



Deloitteⁱ US LIBOR Transition Newsletter

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

[Executive Summary](#)

[Regulatory Updates](#)

[Global Highlights](#)

[Our Perspective](#)

[Market Updates](#)



Executive Summary

The Financial Conduct Authority (FCA) published a statement on March 25, 2020 to address some of the concerns market participants have had on the market impact due to the Coronavirus Disease (COVID-19). The FCA stated that firms should continue to assume that they can no longer use LIBOR rates post 2021 and the target cessation date of December 31, 2021 remains unchanged. The FCA also acknowledged that segments of the UK market, such as the loan market, may have not made as much progress in the transition and may experience changes in interim milestones dates as a result of COVID-19.

It was also an important month for the accounting implications of the LIBOR transition. The Financial Accounting Standards Board (FASB) released the final accounting relief on March 12, 2020 providing guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The Governmental Accounting Standards Board (GASB) also issued a standard on April 2, 2020 to assist state and local governments with the LIBOR reform.

The Alternative Reference Rates Committee (ARRC) issued a letter on March 24, 2020 to provide comments on regulations proposed by the U.S. Treasury and the Internal Revenue Service (IRS) which looked to address tax implications of the LIBOR Transition. Specifically, the ARRC is concerned with the requirements which address situations where modifications to an agreement could cause a deemed termination. These requirements may discourage market participants from modifying contracts away from IBORs or from adopting standard fallback provisions in response to IBOR's cessation. The ARRC has thus suggested several modifications to the proposed regulations which are detailed in their letter.

On March 6, 2020 the ARRC released a proposal for New York State (NYS) legislation to reduce the legal uncertainty and adverse economic impact of the LIBOR transition. The proposed legislature aims to provide relief for contracts with legacy fallback language referencing LIBOR, LIBOR-based rates, or those without fallback language. The relief can help avoid a dramatic alteration of the contracts' economic provisions as a result of the transition. On a mandatory or permissive basis, the proposal could impose recommended fallback language as a replacement for existing contracts governed by NYS law.



The COVID-19 Impact on LIBOR Transition Plans

The FCA's statement is clear that they do not aim to extend the end date of LIBOR past 2021 and that firms should continue to plan towards that date. David Bowman, Senior Associate Director at the Board of Governors of the Federal Reserve (FRB) also noted that the end date is not in the FRB's control and it could ultimately be the panel bank's decision on if LIBOR will continue to be published post-2021. Interim target dates set by the working groups may be subject to change providing some relief, however, as firms deal with the market volatility and changing circumstances due to the COVID-19 impact, it is important to continue to push ahead on the transition plans, aim for minimal changes to internal milestone dates and take advantage of remote working capabilities.

FASB Accounting Relief and Next Steps

FASB's release of the final accounting standard update to help provide accounting relief related to the reference rate reform marks an important milestone in the transition. The final update is in line with the proposed guidance that was released in September 2019 and provides relief for contract modifications and hedge accounting. Prior to the final standard update, the application of contract modification and hedging requirements under U.S. GAAP to modifications triggered by reference rate reform would be costly to implement and result in financial reporting that did not faithfully represent management's intent or risk management activities. The accounting policy leads of firm's LIBOR programs should now communicate to the relevant lines of businesses the safe harbor for maintaining hedge accounting relationships per the relief to help businesses determine their hedging strategies. Accounting policy leads should also be coordinating with legal and contract management departments to communicate the acceptable changes to LIBOR-referenced contracts per the relief.

ARRC Proposal for NYS Legislation for U.S. Dollar LIBOR Contracts

The ARRC has published the long-awaited legislative proposal for modifying contracts governed under NYS law to include more efficient fallback language. The proposed legislature could allow for contracts to be amended at the legislative level providing relief for extensive legal expenses and from significant conduct risk stemming from renegotiating contracts across the market. The proposal does not prescribe the use of the recommendations where existing contracts already refer to a non-LIBOR benchmark and allows the counterparties to decide at their discretion. To help progress the initiative despite focusing on more immediate priorities of NYS related to COVID-19, institutions should keep their eye out and sign the letter that ARRC will be publishing asking for input on the proposal. The institutions may also want to attend additional webinars and educational platforms conducted by the ARRC which provides a signal to NYS that this is a pressing concern for the market and that this proposal may help mitigate many risks posed by the transition.



Regulatory Updates

US Regulatory Highlights

- The FCA statement on the impact of the COVID-19 on firms' LIBOR transition plans. The statement is available [here](#).
- FASB released the final accounting relief related to the LIBOR transition on March 12, 2020. The accounting standard update (ASU) is available [here](#).
- GASB provided guidance to assist state and local governments with the LIBOR reform. The overview of the standard is available [here](#).
- The ARRC provided comments regarding the "Proposed Regulations" addressing tax issues related to IBOR reform published by the U.S. Department of the Treasury and the Internal Revenue Service (IRS) on October 9, 2019. The letter is available [here](#).
- The ARRC has released proposed legislative relief where fallback language will be automatically included in New York State governed contracts. The proposed relief is available [here](#).

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, 2020, through March 31, 2020. 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:

90-day Average SOFR Rates

- Market participants have raised concerns that the 90-day average SOFR rates published on the FRB website may diverge from the compound SOFR calculated for quarterly interest periods. Although in practice this difference may not be substantial and there may be some differences. In this scenario, the SOFR index can be useful in calculating quarterly compound average using preferred business day convention. The floating rate group is working on a spec sheet that references the SOFR index which will provide guidance to the market.

Calculated Accruals Prior to Fixed Index Periods

- The ARRC has published averages over fixed calendar days: 30, 60, and 90 days. However, for instances where an accrual has to be calculated prior to the start of a fixed period, the SOFR index allows for a calculation of the compound interest between two business days. The index is based on the definition of compound SOFR to match standard accrual for derivatives.

SOFR Index and Observation Shifts

- The SOFR index can be used to help calculate observation shifts. This is one of many purposes of the SOFR index which helps assist in interest calculations when parties use a look back with observation shift or other conventional methods.

Primary Dealer Credit Facility (PDCF) Effect on SOFR

- The FRB has announced the reinstatement of the PDCF to assist with the credit circumstances of households and businesses in response to the strain in the repo markets. The reinstatement of the PDCF effect on SOFR is expected to be temporary. There has been reduced liquidity in the treasury markets, but some of the facilities may help the promote smoother market functionality. The Fed Statement can be found [here](#).

SOFR Based Term Rate Creation

- One of the ARRC's main objectives for 2020 is to establish an RFP process to receive proposals for the creation of a SOFR based term rate. This process may likely include criteria that ARRC could use to judge proposals such as market depth, market pricing, days of low trade, number of transactions and the history of the depth/liquidity. The ARRC's goal is to produce the term rate in the first half of 2021, earlier than originally anticipated.

NY State Legislative Relief

- The ARRC has released proposed legislative relief where fallback language will be automatically included in New York State governed contracts. The link to the proposed relief is below within the US Regulatory Updates and also available [here](#). The ARRC is hopeful that New York State will consider the proposed legislation promptly after the priorities related to COVID-19 and the budget are resolved. The ARRC will hold a webinar to provide additional background on the proposed legislation as well as circulate a letter to market institutions gathering input for a legislative solution covering legacy products. As it stands, the proposed legislation could replace language for contracts that have no fallback language, refers to polling banks, or falls back to some value of LIBOR with ARRC recommended fallbacks. The legislation could grant a “safe harbor” for contracts that give parties discretion to name a successor rate if they choose the ARRC recommended fallback. Additionally, the legislation could reduce the impact for contracts that fallback to another floating rate (i.e. prime or alternative base rate).

Floating Rate Notes (FRN)'s Using SOFR Index

- FRN's can use the SOFR index for the first part of the leg, however the lock out period would have to be manually added.

Publication of LIBOR Tenors

- There is no current plan by the Intercontinental Exchange (ICE) Benchmark Administration (IBA) to stop publishing LIBOR tenors until the regulator has acknowledged the rate unrepresentative or the panel banks stop providing quotes.

FRB & ARRC Working Group

- The FRB began publishing 30-, 90-, and 180-day SOFR Averages as well as a SOFR Index. The Statement is available [here](#). The published rates are available [here](#).
- ARRC Chair Tom Wipf welcomed the Publication of SOFR Averages and a SOFR Index. The press release is available [here](#).
- The ARRC extends the comment period for feedback on consultation about potential spread adjustment methodologies until March 25, 2020. The press release is available [here](#).
- The ARRC has published a consultation on fallback language for new LIBOR-linked variable rate private student loans. The consultation can be found [here](#).
- The ARRC February-March newsletter was released. The letter is available [here](#).

ISDA Updates

- The International Swaps and Derivatives Association (ISDA) has published the re-consultation on pre-cessation issues with feedback which were due by April 1, 2020. The press release is available [here](#). A webcast on the re-consultation is available [here](#) and the webcast materials are available [here](#).
- ISDA has published the results of the December 2019 supplemental consultation on fallbacks for derivatives referencing EUR LIBOR and EURIBOR. The results are available [here](#) and the full report is available [here](#).
- Swaptions: 'Agreed Discount Rate' supplement to the 2006 ISDA Definitions are published and are available [here](#).
- UK regulator urges derivatives users to accept ISDA swap fallbacks to determine compliance with benchmark law. The article is available [here](#).

Other News / Useful Reading

- The Federal Housing Finance Agency (FHFA) has extended the deadline for Federal Home Loan (FHL) Banks to cease entering into LIBOR based instruments that mature after December 31, 2021 to June 30, 2020. The announcement is available [here](#).
- LIBOR transition efforts during the COVID-19 Pandemic. The articles are available [here](#) and [here](#).
- The Global Financial Markets Association (GFMA) has released the March IBOR transition monthly update. The newsletter is available [here](#).
- Small banks communicate to the FRB their LIBOR replacement doesn't work for them. The article is available [here](#).
- Advanced risk alternatives for rates trading webinar focused on front office risk solution interest rates. The webinar is available [here](#).
- Fed funds swaptions offer SOFR alternative as markets wait for SOFR liquidity to build. The article is available [here](#).
- Fitch Ratings produced "U.S. Financials See Rising Risk from Cash Products Amid LIBOR Sunset" video. The video is available [here](#).
- LIBOR fluctuations impact on the Collateralized Loan Obligation (CLO) market. The article is available [here](#).
- Lack of publication for over two weeks in ICE Swap Rates across dollar and sterling maturities and the potential delay in term rates. The article is available [here](#).



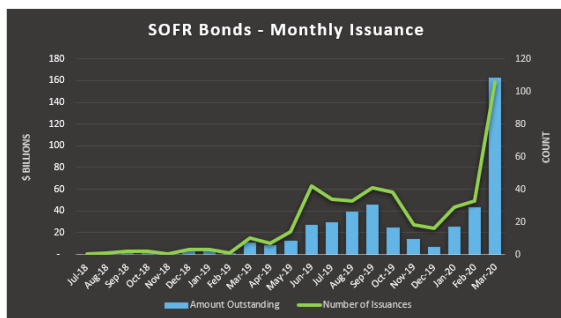
Market Updates

Increase in Debt Issuance Referenced to SOFR

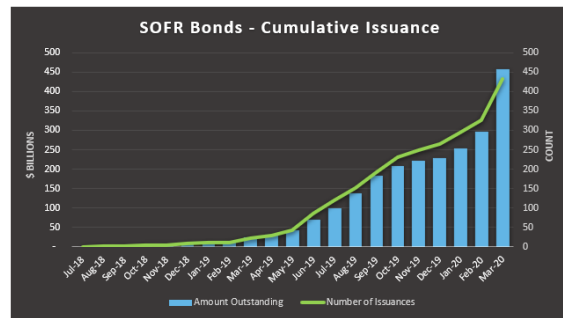
The issuance of floating-rate debt linked to SOFR surged to a record high during March of 2020. The issuance was \$162.3 billion in March 2020 which has gone up from \$42.9 billion in February 2020 and \$25.0 billion in January 2020. The graphs below represent data through March 31, 2020.

The cumulative issue size of SOFR bonds outstanding currently stands at \$503.6 billion with 474 bonds (this excludes the matured bonds) through April 13, 2020. There were 106 new issuances in March 2020 compared to 33 and 29 issuances in February 2020 and January 2020 respectively.

In March 2020, federal agencies issued 87 SOFR referenced float rate notes worth \$140.6 billion. There were 13 other institutions which contributed \$21.7 billion to the outstanding amount of SOFR referenced debt.



Source: Bloomberg, compiled by Deloitte
*Data as of Mar 31, 2020

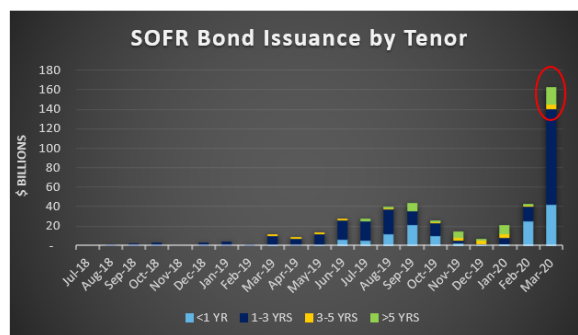


Source: Bloomberg, compiled by Deloitte
*Data as of Mar 31, 2020

Increase in Longer Dated Debt Issuance Referenced to SOFR

March 2020 included a monthly high of issuances which have a maturity greater than or equal to five years. During March 2020, 13 bonds worth \$17.3 billion, which have a maturity greater than or equal to five years, were issued. This includes 9 bonds worth \$14.5 billion which have a maturity greater than or equal to ten years.

There were 58 issuances worth \$50.1 billion, with a maturity greater than or equal to five years, through April 13, 2020. Included in this are 40 issuances worth \$32.9 billion with a term greater than or equal to 10 years.

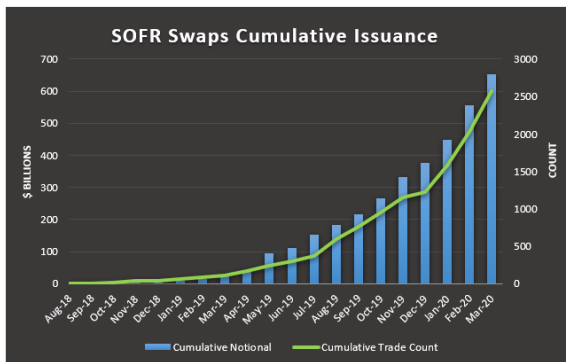


Source: Bloomberg, compiled by Deloitte
*Data as of Mar 31, 2020

Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

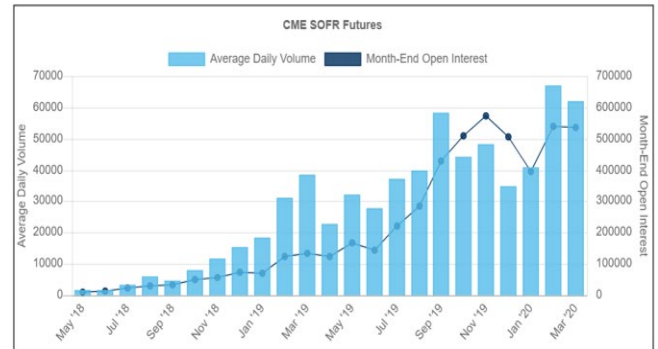
- SOFR swaps continued their momentum in the second quarter of 2020. The notional volume of SOFR-based interest rate and basis swaps totaled \$29.7 billion through April 10, 2020.
- At the end of March 2020, the notional volume of SOFR-based interest rate and basis swaps totaled \$97.3 billion compared to the \$107.5 billion in February 2020, and \$72.0 billion in January 2020.



Source: <http://swapsinfo.org/>, compiled by Deloitte
*Data as of March 27, 2020

SOFR Futures

- As per the data available on CME, for March 2020, SOFR futures average daily volume reached 62K contracts/day with both banks and buy-side institutions participating. The article is available [here](#). There is a decrease of ~7% in the average daily volume compared to February 2020.
- The month-end open interest for March 2020 was around ~53K contracts. This is in line with what was observed in February 2020.



Source: CME Group
*Data as of March 31, 2020

Global IBOR Activity

There is a continued focus on the broader market adoption of the global alternative reference rates. Market activity in Sterling Overnight Index Average (SONIA), Swiss Average Rate Overnight (SARON) and €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 April 10, 2020.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	23,735.50	80.03
SARON	34.60	NA
TONA	462.93	NA
€STR	5.00	3.87

Source: Bloomberg, <http://swapsinfo.org/>, compiled by Deloitte
Data as of April 10, 2020



Global Highlights

United Kingdom

- LIBOR Transition deadlines are under debate by U.K. regulators because of COVID-19. The article is available [here](#).
- BoE will publish a daily SONIA compounded index which will encourage the use of SONIA in a wide range of financial products by simplifying the calculation of compounded interest rates starting in July 2020. The consultation on the BoE approach is available [here](#) and the press releases are available [here](#) and [here](#).
- BoE Loans Enablers Task Force guidance on the path to discontinuation of new GBP LIBOR-linked lending by end-Q3 2020. The presentation is available [here](#).
- BoE statement on the use of the SONIA index and weighting approaches for observation periods in the bond market. The statement is available [here](#).
- Joint letter from the BoE and FCA to Trade Association Chairs and CEOs regarding the discontinuation of LIBOR and next steps. The letter is available [here](#).
- Statement on how the FCA may announce LIBOR contractual triggers is available [here](#).
- BoE summary of responses on the credit adjustment spread methodologies for fallbacks in cash products consultation. The summary is available [here](#).
- Sterling Market Outpaces US Dollar Market in Libor Transition. The article is available [here](#).
- GBP LIBOR-linked interest rate swaps continue to be executed despite UK regulators wanting market makers to transition away from the reference rate on March 2, 2020. The article is available [here](#).
- LCH changes to address pre-cessation triggers. The article is available [here](#).

European Union

- European Central Bank (ECB) Working Group on Euro Risk-Free Rates agenda and meeting minutes were released. The agenda is available [here](#) and the meeting minutes are available [here](#).
- Subgroup 6 within the ECB working group held a presentation on risk management and financial accounting issues. The report is available [here](#).
- ECB produced a report on overnight indexed swaps (OIS) linked to €STR. The report is available [here](#).
- ECB working group issued a consultation seeking feedback on swaptions impacted by the transition from EONIA to €STR. The press release is available [here](#).
- ECB Working Group March 2020 newsletter is available [here](#).
- Synthetic Libor faces legal obstacles - EU benchmark rules may thwart 'tough legacy' fix, reviving calls for blanket legislation. The article is available [here](#).
- Swiss National Bank's liquidity injections trigger sight deposit leap. The article is available [here](#).

Asia

- Nikkei QUICK Corp. was selected as a calculating and publishing entity of prototype rates for Term Reference Rates. The Bank of Japan (BoJ) press release available [here](#).
- Agenda from the February 25, 2020 Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks meeting. The agenda is available [here](#).
- The Japan Financial Services Agency and The Bank of Japan (BoJ) summary of survey results on the use of LIBOR and main actions needed. The report is available [here](#).
- Minutes of the February 25, 2020 Cross-Industry Committee meeting are available [here](#) and the agenda for March 31, 2020 meeting is available [here](#).
- The Association of Banks in Singapore has published the Steering Committee key priorities and roadmap for SOR transition to SORA. The press release is available [here](#) and the roadmap is available [here](#).
- "Broad support" for Singapore's plan for new interest rate benchmark. 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](#)

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright © 2020 Deloitte Development LLC. All rights reserved.

ⁱ Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.