



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 February 3, 2022, Tom Wipf, chairman of the Alternative Rates Reference Committee (ARRC) and vice chairman of institutional securities at Morgan Stanley, noted commentary around the progress of the London Interbank Offered Rate (LIBOR) transition efforts. Wipf begins with noting that as the clock struck mid-night on New Year's, signaling the end of 2021, LIBOR's reign as the world's most important number ended too. In the early part of 2021 both the Financial Conduct Authority (FCA) and the Intercontinental Exchange (ICE) Benchmark Administration (IBA) provided the blueprint on when banks would no longer be compelled to produce LIBOR. The timelines were December 31, 2021 for most LIBOR currencies and lesser-used USD LIBOR settings, with regulatory bodies urging no new USD LIBOR contracts post December 2021, and the remaining USD LIBOR settings would end after June 30, 2023. As Mr. Wipf reflects on the last couple years trying to tackle what at first seemed like a stubborn problem of replacing LIBOR, he notes that markets across diverse jurisdictions like the U.S., U.K., Japan, and Switzerland have been able to accomplish a methodical wind-down with no stability issues. In the ARRC's annual progress report they highlight the encouraging trajectory USD LIBOR transition to the Secured Overnight Financing Rate (SOFR) noting that the new issuances to USD LIBOR continue to decline while the transition to SOFR continues to pick-up, which Mr. Wipf notes are encouraging results of the adoption of SOFR in the market. Although much has been accomplished from the transition, focus has pivoted to legacy contracts that do not contain sufficient provisions to deal with the cessation of USD LIBOR post June 30, 2023. There has been progress made from a legislative perspective in states like New York and Alabama based on ARRC's fallback proposals and even the

House of Representatives passed similar legislation with bipartisan support to help deal with legacy contracts. The ARRC plans to work throughout 2022 to push the senate and other states to approve similar legislation to help mitigate operational and legal risk faced by all market participants. Mr. Wipf concludes with noting that ARRC will remain vigilant throughout the next year to help solve any issues that may arise and asks all market participants to be proactive in their adoption of SOFR to help minimize any market disruptions.



Our Perspective

LIBOR Transition Progress from ARRC Chairman

Tom Wipf, chairman of the Alternative Rates Reference Committee and vice chairman of institutional securities at Morgan Stanley, provided brief commentary of the progress made on LIBOR transition overall and specifically USD LIBOR's transition to SOFR. Although much progress has been made and positive momentum of the transition continues, Mr. Wipf noted that there is still work to be done by market participants as they should remain proactive in their efforts to transition away from USD LIBOR. The commentary from Mr. Wipf is very encouraging given the large task the transition has proven to be, but as Mr. Wipf notes progress needs to be made until June 2023 to ensure that legacy contracts that can be remediated and that responsible legislation can be adopted to preempt any tough legacy contract issues that could arise.



Regulatory Updates

Summary of Alternative Reference Rate Committee (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 January 1, 2022 until January 31, 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:

Observation Shift for Floating Rate Contracts

- Most US-issued floating rate contracts use an observation shift to adjust for the number of days in the coupon period.

Adjustments Offsetting LIBOR and LIBOR/SOFR Basis Swap Trades

- The offsetting trades are permissible as the economics of the trades are SOFR-based. It is best to discuss specific scenarios with examiners.

Legacy LIBOR Loan Modification from Fixed to Floating

- The guidance allows for legacy Libor contracts to continue to perform beyond December 31, 2021.

Special Procedures to Unwind Legacy Derivative Contracts

- Banks are not required to implement special procedures to unwind legacy contracts.

When Daily Simple SOFR is Preferred to Compounded in Arrears SOFR

- Most US-based issuers prefer daily simple SOFR over compound SOFR for floating rate notes. However, compound SOFR in arrears is often preferred for swaps as it provides a modest hedging advantage to daily simple SOFR.

30-Day SOFR in Advance Compounding Convention

- The 30-day SOFR in advance is a compounded average rate.

Preferred Equity

- The ARRC recommended scope of use applies to preferred equity as ARRC considers it as floating rate debt.

ARRC Contract Modification Communication

- ARRC is currently working on recommendations regarding how contract parties should communicate LIBOR-related changes to contracts. ARRC currently recommends for the determining party to communicate contract changes to the counterparty at least six months in advance of any LIBOR maturity.

Regulatory Highlights

- Tom Wipf, Chairman of the ARRC and Vice Chairman of Institutional Securities at Morgan Stanley, authored a Barron's opinion-editorial titled "The World's Most Important Number Is Done. The Work To Replace It Continues". The ARRC update is available [here](#) and the article is available [here](#).

ARRC/ FRB Updates

- The ARRC released a LIBOR transition progress report. The press release is available [here](#) and the report is available [here](#).
- The ARRC published the December/January newsletter. The newsletter is available [here](#).

International Swaps and Derivatives Association (ISDA) Updates

- ISDA published their report on interest rate derivatives trading activity. The report is available [here](#).
- ISDA published a statement on Canadian Dollar Offered Rate (CDOR). The statement is available [here](#).
- ISDA published the ISDA-Clarus Risk Free Rates (RFR) adoption indicator for December 2021. The report is available [here](#).
- ISDA published a Full 2021 transition to RFR report. The report is available [here](#).

ICE/ Chicago Mercantile Exchange (CME) Updates

- ICE published the December rates report. The report is available [here](#).
- CME published the January Rates recap. The report is available [here](#).
- CME updated the FAQ's on Term SOFR. The FAQ's available [here](#).
- CME published a report on SOFR liquidity analysis. The report is available [here](#).

Other News/ Useful Reading

- "Dealers warm to SOFR swaptions but buy side lags". The article is available [here](#).
- The Consumer Financial Protection Bureau (CFPB) issued a final rule to facilitate transition from LIBOR. The press release is available [here](#).
- The Commodity Futures Trading Commission (CFTC) revises no-action letters regarding market participants transitioning from LIBOR. The press release is available [here](#).
- The Internal Revenue Service (IRS) published guidance and final regulations on tax consequences of LIBOR transition. The guidance is available [here](#).
- Canadian Alternative Reference Rate (CARR) Working Group issued an announcement and published a white paper on CDOR. The whitepaper is available [here](#) and Refinitiv's response to the white paper is available [here](#).
- "Smaller US banks make case for credit-sensitive rates". The article is available [here](#).
- "Down but not out: US LIBOR trading continues amid ban". The article is available [here](#).
- "Review of 2021: Default, revolt, and reform". The article is available [here](#).
- "The global benchmarks replacing LIBOR". The article is available [here](#).
- "LIBOR's death propels SOFR swaps market". The article is available [here](#).
- "Looking ahead to the post-LIBOR landscape". The article is available [here](#).
- "Regulators must provide relief during transition from LIBOR". The article is available [here](#).
- "US dollar LIBOR transition: a new countdown in motion". The article is available [here](#).
- "Central Counterparty Clearinghouses (CCPs) to review conversion blueprint ahead of SOFR switch". The article is available [here](#).



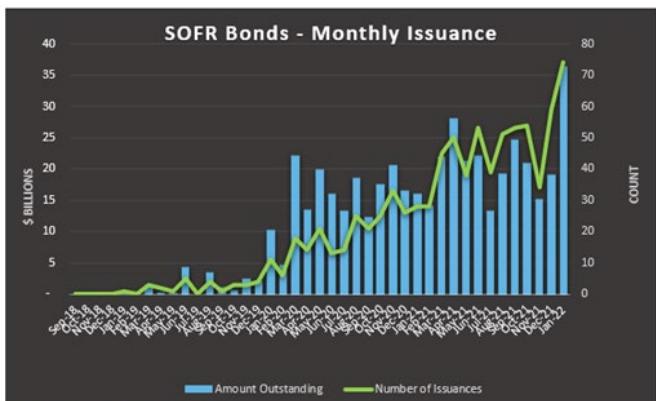
Market Updates

Increase in Debt Issuance Referenced to SOFR

The issuance of SOFR referenced debt increased in January 2022 compared to issuance in December 2021. The issuance size was \$36.4 billion in January 2022, which increased from \$19.1 billion in December 2021. The graphs below represent data through January 2022.

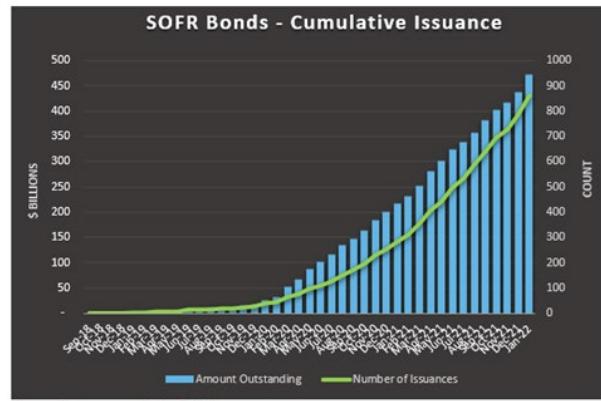
The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$484.1 billion with 884 bonds through February 8, 2022. There were 74 new issuances in January 2022 compared to 59 in December 2021 and 34 in November 2021.

In January 2022, federal agencies issued 32 SOFR referenced floating rate notes (FRN)s worth \$18.04 billion. There were 42 issuances from other institutions which contributed \$18.35 billion to the outstanding amount of SOFR referenced debt.



Source: Reuters, compiled by Deloitte

*Data as of January 31, 2022



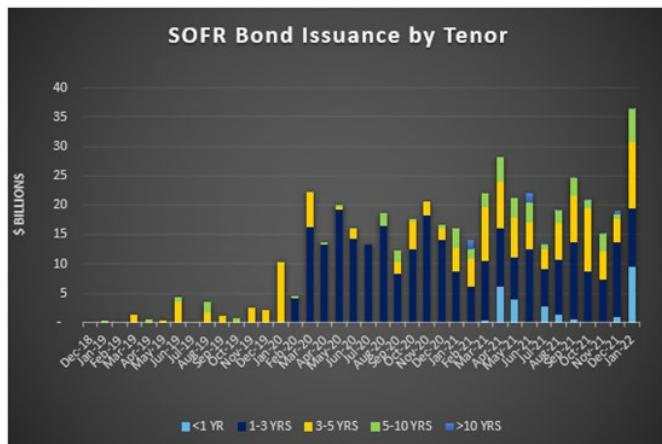
Source: Reuters, compiled by Deloitte

*Data as of January 31, 2022

Increase in Longer Dated Debt Issuance (maturity \geq 5 years) Referenced to SOFR

SOFR debt issuances with a maturity greater than or equal to five years increased in January 2022 compared to December 2021. During January 2022, there were 15 bonds issued which have a maturity between five and 10 years, compared to 13 issuances in December 2021. There were three issuances during January 2022 that had a maturity greater than or equal to 10 years, as compared to eight such issuances with a maturity greater than or equal to 10 years for December 2021.

There were 159 issuances of SOFR bonds outstanding worth \$44.9 billion, with a maturity greater than or equal to five years, through February 8, 2022 including 28 issuances worth \$4.7 billion with a term greater than or equal to 10 years.



Source: Reuters, compiled by Deloitte

*Data as of January 31, 2022

Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$14,374.1 billion through January 31, 2022.
- For the month of January 2022, the notional volume of SOFR-based interest rate and basis swaps totaled \$3,372.9 billion compared to \$2,298.1 billion in December 2021 and \$1,737.8 billion in November 2021.

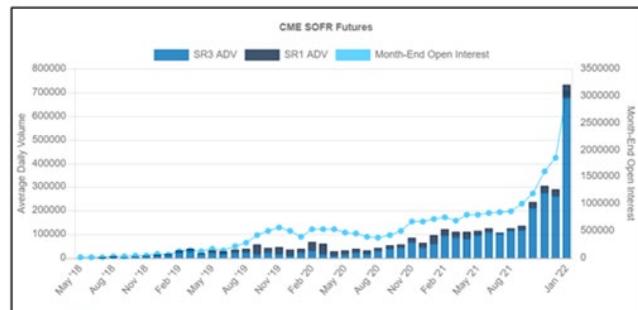


Source: <http://swapsinfo.org/>, compiled by Deloitte

*Data as of January 31, 2022

SOFR Futures

- According to data available on CME, for January 2022, SOFR futures (including both one-month and three-month futures) average daily volume reached ~731K contracts/ day. The data is available [here](#).
- The month-end open interest for SOFR 1-month and 3-month futures as of January 2022 was ~3.04M contracts.



Source: CME Group

*Data as of January 31, 2022

Global IBOR Activity

The market activity in Sterling Overnight Index Average (SONIA), Swiss Average Rate Overnight (SARON), Tokyo Overnight Average Rate (TONAR) and Euro Short-Term Rate (€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 January 31, 2022.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	54,521.4	161.5
SARON	352.0	NA
TONAR	1,806.0	NA
€STR	4,155.8	5.6

Source: Reuters, <http://swapsinfo.org/>, compiled by Deloitte
Data as of November 30, 2021



Global Highlights

United Kingdom

- The FCA published a statement on the cessation of certain LIBOR tenors. The statement is available [here](#).
- Bank of England (BoE) penned a "Dear CEO" letter to international banks active in the UK on 2022 priorities. The letter is available [here](#).
- "UK conduct regulator's rules for use of synthetic sterling and Yen LIBOR enter into force". The article is available [here](#).

European Union

- The European Securities and Markets Authority (ESMA) Working Group released a year-end statement on cessation of certain LIBOR tenors. The statement is available [here](#).
- ESMA published the minutes of the Euro RFR Working Group's December 3, 2021 meeting. The meeting minutes are available [here](#).
- "Euro/dollar crosses embrace RFRs, while other currencies lag". The article is available [here](#).

Asia

- Refinitiv has published a consultation on the Tokyo Swap Rate for swaps referencing Tokyo Interbank Offered Rate (TIBOR). The consultation is available [here](#).
- "Union Bank of India embraces Alternate Reference Rate replacing LIBOR". The article is available [here](#).
- "Indonesian regulators publish LIBOR transition guide". The article is available [here](#).
- "Japan's TIBOR swap rate faces cessation". 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**](#)

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