



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 May 18, 2022, the Alternative Reference Rates Committee (ARRC) met for the fourth time this year with an agenda to discuss the progress and key next steps for USD London Interbank Offered Rate (LIBOR) cessation. The meeting was kicked off by the Chicago Mercantile Exchange (CME) which provided an update on its initiative - Secured Overnight Financing Rate First (SOFR-First) for Options. Then, the Federal Reserve Board (FRB) staff proceeded to showcase the progress made in various asset classes including cash products, derivatives, SOFR swaps, and SOFR futures. Among the other working groups and task forces that participated in the meeting, the following 3 provided key updates in their respective areas: (1) Market Structure and Paced Transition Working Group, (2) Operations/Infrastructure Working Group, and (3) Term Rate Task Force. Lastly, the ARRC members unanimously voted to approve the ARRC's endorsement of the CME 12-month Term SOFR rate, recommending that this rate be subject to the same limited scope of use as those applicable for the other CME Term SOFR rates (i.e. that it expected the 12-month rate to be used primarily for legacy LIBOR consumer products and trade and receivables finance).

On June 8, 2022, the ARRC issued recommendations for contracts linked to USD LIBOR Intercontinental Exchange (ICE) Swap Rate (ISR). These contracts include USD LIBOR swaptions, USD LIBOR Constant Maturity Swap (CMS)-linked derivatives, and certain debt instruments. The ARRC recommendations include a fallback formula that can be used for ISR fixings after the three-month USD LIBOR ceases or becomes non-representative. In sum, the ARRC noted that the market participants should inventory such contracts and identify the fallback provisions that they contain and take proactive measures to assess the impact of ISR cessation on legacy positions. In case legacy positions cannot be proactively converted to SOFR ISR or if its contractual fallbacks cannot be amended, then the ARRC recommends relying on the fallback formula that it has suggested in determining a successor rate.

On July 11, 2022, Refinitiv announced it intends to launch forward looking term rate versions of its ARRC recommended fallback rates—USD IBOR Cash Fallbacks—in September 2022. These rates are expected to be in two versions: (1) one for institutional cash products and (2) another for consumer cash products, and will be published “all in” spread adjusted rate based on the CME Term SOFR plus the ARRC recommended spread. Additionally, Refinitiv directed its clients to resources where additional reference material for these rates, their tenors, and most recent rate history can be found. The ARRC welcomed this announcement from Refinitiv, citing that these rates will be especially helpful for legacy consumer loans, where consumers will need clear and simple resources that can provide them access to the new rate that will replace LIBOR in their contracts.

On July 11, 2022, the ARRC released the “LIBOR Legacy Playbook” which is intended to serve as a guide describing the existing broad frameworks to support the transition of legacy LIBOR cash products. The ARRC noted that while this is not a legal document, it is a compilation of tools and resources to assist market participants in ensuring that the transition from LIBOR is operationally successful. The Playbook lays out several steps to help market participants navigate the fallback implementation of cash products. Some key points include (1) assessment of embedded fallbacks, (2) remediating those contracts, (3) plans to communicate each contract’s fallback with the affected parties for those USD LIBOR contracts that remain, and (4) resource allocation for these rate changes.

On July 11, 2022, the Federal Reserve Bank of New York and the Financial Conduct Authority (FCA) co-hosted the conference titled “Last Call on LIBOR: Final Steps to Transition” focusing on the transition away from LIBOR, progress made, lessons learned, and priorities until the end of the USD LIBOR by June 30, 2023. The panel started the proceeding by appreciating the effort of market participants around the globe to agree on and move toward more robust risk-free reference rates for the G5 currencies. They highlighted that a major challenge that the regulators faced in this transition was overcoming the level of comfort that the market had reached in using the term interbank rates. The panel proceeded to also note that they are continuing to encourage market participants to move away from the Synthetic rates that were developed for Yen (JPY) and Sterling (GBP). Speaking to the point of high inflation in recent times (and with the possible chance of a recession), the panel reassured that although SOFR has a very deep liquid market, the market participants should pay attention to the fallback language and manage conduct risk actively. The panel appreciated all the national and international working groups for their effort in getting the political bodies to understand the importance of the LIBOR transition. The conference, then invited the industry panel, whose remarks highlighted: (1) the increasing volume of SOFR Futures and Options, (2) progression of the long end of the SOFR derivatives market, (3) integration of SOFR in day-to-day analytics, (4) new SOFR issuances, and (5) gaining popularity of Term-SOFR in commercial loan market, all of which show promising signs of achieving LIBOR cessation by mid-2023. During the conference, the panelists drew attention to time sensitive work that remains to be completed. This included:

- **Syndicated loans:** For the successful transition of syndicated loans, the next 6-8 months are key. The panel advised the industry to avoid pile ups of transition contracts till June 30, 2023. The business and legal teams were also advised to expedite remediation and communication plans.
- **LIBOR Legacy Contracts:** The industry is advised to refer to the LIBOR Legacy Playbook, pay detailed attention to the fallback implementation steps discussed in it, and utilize a strong team who have the technical know-how on a contract-by-contract level. The regulators are expected to follow-up with the market participants on the contract remediation plans and communication plans. The panelists also highlighted a key lesson learned from the UK, in that the assessment and contract remediation performed well in advance helped minimize the reliance on Synthetic GBP LIBOR rates and advised market participants in the US should follow the same.
- **USD LIBOR contracts held outside the US:** US legislation will not be applicable. The FCA noted that they will consider USD Synthetic LIBOR but advised the market participants to not rely on the “possible” inception of it. The FCA continued to advise that each firm should assess their own inventory, allocate resources, have strong remediation and communication plans.
- **Operational Risk:** Panelists from the FRB noted that fallbacks and legislation mitigate market and legal risk, but do not mitigate operational risks. There continues to remain high degree of risk in loan operations across institutions, and hence Loan Operations need to avoid contract pile up on June 30, 2023. The panelists also expect regulators to start examining remaining legacy counts, contract remediation plans, and communication plans to clients and progress against such plans.

On July 14, 2022, the ARRC published a readout of its meeting held on July 13. The group discussed key points such as SOFR first for options, LIBOR Legacy Playbook, and the Last Call on LIBOR. The ARRC's Operations/Infrastructure working group noted that they have sought feedback from stakeholders on their proposed solution to address the operational work needed to facilitate effective and efficient communication of rate changes in LIBOR contracts. The proposed solution entails communicating rate changes via a term sheet format to be disseminated through a new system created by Depository Trust and Clearing Corporation (DTCC). Lastly, the Term Rate Task Force noted that they are discussing the issues/questions around Term SOFR derivatives and the Overnight SOFR/Term SOFR basis. Key issues being discussed include (1) whether strict curbs on trading a Term-SOFR should be loosened and (2) clearing, capital, and accounting considerations for Term SOFR.



Our Perspective

The ARRC's positive outlook on USD LIBOR cessation

Since its inception, the ARRC has continued to meet working groups, market participants, and legal and regulatory bodies to organize, advise on, and track the progress of benchmark reforms. The meeting held on May 18, 2022 was another important discussion where one of many fruitful outcomes was the unanimous vote of all ARRC members to back the CME 12-month Term SOFR Rate. These meetings continue to help market participants stay abreast of the industry wide cessation effort while continuing to monitor the activities they need to undertake to do their part leading up to June 30, 2023 when the last remaining tenors of USD LIBOR are expected to cease.

The ARRC's recommendations for ISR-linked contracts

By providing the recommendations for transitioning the ISR-linked contracts, along with the fallback formula, the ARRC has provided market participants with yet another tool to actively work toward assessing their own inventory and planning the best course of action for benchmark reforms of such products. Given that these products were not covered under the federal legislation, the ARRC's effort to help market participants determine fallback for these products is welcome.

Publishing the ARRC recommended fallback rates for cash products

In March 2022, the ARRC selected Refinitiv as their candidate to publish recommended fallback rates for cash products. Within a matter of few months, Refinitiv has signaled its readiness to help the ARRC and all other market participants with this effort. USD LIBOR cash fallbacks will help legacy USD LIBOR contracts to smoothly transition and provide market participants—including lenders and borrowers—with an industry standard agreed rate, which can clearly and easily be referenced in contracts.

The ARRC's LIBOR Legacy Playbook

The LIBOR legacy playbook is an important document in aiding the market participants who have any questions around navigating the fallbacks for legacy USD LIBOR contracts. The timely release of this document should help market participants leverage this repository of knowledge in the most optimal way, as they aim to move to robust risk-free rates by mid-2023.

Last Call on LIBOR

The FRB and UK's FCA joint conference highlighted the importance of this effort that regulators, working groups, lawmakers and market participants have worked tirelessly to achieve. While echoing the sentiment of the regulators, the industry participants highlighted how close we are to the goal post now. The panelists touched on a broad range of topics ranging from liquidity, conduct risk, inflationary scenarios, and volatile trading environment, and continued to advise market participants to be proactive, and leave no room for delay by waiting until the last minute. Of particular interest were the discussions and concerns that regulators had around avoiding contract pile up on June 30, 2023. To address these concerns, market participants need to assess their inventory, allocate knowledgeable resources, request legal counsel where necessary, leverage guidance from the regulators including the 'Legacy LIBOR Playbook', pay attention to continuing regulatory conversations, prepare to share their detailed remediation and communication plans with the regulators, and proactively address the contract pile-up without waiting for any relief in the form of a synthetic rate.

Readout of the July 13 ARRC meeting

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 group's feedback and views on the Operations/Infrastructure Working Group proposed communication plan, and Term Rate Task Force's discussion remain to be seen.



Regulatory Updates

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

This section represents a summary of the ARRC office hours Q&A with David Bowman from May 1, 2022 until June 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:

Progress of the Federal Rulemaking

- Congress gave the FRB six months to make final rulemaking. After that, this will be published for public comments. The aim is to get proposal out as soon as possible.

Finding the "All-In" Rate

- The ARRC selected Refinitiv in 2021 to be the vendor who will publish ARRC's recommended all-in rate. Refinitiv is working to produce this consumer fallback rate on their webpage (expected to be a simple one-click webpage). One should expect to see current rate, and the history of the rate. When it's up, ARRC will conduct a press-release to announce it. Refinitiv will post an indicative rate that assumes what would the rate look like if LIBOR had ceased that same day, however this is not to be used in consumer products. The official rate will only be available starting June 30, 2023.

Finalizing the Guidance on Consumer Products

- Every technical detail of the ARRC guidance has now been issued including the endorsement of the term-rate.

Addressing the ICE Term-Rate

- During the ISDA conference, CME confirmed that the licensing deal was now complete. The ARRC has already endorsed the CME Term SOFR Rate, but will not endorse the ICE Term SOFR rate.

Regulatory Highlights

- The ARRC released the minutes of their meeting held on May 18, 2022. The minutes are available [here](#).
- The ARRC released recommendations for USD LIBOR ICE Swap Rate contracts not covered under Federal Legislation. The recommendations are available [here](#).
- Refinitiv announced that they will launch forward looking term rate versions of ARRC recommended fallback rates this September to facilitate industry transition from USD LIBOR. The announcement is available [here](#).
- The ARRC released the "LIBOR Legacy Playbook". The document is available [here](#).
- The FRB and UK's FCA co-hosted the conference 'Last Call on LIBOR: Final Steps to Transition'. The agenda of the conference is available [here](#).
- The ARRC released a readout of their meeting held on July 13, 2022. The readout is available [here](#).

ARRC/ FRB Updates

- The ARRC released its recommendations for contracts linked to the USD LIBOR ICE Swap Rate. The recommendations are available [here](#).

International Swaps and Derivatives Association (ISDA) Updates

- ISDA released its Swapsinfo first quarter 2022. The report is available [here](#).
- ISDA-Clarus released the RFR Adoption Indicator for April 2022. The report is available [here](#).
- ISDA-Clarus released the RFR Adoption Indicator for May 2022. The report is available [here](#).
- ISDA released its Interest Rate Derivatives Trading Activity Report for the EU, UK, and US markets. The report is available [here](#).
- ISDA published informal comments titled "Maintaining Momentum on USD LIBOR". The article is available [here](#).
- ISDA released key trends in the size and composition of Over-the-Counter (OTC) derivatives markets in H2 2021. The report is available [here](#).
- ISDA released a June 2022 Benchmark Module of the 2021 fallbacks protocol. The report is available [here](#).
- ISDA released guidance for 2006 and 2021 definitions related to future permanent cessation of remaining Canadian Dollar Offered Rate (CDOR) tenors. The definitions are available [here](#).

ICE/ CME Updates

- CME conducted a webinar on “SOFR First for Options”. The webinar is available [here](#).
- The Trade News published an article titled “CME Group’s launch of SOFR First for Options receives support from ARRC”. The article is available [here](#).
- CME published the Rates Recap for May 2022. The report is available [here](#).
- CME published the Rates Recap for June 2022. The report is available [here](#).
- CME published an article titled “SOFR Options Open Interest tops 3 million, volume reaches 28% of Eurodollars”. The article is available [here](#).
- ICE publishes Interest Rates Report for April 2022. The report is available [here](#).
- ICE published its Interest Rates Report for May 2022. The report is available [here](#).
- Risk.net published an article titled “CME to reinforce term SOFR with swap inputs”. The article is available [here](#).
- CME issued a press release on the commencement of SOFR First for Options on June 1. The press release is available [here](#).
- CME published an article titled “CME SOFR options take off”. The report is available [here](#).
- CME released the latest Market Agreed Coupon (MAC) swap rates for Tokyo Overnight Average Rate (TONAR). The report is available [here](#).
- CME released a proposal for conversion of USD LIBOR cleared swaps. The proposal is available [here](#).

Other News/ Useful Reading

- “A second Term SOFR help or hindrance”. The article is available [here](#).
- London Clearinghouse (LCH) released a consultation on conversion of outstanding cleared USD LIBOR contracts. The consultation is available [here](#).
- Global Finance Markets Association (GFMA) released LIBOR transition monthly update for April and May 2022. The newsletters are available [here \(April\)](#) and [here \(May\)](#).
- Fannie Mae and Freddie Mac cease re-securitization of LIBOR indexed Collateralized Mortgage Obligations (CMO) and Mortgage-Backed Securities (MBS). The announcement is available [here](#).
- Commodity Futures Trading Commission (CFTC) published a proposed rule to modify swap clearing requirement to address LIBOR transition to alternative reference rates. The press release is available [here](#).
- Refinitiv published an announcement of cessation of CDOR in June 2024. The announcement is available [here](#).
- Refinitiv published an outcome statement following consultation on potential cessation of CDOR. The report is available [here](#).
- Canadian Alternative Reference Rate Working Group issued a consultation on potential new term rate to replace CDOR in certain financial instruments. The consultation is available [here](#).
- “Hedge funds position for US growth slumps, rates peak”. The article is available [here](#).
- “Canada’s 2024 sunset of prime rate benchmark neutral to banks”. The article is available [here](#).
- “A second Term SOFR help or hindrance”. The article is available [here](#).
- “Tradeweb completes first fully electronic SOFR swaption as trading volumes soar”. The article is available [here](#).
- “Is Term SOFR the new dollar LIBOR?”. The article is available [here](#).



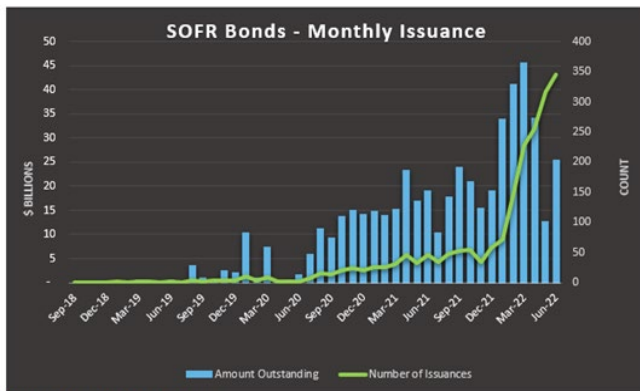
Market Updates

Increase in Debt Issuance Referenced to SOFR

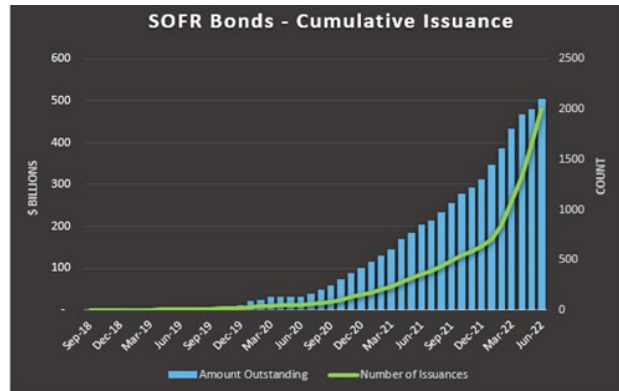
The issuance of SOFR referenced debt increased in June 2022 compared to issuance in May 2022. The issuance size was \$25.3 billion in June 2022, which increased from \$12.7 billion in May 2022. The graphs below represent data through June 2022.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$519.1 billion with 2,178 bonds through July 20, 2022. There were 345 new issuances in June 2022 compared to 316 in May 2022 and 255 in April 2022.

In June 2022, federal agencies issued 15 SOFR referenced floating rate notes (FRN)s worth \$11.4 billion. There were 330 issuances from other institutions that contributed \$13.9 billion to the outstanding amount of SOFR referenced debt.



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

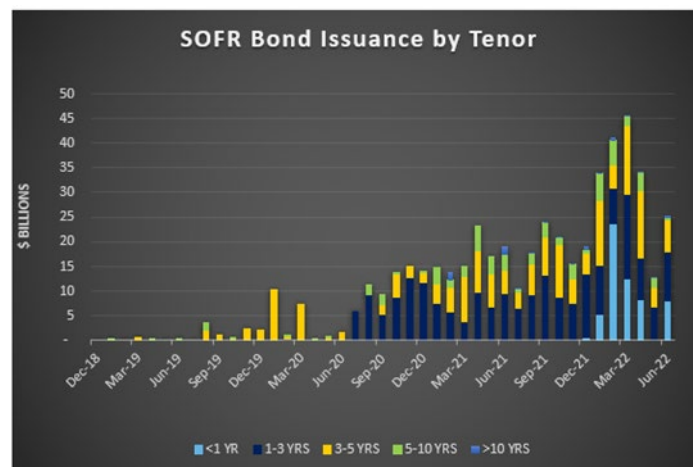


Source: Reuters, compiled by Deloitte
*Data as of June 30, 2022

Increase in Longer Dated Debt Issuance (maturity ≥ 10 years) Referenced to SOFR

SOFR debt issuances with a maturity greater than or equal to ten years increased in June 2022 compared to May 2022. During June 2022, there were 36 bonds issued that have a maturity between five and 10 years, compared to 22 issuances in May 2022. There were 10 issuances during June 2022 that had a maturity greater than or equal to 10 years, as compared to 5 such issuances with a maturity greater than or equal to 10 years for May 2022.

There were 352 issuances of SOFR bonds outstanding worth \$59.7 billion, with a maturity greater than or equal to five years, through July 20, 2022 including 67 issuances worth \$6.2 billion with a term greater than or equal to 10 years.

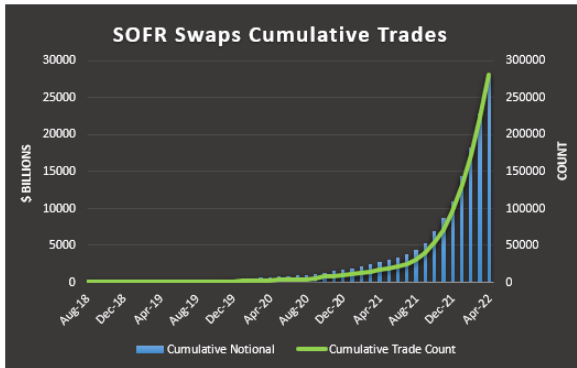


Source: Reuters, compiled by Deloitte
*Data as of June 30, 2022

Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

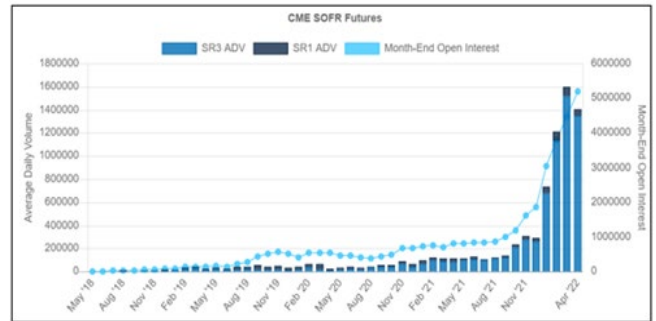
- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$36,925.6 billion through July 01, 2022.
- For the month of June 2022, the notional volume of SOFR-based interest rate and basis swaps totaled \$5,062.4 billion compared to \$4,018.2 billion in May 2022 and \$4,988.9 billion in April 2022.



Source: <http://swapsinfo.org/>, compiled by Deloitte
*Data as of April 29, 2022

SOFR Futures

- According to data available on CME, for June 2022, SOFR futures and options average daily volume reached ~2M and ~412K contracts/ day, respectively. The data is available [here](#).
- The month-end open interest as of June 2022 was ~13.6M contracts.



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

Global IBOR Activity

The market activity in SONIA, TONAR, ESTR, 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 June 30, 2022.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	64,826.8	173.1
SARON	759.1	NA
TONAR	3,281.9	NA
€STR	20,420.1	6.6

Source: Reuters, <http://swapsinfo.org/>, compiled by Deloitte
Data as of April 30, 2022



Global Highlights

United Kingdom

- "Market notice regarding risk management approach to collateral referencing USD LIBOR for use in the Sterling monetary framework published". The notice is available [here](#).
- Bank of England (BoE) issued a consultation on derivatives clearing obligation modifications to reflect USD interest rate benchmark reform. The consultation is available [here](#).
- "Get cracking with phasing out remaining Libor, UK watchdog says". The article is available [here](#).

European Union

- "The Euro Short-Term Rate (€STR): completing the transition to the new euro benchmark". The article is available [here](#).
- "European Commission (EC) official signals 'preference' for synthetic US LIBOR fix". The article is available [here](#).

Asia

- "Shuaa Capital secures \$160M SOFR-based Leveraged Buy-Out (LBO) from National Bank of Fujairah (NBF), Apicorp". The article is available [here](#).
- "Japan Financial Services Agency (FSA) calls on market to complete LIBOR transition efforts". The article is available [here](#).
- Monetary Authority of Singapore published a consultation on adjustment spreads for the transition of legacy Singapore Swap Offered Rate (SOR) contracts in wholesale markets. The article is available [here](#).
- "Death of LIBOR and impact on Transfer Pricing: Indonesian perspective". The article is available [here](#).
- "Japan Securities Clearing Corporation (JSCC) swap surge triggers plea to rethink US client ban". The article is available [here](#).

Australia

- "Australian Tax Considerations: Reforms to LIBOR and other inter-bank offer rates". The article is available [here](#).

Contact Us

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[**DELOITTE LIBOR TRANSITION WEBSITE**](#)

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