



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 December 16, 2022, The Federal Reserve Board (FRB) adopted a final rule that implements the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR (Secured Overnight Financing Rate) that will replace LIBOR in certain financial contracts after June 30, 2023. The final rule is substantially similar to the proposal with certain clarifying changes made in response to comments. As required by the law, the final rule identifies replacement benchmark rates based on SOFR to replace overnight, one-month, three-month, six-month, and 12-month LIBOR in contracts subject to the Act. These contracts include U.S. contracts that do not mature before LIBOR ends and that lack adequate "fallback" provisions that would replace LIBOR with a practicable replacement benchmark rate.

On November 9, 2022, the Alternative Reference Rate Committee (ARRC) held a meeting to discuss the progress in the transition from LIBOR to SOFR. In the most recent sentiment survey of ARRC members, respondents continued to characterize the LIBOR transition overall as progressing smoothly or generally smoothly into 2022, with no meaningful change in sentiment compared to the prior survey conducted in September 2022. Respondents noted a focus on the Federal Reserve rule-making process under the LIBOR Act, whether there will be a synthetic USD LIBOR rate, remediation of legacy cash products, transition efforts in respect of USD LIBOR ICE Swap Rate and usage of Term SOFR.

ARRC members noted last month's public release of a summary of the results of its Loan Remediation Survey. Overall, the results reflect encouraging progress in the business loans space but reinforce the need for timely action. While most

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respondents highlighted plans to actively transition their LIBOR loans to SOFR, rather than rely on fallbacks at cessation, over half of lenders expected most of their LIBOR loans to transition by the end of Q2 2023 or later, with almost 15 percent expecting their loans to transition post LIBOR cessation. The ARRC discussed conducting another loan remediation survey in early Q1 2023, which will seek to gauge progress made on remediation plans.

On November 23, 2022, the Financial Conduct Authority (FCA) released an announcement regarding the wind-down of LIBOR. The effect of these announcements and proposals is that the final LIBOR publication would be end-September 2024, the 3 synthetic yen LIBOR settings will cease at end-2022. The 1- month and 6-month synthetic sterling LIBOR settings will cease at end-March 2023, the overnight and 12-month US dollar LIBOR settings will cease at end-June 2023, the 3-month synthetic sterling LIBOR setting will cease at end-March 2024 and the 1- month, 3- month and 6-month synthetic US dollar LIBOR settings would cease at end-September 2024 (proposed).

Regarding US LIBOR, considering the feedback received to the FCA's June consultation, they have published a further consultation on proposals to use those powers to require LIBOR's administrator, ICE Benchmark Administration Limited (IBA), to publish the 1-, 3-, and 6-month US dollar LIBOR settings under a synthetic methodology for a temporary period until end-September 2024, after which it will end permanently. The FCA considers synthetic LIBOR a fair and reasonable approximation of what LIBOR might have been, it will no longer be representative for the purposes of the BMR. It is not for use in new contracts. It is intended for use in certain legacy contracts only.

During October 2022, the ISDA-Clarus RFR Adoption Indicator was 51.3%, compared to 51.1% in September. The indicator tracks how much global trading activity (as measured by DV01) is conducted in cleared over the counter and exchange-traded interest rate derivatives (IRD) that reference the identified risk-free rates (RFRs) in six major currencies. On a traded notional basis, the percentage of RFR-linked IRD increased to 45.4% of total IRD transacted in October 2022 compared to 44.9% the prior month.

On November 16, 2022, John C. Williams, President and C.E.O. of the Federal Reserve Bank of New York, spoke at the U.S. Treasury Market Conference to discuss the transition away from LIBOR. He stated that the industry's focus should currently be on the remediation of legacy contacts and ideally this would occur well before the cessation of LIBOR, so there is not a last-minute rush. Mr. Williams also highlighted the ARRC's work in laying out best practices for the use of rates grounded in overnight SOFR; most notably, the limited use of term SOFR.

On November 15, 2022, the Intercontinental Exchange announced that ICE Benchmark Administration Limited ("IBA") has published a feedback statement on its intention to cease the publication of ICE Swap Rate settings based on USD LIBOR for all tenors, immediately after its cessation on June 30, 2023.



FRB's Final Rule Making on LIBOR Act

In response to comments, 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 Board for use for certain LIBOR contracts. Consistent with the LIBOR Act, the final rule also ensures that LIBOR contracts adopting a benchmark rate selected by the Board will not be interrupted or terminated following LIBOR's replacement.

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 the 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 survey's (next iteration planned in Q1 2023) will also play a vital role in bringing in more recommendation and plans by ARRC to ensure smooth transition away from LIBOR Transition. It will also allow the market participants to highlight any roadblocks experienced/anticipated in a timely manner.

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

The FCA has proposed its plans to the IBA to continue to publish certain US dollar LIBOR settings under an unrepresentative synthetic methodology. This is an important development since it would provide reasonable time to the market participants to transition away from LIBOR and serve as the connector while the banks work their way out to transition to alternative risk-free rates. Further, synthetic LIBOR can serve as a fair and reasonable approximation of what LIBOR is and is likely to benefit a significant number of contracts.

The FCA's consultation seeking feedback on requiring the 1-month, 3-month and 6-month US dollar LIBOR settings to be published on a synthetic basis until end-September 2024 is a crucial and important arrangement for the market participants with significantly volume of USD LIBOR Inventory. The consultation is of significant assistance in determining the current state of market participants and various contracts which are involved in the process of LIBOR transition. It is also of value in determining the requirement of synthetic LIBOR publication and how it could benefit the market participants.

October 2022 ISDA-Clarus RFR Adoption Indicator

The ISDA Clarus RFR Adoption Indicator has increased to 51.3% from 51.1% indicative of wide acceptance of the risk-free rates in the derivative markets. This is an important development aiding the market participants build trust and confidence around the new reference rates thereby ensuring smooth transition in the derivative market as they aim to move to robust risk-free rates by mid-2023. While the RFR Adoption Indicator continues to increase, there remains a substantial portion of portfolio in the derivative market which would be required to transition to the alternative rates.

U.S. Treasury Market Conference – John Williams Discussion

The process of LIBOR Transition is reaching its final stages and has been observed to pan out successfully so far, per John Williams. The market holds a similar expectation in the final stages of phase out with an increased focus of legacy contracts. Once the transition is achieved, the ARRC's work would be far from over. The ARRC best practices regarding the use of reference rates grounded in overnight SOFR and many others will continue to guide the market participants to ensure smooth functioning of all contracts.

USD LIBOR ICE Swap Rates Benchmark Cessation

The ICE Swap Rate which is based off USD LIBOR will cease to publish for all tenors immediately after its cessation on June 30, 2023. This is an important development in the space of LIBOR transitions and would require all the market participants to ensure alternative rates are accounted for in all contracts which are based on ICE Swap rates by June 2023 or preferably earlier.



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 October 1, 2022, until November 30, 2022. 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:

Refinitiv Fallback Rates accessibility on Bloomberg/other services

- Refinitiv has shown an openness to doing this. Their hope and expectation are that services like Bloomberg will show Refinitiv rates on their screens.

ARRC's Recommendation for Communicating Rate Change

- David does not think that the ARRC will change their recommendation of communication the new rate at least six months prior to the LIBOR cessation on June 30, 2023. There are multiple ways to meet this recommendation such as saying that you will use the FRB rated benchmark. It does not have to be too specific so the delay in FRB rulemaking should not be a major adherence to communicating the LIBOR transition plan. If you have not selected a rate by June 30, 2023, then you move to the FRB selected rate by default.

Depository Trust & Clearing Corporation (DTCC) Updates

- David stated that they are targeted an upgrade to the DTCC lend services by early February 2023 and by then people will be able to use it.

Financial Conduct Authority (FCA) and Synthetic US LIBOR Rates

- David is not able to provide an update. It is for the FCA to share, not David nor the FRB. David expects that they will communicate at some point in the future on this subject.

Update on Dealers providing term SOFR based hedges

- The ARRC is considering ways in which there can be refinements for the recommended practices on the scope of best uses of term SOFR. ARRC best practices around this topic reflect/align with the official statements given by the FRB which is that term SOFR hedging can be a useful tool but need to be sure to not overdo it and create the same issues that existed with LIBOR.

Government Sponsored Entities (GSE) Covered Contracts using Securitization

- There had been a request that certain Fannie and Freddie multifamily commercial real estate securitized assets and underlying loans go to 30-day SOFR. David can't comment on the final rule but stated that there is not necessarily a need for term SOFR. Users often like the term SOFR rate even if they do not have specific reason to use it instead of 30-day SOFR. The ARRC recognized the most demand for this is in business loans. The more things that term SOFR spreads to as far as cash products, will overload the system and make it less usable in areas where it was intended to be used.

Regulatory Highlights

- Federal Reserve Board adopts final rule that implements Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR that will replace LIBOR in certain financial contracts after June 30, 2023. The article is available [here](#).
- The ARRC published the agenda and readout for the November 9, 2022, meeting with minutes to follow in a few weeks. Agenda available [here](#) and readout available [here](#) (Can look out for meeting minutes)
- FCA announced further consultation and announcements on the wind-down of LIBOR. Article is available [here](#) and key dates below:
 1. the 3 synthetic yen LIBOR settings will cease at end-2022
 2. the 1- and 6-month synthetic sterling LIBOR settings will cease at end-March 2023
 3. the overnight and 12-month US dollar LIBOR settings will cease at end-June 2023
 4. the 3-month synthetic sterling LIBOR setting will cease at end-March 2024
 5. the 1-, 3- and 6-month synthetic US dollar LIBOR settings would cease at end-September 2024 (proposed)
- FCA released a consultation on synthetic LIBOR on requiring publication of the 1-, 3- and 6-month synthetic USD LIBOR settings for a short period of time, i.e., until end September 2024. The consultation is available [here](#).
- ISDA published the October 2022 ISDA-Clarus RFR adoption indicator. The report is available [here](#).
- John C. Williams remarks at the 2022 U.S. Treasury Market Conference. The speech is available [here](#).
- USD LIBOR ICE Swap rate benchmarks to stop in 2023. The article is available [here](#).

ARRC Working Group Updates

- The ARRC released a Loan remediation survey regarding plans to remediate USD LIBOR loans. The survey is available [here](#).
- The ARRC released the results of the loan remediation survey. A summary of the results is available [here](#).
- The ARRC published the agenda, minutes, and readout for the September 8, 2022 meeting. The meeting agenda is available [here](#), minutes are available [here](#), and readout is available [here](#).

International Swaps and Derivatives Association (ISDA) Updates

- ISDA published the September ISDA-Clarus RFR adoption indicator. The report is available [here](#).
- ISDA published Swaps info report for the first half of 2022 and the second quarter of 2022. The report is available [here](#).
- ISDA IRD trading activity report for H1 and Q2 of 2022. The report is available [here](#).
- ISDA IRD trading activity report for Q3 of 2022. The report is available [here](#).
- ISDA published the SwapsInfo Q3 2022 report. The report is available [here](#).
- ISDA published a report on the transition to RFRs Q3 2022. The report is available [here](#).
- Weekly swapsinfo analysis. The report is available [here](#).

ICE / CME Updates

- CME published the rates recap for September 2022. The report is available [here](#).
- CME published the rates recap for October 2022. The report is available [here](#).
- CME preps April '23 Eurodollar conversion. The article is available [here](#).
- CME Group continues SOFR conversions as demand grows. The article is available [here](#).
- ICE published the Interest Rates Report for September. The report is available [here](#).
- ICE published the Interest Rates Report for October. The report is available [here](#).
- CME announced fee waivers to support transition from Eurodollars to SOFR. The article is available [here](#).
- CME is publishing European Overnight Index futures (pending regulatory review). The report is available [here](#).
- CME revised MAC Swap and CUSIPS for March 2023. The report is available [here](#).
- ICE Futures published a circular on the extension of Euribor and SONIA liquidity provider program. The circular is available [here](#).
- ICE Futures published a circular on the extension of SOFR Index Futures liquidity provider program. The circular is available [here](#).
- ICE Futures published a circular on the extension of STIR Futures discount program. The circular is available [here](#).
- ICE SWAP Rate based on USD LIBOR feedback statement on consultation on potential cessation released. The statement is available [here](#) and the press release is available [here](#).

Other News / Useful Reading

- LSTA published a SOFR cost of carry calculator. The calculator is available [here](#).

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- USD LIBOR transition on track; basis risk a concern for Federal Family Education Loan Program. The article is available [here](#).
- Commercial real estate slows to complete LIBOR transition. The article is available [here](#).
- Financial Accounting Standards Board (FASB) extends accounting relief as companies switch from LIBOR. The article is available [here](#).
- HUD proposes SOFR as LIBOR replacement rate for FHA-insured ARMS. The article is available [here](#).
- FRB published proposals for comment for Regulation ZZ (implementing the Adjustable Interest Rate (LIBOR) Act). The proposals are available [here](#).
- US dollar Libor transition: the role of CCPs in conversion. The article is available [here](#).
- CLO equity investors stung by Libor basis. The article is available [here](#).
- Rate volatility cements SOFR as top liquidity pool. The article is available [here](#).
- Conversion of Cleared LIBOR Swaps to SOFR: the process, key dates, and more. The article is available [here](#).
- LCH statement on solution for USD LIBOR contract conversion. The statement is available [here](#).

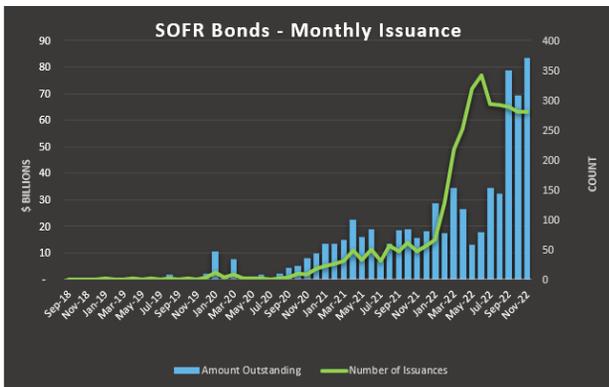


Increase in Debt Issuance Referenced to SOFR

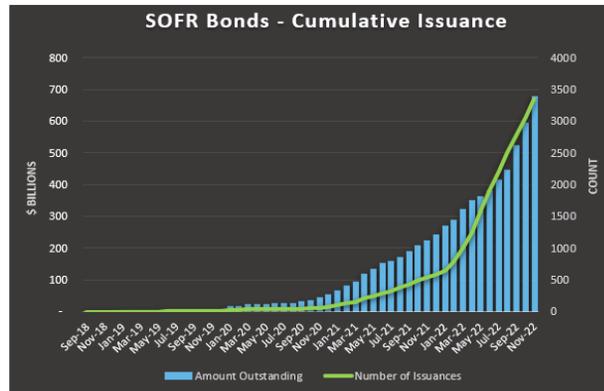
The issuance of SOFR referenced debt increased in November 2022 compared to issuance in October 2022. The issuance size was \$83.3 billion in November 2022, which increased from \$69.3 billion in October 2022. The graphs below represent data through November 2022.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$687.6 billion with 3,426 bonds through December 14, 2022. There were 281 new issuances in November 2022 compared to 281 in October 2022 and 289 in September 2022.

In November 2022, federal agencies issued 73 SOFR referenced floating rate notes (FRN)s worth \$79.9 billion. There were 208 issuances from other institutions that contributed \$3.3 billion to the outstanding amount of SOFR referenced debt.



Source: Reuters, compiled by Deloitte
*Data as of November 30, 2022

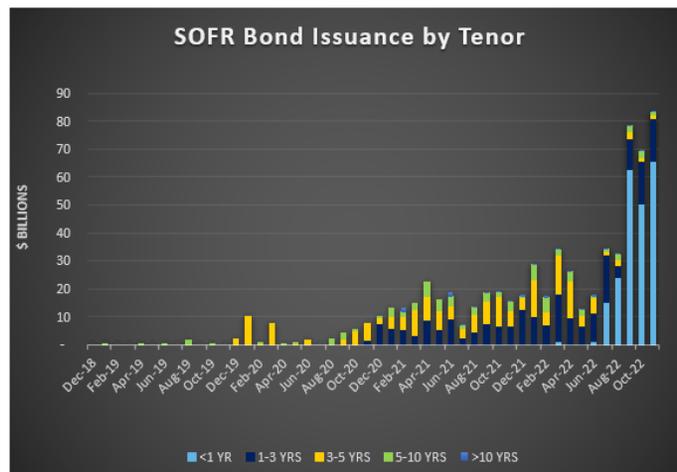


Source: Reuters, compiled by Deloitte
*Data as of November 30, 2022

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

SOFR debt issuances with a maturity between 5 and 10 years decreased in November 2022 compared to October 2022. During November 2022, there were 48 bonds issued that have a maturity between 5 and 10 years, compared to 57 issuances in October 2022. There were 5 issuances during November 2022 that had a maturity greater than or equal to 10 years, as compared to 7 such issuances with a maturity greater than or equal to 10 years for October 2022.

There were 666 issuances of SOFR bonds outstanding worth \$70.3 billion, with a maturity greater than or equal to 5 years, through December 14, 2022, including 115 issuances worth \$7.4 billion with a term greater than or equal to 10 years.



Source: Reuters, compiled by Deloitte
*Data as of November 30, 2022

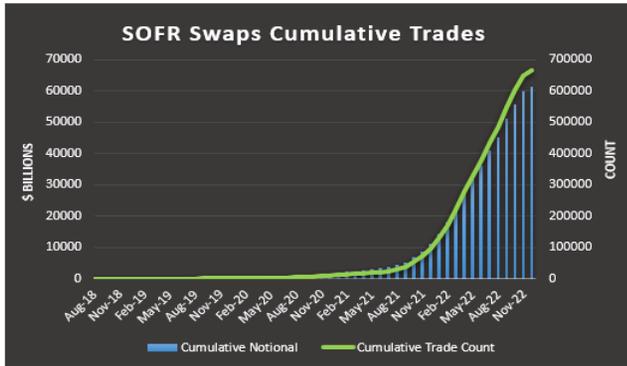
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Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

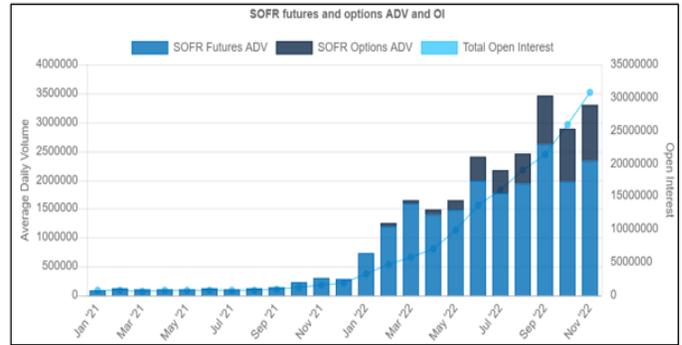
- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$61,400.1 billion through December 02, 2022.
- For the month of November 2022, the notional volume of SOFR-based interest rate and basis swaps totaled \$5753.6 billion compared to \$4,464.1 billion in October 2022 and \$5,968.1 billion in September 2022.

SOFR Futures

- According to data available on CME, for November 2022, SOFR futures and options average daily volume reached ~2.3M and ~963K contracts/day, respectively. The data is available [here](#).
- The month-end open interest for SOFR 1-month and 3-month futures as of November 2022 was ~30.8M contracts.



Source: <http://swapsinfo.org/>, compiled by Deloitte
 *Data as of December 02, 2022



Source: CME Group
 *Data as of November 30, 2022

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 November 30, 2022, and December 02, 2022, respectively.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	75,347.7	202.0
SARON	1,181.0	NA
TONAR	4,679.6	NA
€STR	34,506.2	12.6

Source: Reuters, <http://swapsinfo.org/>, compiled by Deloitte
 Swaps and Bonds data are as of December 02, 2022, and November 30, 2022, respectively



United Kingdom

- FCA statement on supervision strategy for benchmark administrators. The correspondence is available [here](#).
- FCA announcement on decision of the cessation of 1- and 6- month synthetic sterling LIBOR at end-March 2023. The statement is available [here](#).
- Minutes of the SONIA stakeholder advisory group October 26, 2022, meeting. The minutes are available [here](#).
- Benchmarks Regulation: our powers, policy and decision-making. The article is available [here](#).

European Union

- Refinitiv launched a prototype forward-looking €STR Term Rate. The article is available [here](#).
- ESMA calls for greater use of €STR in derivatives. The article is available [here](#).
- Roadmap for the replacement of Warsaw Interbank Offered Rate (WIBOR) and Warsaw Interbank Bid Rate (WIBID) benchmarks with Warsaw Interbank Overnight (WIRON) index. The article is available [here](#).
- Euribor in expansion mode for first time since rigging scandal. The article is available [here](#).
- The Polish Steering Committee of the National Working Group has selected WIRD as an alternative interest rate benchmark. The article is available [here](#).
- Eurex launched futures referencing €STR. The article is available [here](#).
- CME Group starts trading new €STR futures in response to EU rate uncertainty. The article is available [here](#).
- Commercial Court of Zurich confirms SARON as an alternative benchmark for LIBOR in a precautionary measure procedure. The article is available [here](#).
- Benchmarks Regulation: Cross-industry request for extension of the third country benchmarks transition period. The proposed amendment is available [here](#).

Asia

- Turkish Lira Overnight Reference Rate timeline was published. The timeline is available [here](#).
- Osaka Exchange preps to launch TONA future contracts. The article is available [here](#).
- Banks operating in Egypt tend to replace LIBOR with SOFR as reference rate for dollar certificates, deposits. The article is available [here](#).
- Fitch-rated Sukuk have limited IBOR transition exposure. The article is available [here](#).
- Indonesia publishes new guidelines for using IndONIA. The article is available [here](#).
- Refinitiv to cease Tokyo Swap Rate (for swaps referencing TIBOR®). The article is available [here](#).

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