



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

On August 9, 2022, the Alternative Reference Rates Committee (ARRC) released a survey seeking information on plans to remediate USD London Interbank Offered Rate (LIBOR) loans. The survey was intended for both lenders and borrowers, seeking information about steps already under way and plans going forward to move to new rates or to update fallback language in USD LIBOR loans prior to June 30, 2023. The ARRC’s recent LIBOR Legacy Playbook has encouraged movement to new rates ahead of the LIBOR cessation, where feasible, and emphasized the operational challenges involved in attempting to transition many contracts after the LIBOR cessation date. The survey is being issued to assist the ARRC and market participants in assessing LIBOR transition readiness and the need to address any potential operational issues involved. “With less than a year left, the ARRC urges all market participants to ensure they are ready for LIBOR’s end. We’ve seen new loan activity convincingly move to Secured Overnight Financing Rate (SOFR) this year, but there is a large number of legacy LIBOR loans that still need to be addressed. Understanding market participants’ plans to remediate these loans will be key to assessing how ready the loan market really is. We encourage all loan market participants to respond to the survey.” said Tom Wipf, ARRC Chair. The ARRC asked respondents to enter their responses into the spreadsheet, and to submit the spreadsheet by email to the ARRC Secretariat by September 7, 2022. As noted in the survey, individual firm responses will be maintained as confidential, and the survey results will be aggregated and anonymized prior to being published to preserve that confidentiality.

On October 13, 2022, the ARRC released a summary of aggregated and anonymized results from the Loan Remediation Survey it had published seeking information on lenders' and borrowers' steps already under way and plans going forward to remediate USD LIBOR business loans prior to June 30, 2023.

Key highlights from the survey including the following:

- 70% of respondents are lenders, while the remaining 30% are borrowers
- 90% of lenders indicated they have a documented remediation plan in place, for the remediation of USD LIBOR loans prior to June 30, 2023
- Most business loan borrowers indicated that they have been contact by their lenders about transition some or all their LIBOR loans, whereas many syndicated lenders indicated that they had not been contacted by an agent or had little to no amendments
- 95% of agents/bilateral lenders indicated they had identified all their LIBOR exposures, with three quarters also noting that they have both begun to actively transition LIBOR loans to an alternative rate and have contacted their borrowers to share their remediation plans
- 14% of lenders indicated that they expected their transition to be completed by the end of 2022
- 90% of business loan borrowers indicated they have been contacted by their lenders about the LIBOR transition with respect to at least some of their outstanding loans
- Most borrowers plan to transition their LIBOR loans early, with only about 15 percent of respondents reporting plans to fallback at LIBOR cessation through existing contract terms or updated replacement provisions
- 86% of existing loans are expected to be transitioned off LIBOR prior to the cessation date

On September 8, 2022, ARRC met for the fifth time this year to discuss the progress and key next steps for USD LIBOR cessation. The meeting covered topics such as transition update and outlook, Eurodollar conversions update, loan remediation survey update, update from Operations/Infrastructure working group, and an update from Term Rate Task Force working group. During the meeting, it was noted that the transition to SOFR has progressed significantly in 2022 with SOFR now the predominant rate across both cash and derivatives markets. The participants of the recent sentiment survey categorized LIBOR transition as progressing "smoothly" or "generally smoothly". The Chicago Mercantile Exchange (CME) group also provided an update for the conversion of most Eurodollar futures and options contracts to their SOFR fallbacks on April 14, 2023, thereby aligning with the industry plans. Several activities continue to be in progress such as finalization of ARRC Loan Remediation survey and capturing requirements to facilitate effective and efficient communication of rate changes in the conversion of LIBOR contracts. Lastly, the term rate task force indicated that they are not considering any material relaxations on scope of use of terms SOFR as provided in ARRC best practices.

On August 2, 2022, the latest International Swaps and Derivatives Association (ISDA) SwapsInfo Quarterly Review showed that trading volume for interest rate derivatives (IRD) and credit derivatives increased in the first half of 2022 compared to the first half of 2021.

Key highlights for the first half of 2022 include:

- IRD traded notional increased by 29.4% to \$156.7 trillion in the first half of 2022 from \$121.1 trillion in the first half of 2021. Trade count rose by 17.1% to 1.2 million from 982.3 thousand over the same period.
- Cleared IRD transactions represented 74.4% of total IRD traded notional and 74.6% of trade count.
- IRD traded on swap execution facilities (SEFs) represented 58.1% of total IRD traded notional and 68.0% of trade count.
- Credit derivatives traded notional increased by 80.0% to \$8.2 trillion in the first half of 2022 from \$4.5 trillion in the first half of 2021. Trade count grew by 81.2% to 215.1 thousand from 118.7 thousand over the same period.
- Cleared credit derivatives transactions represented 83.0% of total traded notional and 87.5% of total trade count.
- SEF-traded credit derivatives accounted for 81.9% of total traded notional and 86.6% of trade count.

On September 13, 2022, the ISDA-Clarus risk free rate (RFR) Adoption Indicator increased to an all-time high of 51.1% in August 2022 from 46.4% the prior month. This indicator tracks how much global trading activity (as measured by DV01) is conducted in cleared over-the-counter and exchange-traded IRD that reference the identified RFRs in six major currencies. On a traded notional basis, the percentage of RFR-linked IRD increased to 44.0% of total IRD transacted in August compared to 39.0% the prior month.

Key highlights for August 2022 include:

- RFR-linked IRD DV01 increased to \$16.2 billion from \$13.7 billion the prior month
- Total IRD DV01 increased to \$31.8 billion from \$29.5 billion the prior month
- RFR-linked IRD traded notional increased to \$81.2 trillion from \$67.3 trillion the prior month

- Total IRD traded notional increased to \$184.3 trillion compared to \$172.8 trillion the prior month
- The percentage of trading activity in SOFR increased to an all-time high of 57.2% of total USD IRD DV01 in August compared to 51.7% the prior month
- GBP saw the largest percentage of RFR-linked IRD trading activity, totaling 99.8% of total GBP IRD DV01
- JPY had the highest percentage of RFR-linked IRD DV01 executed as transactions with tenors longer than two years

The Intercontinental Exchange (ICE) Benchmark Administration (IBA) is seeking feedback on its intention to cease the publication of USD LIBOR ICE Swap Rate for all tenors immediately after publication on June 30, 2023. The IBA is asking firms and individuals if they agree with IBA's intention to cease the publication of all USD LIBOR ICE Swap Rate for all tenors immediately after publication on June 30, 2023, and if not, when they believe USD LIBOR ICE should be ceased.



Our Perspective

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 survey released on August 9, 2022, was another 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 survey responses will 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.

ARRC Loan Remediation Survey Results

The results of the ARRC Loan Remediation Survey were largely encouraging from both lenders and borrower's perspectives. The overwhelming majority of respondents indicated that they have identified all LIBOR exposures and have remediation plans in place that will remediate USD LIBOR loans by the cessation date of June 30, 2023. There has been appropriate levels of communication, in the vast majority of respondents, between lenders and borrowers to ensure that remediation plans are in place and will be completed by the cessation date. One potential concern is that 5% of business loan borrowers have stated that they have not focused on LIBOR transition.

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 September 8, 2022, was another important discussion where one of the major leading points was significant movement to SOFR in 2022 and also the conversion of most Eurodollar futures and options contracts to their SOFR fallbacks on April 14, 2023. 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.

Increase in trading volume for IRD and credit derivatives

In August 2022, a significant increase has been observed in the trading volumes of the interest rate derivatives and the credit derivative, associated with the risk-free rates for six major currencies, including SOFR, based on the information from the Depository Trust & Clearing Corporation (DTCC) swap data repository (SDR). The increased trading volumes in the market is directive of a positive sentiment pertaining to the SOFR rates in the market implicating greater acceptance and liquidity for SOFR rates. It also is reflective of the positive LIBOR transition trajectory in the derivative market.

All-Time High ISDA-Clarus RFR Adoption Indicator

The ISDA Clarus RFR Adoption Indicator has reached an all-time high in August 2022 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 has reached its all-time high, there remains a substantial portion of portfolio in the derivative market which would be required to transition to the alternative rates.

ICE Swap Rate Potential Cessation Consultation

The IBA is seeking consultation regarding the potential cessation of the ICE Swap Rate, which is based off LIBOR, by June 30, 2023. They are seeking feedback from those who use the ICE Swap Rate if there are other factors that should be considered as they plan on phasing out this rate by June 30, 2023. One example of a potential concern mentioned in the questionnaire is a lack of prolonged liquidity for the ICE Swap Rate. The IBA will publish a feedback statement that summarizes the responses they have received and will share the responses with the Financial Conduct Authority (FCA).



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 August 1, 2022, until October 19, 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:

LIBOR Legislation in Indian tribal territories

- If the Act doesn't cover a particular contract, then there's no way that the rule could do so. As of September 9, 2022, David Bowman is not entirely sure about Indian tribal territory law.

ARRC's Spread Adjustment Guidance during a Rising Interest Rate Environment

- There is no possibility of the ARRC changing the recommended spread adjustments. It is helpful to set the spreads in advance since it gives people early confirmation for what will happen. Spreads are designed to be long-term spreads and are not meant to reflect what the spread is last month, or exactly on 6/30/23. They're meant to reflect a reasonable measure of a long run spread that one might anticipate LIBOR having over a long period of time after LIBOR ends.

ARRC's Guidance on One-Year Transition Period for Consumer Products

- There is a transition period for consumer products, designed to reflect the possibility that the spread on June 30, 2023, will be different from the long-term spread. The spreads are officially set on June 30, 2023, when LIBOR stops, and after that point no one can know what LIBOR would have been so it is impossible to say what the difference between LIBOR and SOFR would have been. For other contracts besides a mortgage, if the spread adjustment is unfavorable to a party, there is the possibility of re-negotiating the contract, and the ARRC recommends doing so where applicable.

CME Licensing Agreement to Allow Brokers to use Term SOFR

- The issue that has come up is that as term SOFR is the dominant rate in the loan market, there are several borrowers that are seeking term SOFR hedges. Per the ARRC's recommended use of term SOFR, they're recognizing limited scope of use in the derivatives market. ARRC's hope is that term SOFR will be a sustainable tool for the market, but they've been talking about making refinements/adjustments to their recommendation. This does not necessarily mean that CMEs licensing restriction will change. It is not the vision of the ARRC for the term SOFR derivatives market to "run wild." What CME does is up to them.

Status Update for the ARRC's Loan Remediation Survey

- The FRB did not go over the results at the latest ARRC meeting because they'd like to wait until they the majority of surveys are complete to have a sufficient sample. Once this occurs, the FRB will summarize all results and give a read-out to the ARRC. Cannot give an answer yet but currently waiting for more remediation plans to be sent and reviewed. Any recommendations will be informed by the remediation survey. If too many people are saying they will wait until 6/30/23 then the ARRC can lay out a timeline that is more expedient.

FRB's Rule Making

- David Bowman does not want to preclude the FRB from doing this. There are currently lawyers are working around this.

ARRCs Working Group Solution for Securities

- DTCC believes they're on track to have this system in place by June 30, 2023. ARRC is encouraging people to use the system when it's up. ARRC has encouraged people to consider this for LIBOR, such as a Swap rate which is not covered by legislation. For securities, the big operational issue is communication.

Language Surrounding Covered and Non-Covered contracts?

- Notice of covered and uncovered was not to lay out what was or wasn't covered by legislation, but more so the rule making. This was meant to be an organizing tool to understand the proposal and what was covered. The FRB was trying to lay out a general notion of which contracts would automatically go to the selected benchmark, such as those with no fallback language.

Regulatory Highlights

- The ARRC released a Loan remediation survey regarding plans to remediate USD LIBOR loans. Survey available [here](#)
- The ARRC published the meeting agenda for the September 8, 2022 meeting. Meeting agenda available [here](#)
- ISDA released the August 2022 ISDA-Clarus RFR adoption indicator. Report available [here](#)
- ISDA released SwapsInfo report for the first half of 2022 and the second quarter of 2022. Report available [here](#)
- IBA is seeking feedback on its intention to cease all publication of all USD ICE LIBOR Swap Rate benchmark for all tenors immediately after publication on June 30, 2023. The consultation is available [here](#)

ARRC Working Group Updates

- The ARRC released a guide to support transition of legacy LIBOR Cash Products. Guide available [here](#)
- The ARRC released a response to Refinitiv statement that it intends to publish ARRC recommended fallback rates based on CME Term SOFR beginning September 2022. Statement available [here](#)
- The ARRC released a Loan remediation survey regarding plans to remediate USD LIBOR loans. Survey available [here](#)
- The ARRC released the minutes for the July 13, 2022 meeting. Meeting minutes are available [here](#)
- The ARRC published the meeting agenda for the September 8, 2022 meeting. Meeting agenda available [here](#)
- The ARRC released meeting minutes for the meeting held on September 8, 2022. Minutes available [here](#)
- The ARRC published an updated "LIBOR legacy playbook". Playbook available [here](#)
- The ARRC released the results of the Loan Remediation survey, on October 13, 2022, regarding plans to remediate USD LIBOR loans. The results of the survey are available [here](#)

International Swaps and Derivatives Association (ISDA) Updates

- ISDA released the July 2022 ISDA-Clarus RFR adoption indicator. Report available [here](#)
- ISDA released the August 2022 ISDA-Clarus RFR adoption indicator. Report available [here](#)
- ISDA released Swapsinfo report for the first half of 2022 and the second quarter of 2022. Report available [here](#)
- ISDA published the transition to RFRs for the first half of 2022. Report available [here](#)
- ISDA responded to the Bank of England consultation on a clearing obligation for swaps referencing SOFR. Article available [here](#)
- ISDA responded to Commodities Future Trading Commission (CFTC) notice of proposed rulemaking (NPR) on clearing of swaps referencing RFRs. Article available [here](#)

ICE / CME Updates

- CME published the rates recap for July 2022. Report available [here](#)
- ICE published the "Interest Rates Report" for June 2022. Report available [here](#)
- CME published rates recap for August 2022. Report available [here](#)
- CME published rates recap for September 2022 with six key LIBOR transition updates. Report available [here](#)
- CME published a SOFR Options update. Report available [here](#)
- CME published MAC Swap Rates & CUSIPs. Report available [here](#)
- ICE published the Interest Rates Report for July 2022. Report available [here](#)
- CME published an approach to the USD LIBOR transition for CME cleared swaps. Report available [here](#)
- ICE benchmark administration consults on potential cessation of ICE swap rate based on USD LIBOR. Article available [here](#)

Other News / Useful Reading

- "Swaptions transition snags trigger term SOFR calls". Article available [here](#)
- "Swap rate: cash-settled swaptions in the fallback". Article available [here](#)
- Lenders anxiously await Fed's proposed guidance on LIBOR transition. Article available [here](#)
- "Strong case for US synthetic LIBOR in bond markets". Article available [here](#)
- ARRC reconvenes task force to evaluate term SOFR curbs. Article available [here](#)
- SOFR now fully anchored in markets, industry says. Article available [here](#)
- FRB issues proposed rules under LIBOR Act. Article available [here](#)
- Podcast on the remaining challenges for LIBOR transition. Podcast available [here](#)
- Benchmark rate SOFR has caught on. But one version is costing companies more to hedge. Article available [here](#)
- The Federal Reserve Board has invited comments on proposed rules for the Adjustable Interest Rates (LIBOR) Act. Press release available [here](#)

- Federal Reserve Bank (FRB) event “*Last Call on LIBOR: Final Steps to Transition*” held in July is available for streaming and includes presentation slides. Video recording and associated materials available [here](#)
- CFTC final rules for clearing requirements to account for LIBOR transition were published. Article available [here](#).
- IBA is seeking feedback on its intention to cease all publication of all USD ICE LIBOR Swap Rate benchmark for all tenors immediately after publication on June 30, 2023. The consultation is available [here](#)
- Et tu, CDOR? Background on the Canadian transition from LIBOR. Article available [here](#)



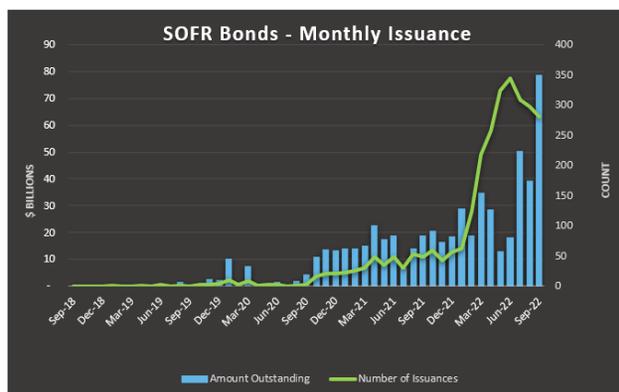
Market Updates

Increase in Debt Issuance Referenced to SOFR

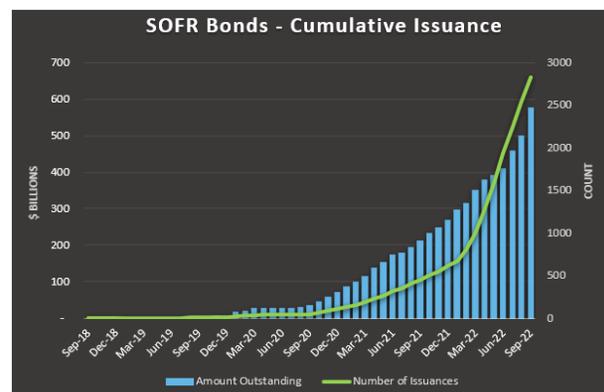
The issuance of SOFR referenced debt increased in September 2022 compared to issuance in August 2022. The issuance size was \$78.7 billion in September 2022, which increased from \$39.1 billion in August 2022. The graphs below represent data through September 2022.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$602.3 billion with 2,974 bonds through October 19, 2022. There were 281 new issuances in September 2022 compared to 298 in August 2022 and 308 in July 2022.

In September 2022, federal agencies issued 74 SOFR referenced floating rate notes (FRN)s worth \$71.9 billion. There were 207 issuances from other institutions that contributed \$6.8 billion to the outstanding amount of SOFR referenced debt.



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

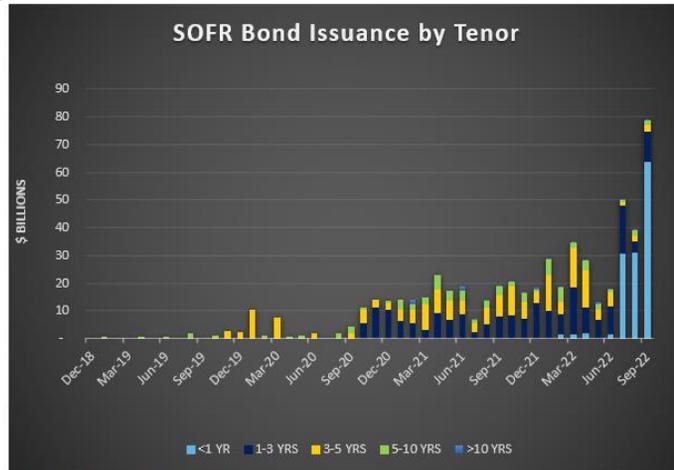


Source: Reuters, compiled by Deloitte
*Data as of September 30, 2022

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 September 2022 compared to August 2022. During September 2022, there were 29 bonds issued that have a maturity between 5 and 10 years, compared to 49 issuances in August 2022. There were 9 issuances during September 2022 that had a maturity greater than or equal to 10 years, as compared to 3 such issuances with a maturity greater than or equal to 10 years for August 2022.

There were 523 issuances of SOFR bonds outstanding worth \$65.7 billion, with a maturity greater than or equal to 5 years, through October 19, 2022 including 97 issuances worth \$6.8 billion with a term greater than or equal to 10 years.



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

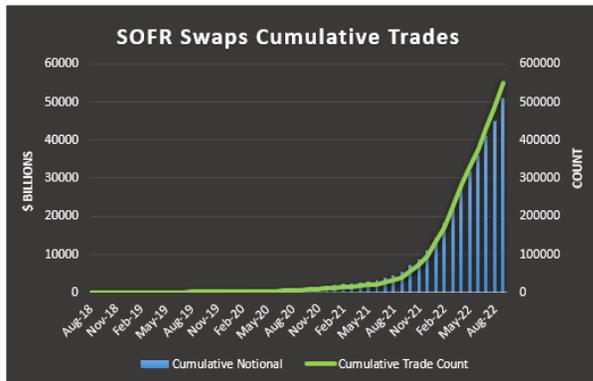
Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

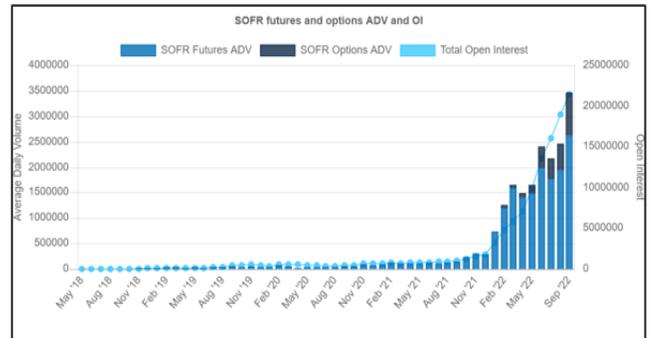
- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$51,108.7 billion through September 30, 2022.
- For the month of September 2022, the notional volume of SOFR-based interest rate and basis swaps totaled \$5,968.1 billion compared to \$4,185.2 billion in August 2022 and \$4,982.8 billion in July 2022

SOFR Futures

- According to data available on CME, for September 2022, SOFR futures and options average daily volume reached ~2.6M and ~848K contracts/ day, respectively. The data is available [here](#).
- The month-end open interest for SOFR 1-month and 3-month futures as of September 2022 was ~21.4M contracts.



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



Source: CME Group
 *Data as of September 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 September 30, 2022.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	70,524.6	170.3
SARON	1,020.0	NA
TONAR	4,118.4	NA
€STR	28,564.7	9.7

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



Global Highlights

United Kingdom

- FCA consultation on winding down 'synthetic' GBP LIBOR. Consultation published [here](#)
- ICMA response to FCA CP22/11 on winding down 'synthetic' sterling LIBOR and USD LIBOR. Response available [here](#)
- FCA encourages market participants to continue transition of LIBOR-linked bonds. Article available [here](#)
- US can learn from UK on synthetic LIBOR. Article available [here](#)
- Britain proposes more time for 'synthetic' sterling LIBOR. Article available [here](#)
- Summary minutes of sub-group and task force meetings from the working group on Sterling Risk-Free Reference Rates for June/July 2022. Meeting minutes available [here](#)

European Union

- "LIBOR Transition: Further proposed changes to EU clearing and derivatives trading obligations". Article available [here](#)
- Finance industry warns benchmark rules pose 'systemic risk'. Article available [here](#)
- LIBOR alternatives bloom. Article available [here](#)
- Euribor: last of the IBORS faces growing threat. Article available [here](#)
- Split emerges over data requirements for term €STR. Article available [here](#)
- ESMA opens consultation reviewing clearing and derivatives trading obligations. Article available [here](#)

Asia

- Turkish Lira Overnight Reference Rate timeline was set by the National Working Committee and published. Timeline available [here](#)
- Market welcomes SOR fallback consensus. Article available [here](#)
- TraditionDATA launches Thailand THOR data as LIBOR ends. Article available [here](#)
- "From SOR to SORA: How your SOR-based home loan will be affected and options available". Article available [here](#)
- "Malaysia's first ever bond priced against MYOR", from Cagamas. Article available [here](#)
- "End of an era for LIBOR opens the way for AONIA to make its mark in Australia". Article available [here](#)
- "Reserve Bank of India to set up committee for Mumbai Interbank Offer Rate: What is MIBOR"? Article [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](#)

Deloitte LIBOR Transition Newsletter

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 © 2022 Deloitte Development LLC. All rights reserved.

¹ 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.