORA) in June 2024. Article available [here](#)

Canada

- The Canadian Alternative Reference Rate working group (CARR) released the Canadian Overnight Repo Rate Average (CORRA) – first dates. Article available [here](#)
- CARR announced development of a Term CORRA benchmark. Article available [here](#)
- CARR's approved use cases for Term CORRA published. Guidance available [here](#)
- Term CORRA Methodology and recommended approach published. Guidance available [here](#)
- The administrator of Term CORRA selected. Report available [here](#)
- Summary of results of consultation on a potential new term interest rate to replace CDOR. Report available [here](#)
- CARR and TMX launched a webcast series on the transition from CDOR. Notice available [here](#) and webcast available [here](#)

Contact Us

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

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