



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 9, 2021, the Alternative Reference Rates Committee (ARRC) praised the actions of the U.S. House of Representatives for passing H.R. 4616 Adjustable Interest Rate (London Interbank Offered Rate (LIBOR)) Act of 2021 to help reduce risk related to the transition away from USD LIBOR. The goal of the bill is to assist in minimizing the risk of disruptive legislation and adverse market impacts resulting from the transition. The ARRC is now looking forward to the passage of the bill by the U.S. Senate to help ensure stability to the markets.

On January 4, 2022, the Internal Revenue Service (IRS) provided guidance (referred to as the “proposed regulations” and later “final regulations”) on the transition from interbank offered rates (IBOR) to other reference rates and the potential tax consequences of the transition. The IRS deems the regulation necessary to address the possibility that modifications of a financial products contract terms to replace IBORs could result in income gains, losses for Federal income taxes or potentially other tax implications. To minimize the potential impacts to the market and assist in the orderly transition for LIBOR and other IBORs, the IRS and the Treasury Department published proposed regulations (October 9, 2019) to provide that modifying a contract in anticipation of the LIBOR transition would not be viewed as an exchange of property for other property differing materially in kind or extent for purpose to help mitigate tax impact. The final regulations are meant to provide special tax help for taxpayers adjusting to the discontinuation of certain widely used interest benchmarks such as LIBOR.



Our Perspective

ARRC Welcomes Passage of LIBOR Transition Bill by U.S. House of Representatives

The U.S. House of Representatives passed bill H.R. 4616 Adjustable Interest Rate (LIBOR) Act of 2021 to help reduce the risks of disruptive litigation and economic impacts that could be brought on by the transition from LIBOR. This is the first step to help ensure the passage of LIBOR transition legislation by Congress and may help to contracts that do not consider the cessation of LIBOR and have no reasonable fallback options available.

IRS Guidance and Final Regulations on Tax Consequences

The IRS along with the Treasury department put forth regulation to assist in matters relating to the anticipated elimination of IBOR based contracts and how those changes are treated in the future under the tax law. The regulation generally assists by allowing contracts transitioning from LIBOR (or other IBORs) to be viewed plainly and not as an exchange of property, which under legacy tax code may have called for tax implications. The regulations also modify other tax rules to minimize the collateral consequences of the LIBOR transition. This regulation from the IRS is yet another means to help market participants execute a smooth transition away from LIBOR.



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 December 1, 2021 until December 31, 2021. Weekly office hour information can be found [here](#). The information below does not represent the view of the Federal Reserve but represents the personal views of David Bowman outside of his official capacity. Below are some of the specific topics discussed:

Intermarket Dealer Markets Slow to Transition

- Starting December 13, 2021 in a dealer market such as cross-currency basis-swaps, ARRC recommends moving the USD leg of basis-swaps to Secured Overnight Financing Rate (SOFR). Participants should not expect leeway after December 31, 2021.

Different SOFR Form Spread Adjustments

- The ARRC recommended spread adjustment is the same for each form of SOFR.

Market Making Exemption for Non-Fed Supervised Hedge Funds

- The dealer cannot apply the market-making exemption into the swap unless it is a legacy bond or risk-reducing trade for the hedge fund.

Borrower Notional Increase in Legacy LIBOR Loans

- A committed contract established in 2021 would not be considered a new contract in 2022. The supervisory guidance advises against entering into new LIBOR contracts after December 31, 2021.

Regulatory Highlights

- On December 9, 2021, the ARRC welcomed the passage of LIBOR Transition Bill by U.S. House of Representatives. The article is available [here](#).
- On January 4, 2022, the IRS issued guidance on the transition from interbank offered rates to other reference rates. The guidance is available [here](#).

ARRC / FRB Updates

- The ARRC released statutory fallback recommendations for 1W and 2M USD LIBOR contracts. The recommendations are available [here](#).
- The ARRC welcomed the announcement by Refinitiv that its USD IBOR institutional and consumer cash fallbacks published for market use is now available. The report is available [here](#).
- The ARRC published its 'Year-End Progress Report: The Transition from U.S. Dollar LIBOR'. The report is available [here](#).
- The ARRC published its October-November newsletter. The newsletter is available [here](#).

International Swaps and Derivatives Association (ISDA) Updates

- ISDA published the key trends in size and composition of Over-the-Counter OTC derivatives markets in H1 2021. The report is available [here](#).
- ISDA published new fallbacks for additional IBORs. The press release is available [here](#).

Other News/ Useful Reading

- "Dealers warm to SOFR swaptions but buy side lags". The article is available [here](#).
- "Commodity Futures Trading Commission (CFTC) Interest Rate Benchmark Reform Subcommittee selects December 13th for SOFR First for additional cross-currency derivatives". The press release is available [here](#).
- Risknet hosted the "LIBOR clinic webinar". The webinar is available [here](#).
- "Why US companies need to stop using LIBOR right now". The article is available [here](#).
- "Get ready for the end of LIBOR". The article is available [here](#).
- "Companies cling to LIBOR as key deadline approaches". The article is available [here](#).
- "New Development Bank issues debut benchmark SOFR-linked Floating Rate Note (FRN) USD 500 million pandemic support and sustainable bond". The article is available [here](#).
- "Clearing of legacy LIBOR swaps". The video is available [here](#).
- "Banks given conflicting guidance on LIBOR loan facilities". The article is available [here](#).
- "Financial Conduct Authority (FCA): dealer polls pose further LIBOR transition hurdle". The article is available [here](#).
- "Central Counterparties (CCPs) successful LIBOR switch raises hopes for sterling move". The article is available [here](#).
- "Bumpy ride expected as LIBOR reaches end of road". The article is available [here](#).
- "LIBOR battles aren't over, but the war is won". The article is available [here](#).
- "LIBOR limbers up for 'Y2K' walk into a \$265 trillion sunset". The article is available [here](#).
- "US Collateralized Loan Obligation (CLO) index highlights SOFR transition indicators". The article is available [here](#).
- "LIBOR fix wins House support in drive to avert market chaos". The article is available [here](#) and [here](#).
- "US Securities and Exchange Commission (SEC) warns advisors of LIBOR transition risks". The article is available [here](#).

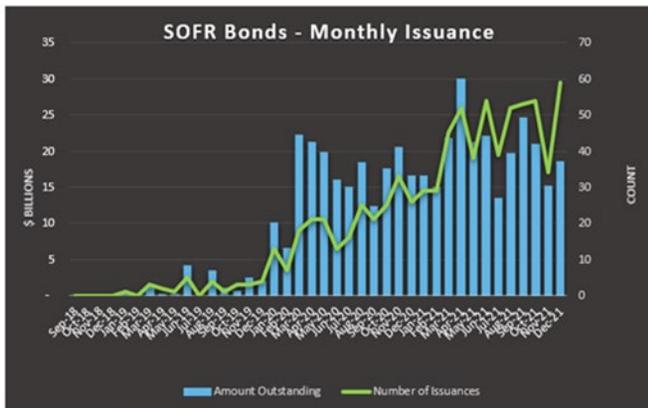


Increase in Debt Issuance Referenced to SOFR

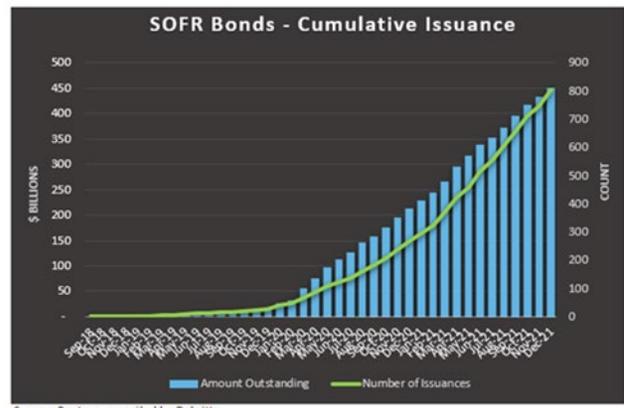
The issuance of SOFR referenced debt increased in December 2021 compared to issuance in November 2021. The issuance size was \$18.5 billion in December 2021, which increased from \$15.2 billion in November 2021. The graphs below represent data through December 2021.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$477.9 billion with 860 bonds through January 19, 2022. There were 59 new issuances in December 2021 compared to 34 in November 2021 and 54 in October 2021.

In December 2021, federal agencies issued 28 SOFR referenced floating rate notes (FRN)'s worth \$8.3 billion. There were 31 issuances from other institutions which contributed \$10.2 billion to the outstanding amount of SOFR referenced debt.



Source: Reuters, compiled by Deloitte
*Data as of December 31, 2021

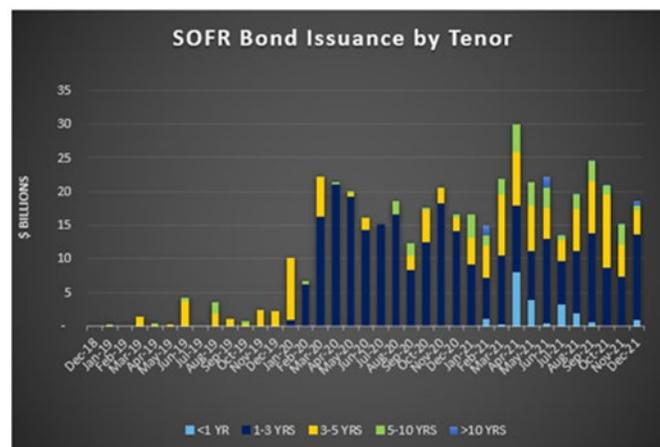


Source: Reuters, compiled by Deloitte
*Data as of December 31, 2021

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

SOFR debt issuances with a maturity greater than or equal to five years increased in December 2021 compared to November 2021. During December 2021, there were 13 bonds issued which have a maturity between five and 10 years, compared to 6 issuances in November 2021. There were 8 issuances during December 2021 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 November 2021.

There were 145 issuances of SOFR bonds outstanding worth \$43.3 billion, with a maturity greater than or equal to five years, through January 19, 2022 including 22 issuances worth \$4.2 billion with a term greater than or equal to 10 years.



Source: Reuters, compiled by Deloitte
*Data as of December 31, 2021

Cumulative SOFR Interest Rate Derivatives

SOFR Swaps

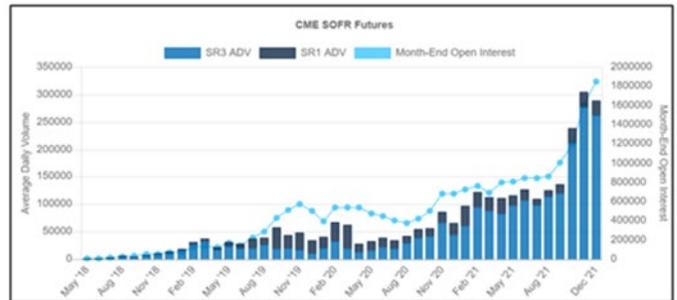
- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$11,001.2 billion through December 31, 2021.
- For the month of December 2021, the notional volume of SOFR-based interest rate and basis swaps totaled \$2,298.1 billion compared to \$1,737.8 billion in November 2021 and \$1,747.4 billion in October 2021.



Source: <http://swapsinfo.org/>, compiled by Deloitte
*Data as of December 31, 2021

SOFR Futures

- According to data available on CME, for December 2021, SOFR futures (including both 1-month and 3-month futures) average daily volume reached ~289K contracts/ day. The data is available here.
- The month-end open interest for SOFR 1-month and 3-month futures as of December 2021 was ~1.8M contracts.



Source: CME Group
*Data as of December 31, 2021

Global IBOR Activity

The market activity in 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 December 31, 2021.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	52,922.6	145.6
SARON	305.7	NA
TONAR	1,586.1	NA
€STR	3,059.1	5.5

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



Global Highlights

United Kingdom

- The Financial Conduct Authority (FCA) published a speech delivered by Edwin Schooling Latter from LIBOR telethon on December 8, 2021. The speech is available [here](#).
- The FCA issued feedback statement for consultation on permitting legacy use of synthetic LIBOR and prohibiting the new use of USD LIBOR. The statement is available [here](#).
- The Working Group on Sterling Risk-Free Reference Rates published the November newsletter. The newsletter is available [here](#).
- "Final part of UK LIBOR legislative solution receives Royal Assent". The article is available [here](#).

European Union

- The European Securities and Markets Authority (ESMA) published details of the initiative for administrators of critical benchmarks and recognized third country Benchmark Regulation (BMR) administrators. The details of the initiative is available [here](#).
- The Intercontinental Exchange (ICE) transitions Sterling and Euroswiss LIBOR-based derivatives to Sterling Overnight Index Average (SONIA) and SARON ahead of Sterling and Swiss Franc LIBOR cessation. The article is available [here](#).
- "The change to SARON may be another reason for disputes between franchise holders and banks". The article is available [here](#).

Asia

- "Asia races against LIBOR deadlines". The article is available [here](#).
- "LIBOR transition faces rate choice challenges". The article is available [here](#).
- "Super funds ready for LIBOR's end". 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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