



# Deloitte<sup>i</sup> 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 March 15, 2022, President Joe Biden signed into law the Consolidated Appropriations Act, 2022, which includes the Adjustable Interest Rate (London Interbank Offered Rate - LIBOR) Act. The passage of this legislation helps transition away from “tough legacy” contracts for trillions of dollars of outstanding financial products that do not contain appropriate contractual fallback language when USD LIBOR ceases to be published after June 2023. The legislation aims to provide equal treatment for all the U.S. financial contracts that fall under the federal legislation as well as safe harbor for covered contracts to prevent litigation costs and gridlock. The newly adopted legislation mirrors similar bills passed in New York and other states that follows proposed legislation by the Alternative Reference Rates Committee (ARRC) in 2020. Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley, noted that, “President Biden and lawmakers have taken a vital step to protect investors, businesses, and the consumers from LIBOR-related risks. By providing a solution for legacy contracts that have no workable fallbacks and a safe harbor for lenders who choose Secured Overnight Financing Rate (SOFR) in relevant contracts, this legislation significantly reduces risks for market participants worldwide”.



## Our Perspective

### **President Biden Passes Legislation on Federal LIBOR Transition**

The Adjustable Interest Rate (LIBOR) Act was signed into law as a part of a bigger omnibus spending package to address “tough legacy” contracts related to LIBOR transition that cannot otherwise be easily amended or that do not have effective fallback language provisions transitioning from LIBOR to SOFR. The passage comes after a bipartisan push in the senate earlier in March to pass the Economic Continuity and Stability Act, which was the companion legislation to the House bill passed in December 2021. The passage of this legislation on LIBOR transition is the next step to help ensure contracts that do not consider the cessation of LIBOR or have no reasonable fallback options available will now have resolutions available at the federal level.



## 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 February 1, 2022 until February 28, 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:

#### *Declining USD LIBOR SWAP Market Impact*

- ARRC does believe that Intercontinental Exchange (ICE) Benchmark Administration (IBA) may see less quoting activity from LIBOR sources over time. However, ARRC has noted that IBA may eventually change from level 1 sources to level 2 sources, allowing IBA to continue publishing LIBOR rates until cessation.

#### *Remediating Tough Legacy USD Swap-Rate LIBOR instruments*

- ARRC has worked with both ISDA and IBA to publish recommendations on how stakeholders can move between LIBOR and SOFR swaps. The recommendations were aimed at providing methodologies for calculating spread adjustments.

#### *Basis Risk from Mismatch in State Legislation*

- Although ARRC acknowledges that there is a potential for basis risk, ARRC believes that the basis will be immaterial for securities.

#### *Continued use of 12-month term SOFR*

- ARRC is committed to providing guidance on the continued use of 12-month term SOFR by June 2022.

#### *Bilateral Fallback Agreements vs. Unilateral Fallback Rates in Fallbacks*

- In 2021, ARRC moved to recommend the use of unilateral fallbacks over bilateral agreements. ARRC noted that hardwired language is more feasible than bilateral language from an operational perspective.

### Regulatory Highlights

- The ARRC Welcomes Passage of Federal LIBOR Transition Legislation in Omnibus Spending Package. The article is available [here](#).

### ARRC/ FRB Updates

- The ARRC issued a press release on Chairman Tom Wipf opinion-editorial and key priorities in the LIBOR transition. The press release is available [here](#).
- The ARRC Chairman Tom Wipf issued an opinion-editorial on remaining work for the LIBOR transition. The article is available [here](#).
- The ARRC held a meeting on February 16, 2022. The agenda is available [here](#) and the meeting readout is available [here](#).

### International Swaps and Derivatives Association (ISDA) Updates

- ISDA published a report titled 'SwapsInfo for the full year 2021 and the fourth quarter of 2021 review'. The report is available [here](#).
- ISDA published the SwapsInfo for the week ending February 4, 2022. The report is available [here](#).
- ISDA published the January 2022 ISDA-Clarus Risk Free Rates (RFR) Adoption Indicator. The report is available [here](#).
- ISDA will host a virtual conference on a post-LIBOR world on March 22, 2022. The link to register is available [here](#).

### Intercontinental Exchange (ICE)/ Chicago Mercantile Exchange (CME) Updates

- CME published their SOFR Futures report. The report is available [here](#).
- ICE published their interest rates report for January 2022. The report is available [here](#).

### Other News/ Useful Reading

- Refinitiv (as CDOR administrator) published a consultation on the potential permanent cessation of the Canadian Dollar Offered Rate (CDOR). The consultation is available [here](#).
- "Banks rely on clients to police US LIBOR ban". The article is available [here](#).
- "Canada looks beyond bankers' acceptance market in rate reform". The article is available [here](#).
- Bloomberg hosted a webinar titled 'LIBOR webinar: Key functionality changes'. The webinar is available [here](#).
- "Legacy LIBOR swaptions face day of reckoning". The article is available [here](#).
- "IHS Markit makes its credit sensitive benchmarks available for use in financial products". The article is available [here](#).
- "SOFR swaps surge past \$1 trillion weekly". The article is available [here](#).
- The Internal Revenue Service (IRS) and Treasury Department issued 'Final Guidance' on the transition from interbank offered rates to other reference rates. The report is available [here](#).
- Clifford Chance published their analysis of the IRS final regulations providing guidance on transition from LIBOR. The report is available [here](#).
- "Sunsetting LIBOR: How to avoid the elephant traps". The article is available [here](#).

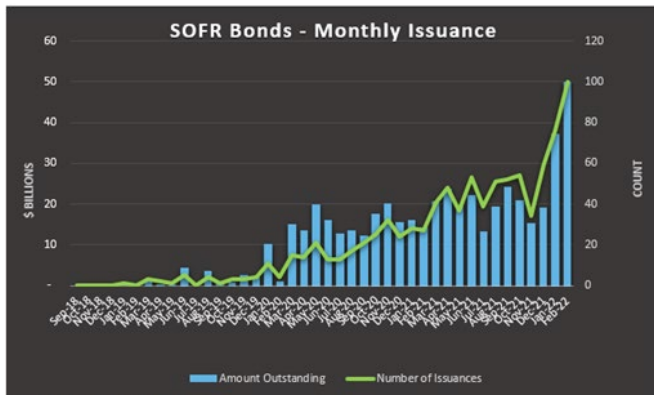


**Increase in Debt Issuance Referenced to SOFR**

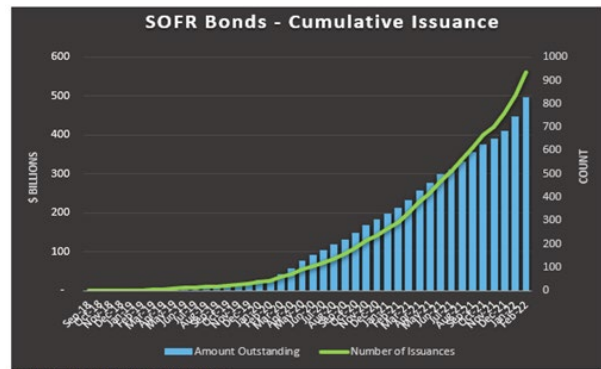
The issuance of SOFR referenced debt increased in February 2022 compared to issuance in January 2022. The issuance size was \$49.8 billion in February 2022, which increased from \$37.1 billion in January 2022. The graphs below represent data through February 2022.

The cumulative issue size of SOFR bonds outstanding (this excludes matured bonds) is currently \$521.8 billion with 1,002 bonds through March 16, 2022. There were 100 new issuances in February 2022 compared to 76 in January 2022 and 59 in December 2021.

In February 2022, federal agencies issued 57 SOFR referenced floating rate notes (FRN)s worth \$39.2 billion. There were 43 issuances from other institutions which contributed \$10.6 billion to the outstanding amount of SOFR referenced debt.



Source: Reuters, compiled by Deloitte  
\*Data as of February 28, 2022

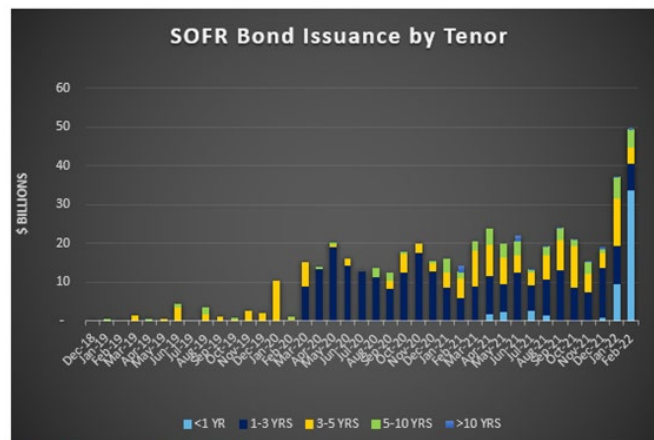


Source: Reuters, compiled by Deloitte  
\*Data as of February 28, 2022

**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 February 2022 compared to January 2022. During February 2022, there were 22 bonds issued which have a maturity between five and 10 years, compared to 15 issuances in January 2022. There were 9 issuances during February 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 January 2022.

There were 198 issuances of SOFR bonds outstanding worth \$50.6 billion, with a maturity greater than or equal to five years, through March 16, 2022 including 36 issuances worth \$4.9 billion with a term greater than or equal to 10 years.

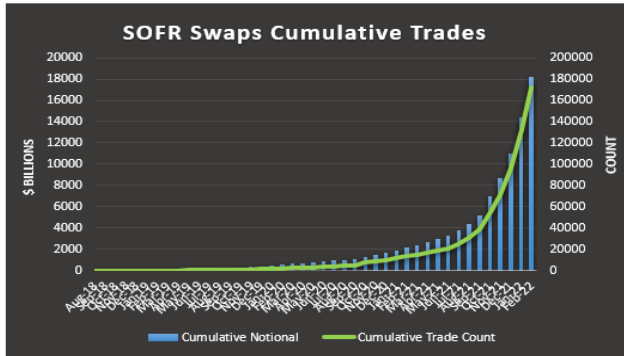


Source: Reuters, compiled by Deloitte  
\*Data as of February 28, 2022

## Cumulative SOFR Interest Rate Derivatives

### SOFR Swaps

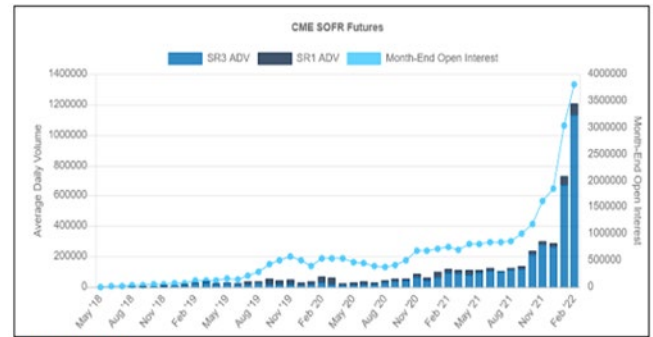
- The cumulative outstanding notional amount for SOFR based interest rate and basis swaps totaled \$18,197 billion through February 28, 2022.
- For the month of February 2022, the notional volume of SOFR-based interest rate and basis swaps totaled \$3,822.9 billion compared to \$3,372.9 billion in January 2022 and \$2,298.1 billion in December 2021.



Source: <http://swapsinfo.org/>, compiled by Deloitte  
 \*Data as of February 28, 2022

### SOFR Futures

- According to data available on CME, for February 2022, SOFR futures (including both one-month and three-month futures) average daily volume reached ~1.2M contracts/ day. The data is available [here](#).
- The month-end open interest for SOFR 1-month and 3-month futures as of February 2022 was ~3.8M contracts.



Source: CME Group  
 \*Data as of February 28, 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 February 28, 2022.

Alternative Reference Rate	Swaps Cumulative notional amount (US \$ Billions)	Bonds Cumulative issuance amount (US \$ Billions)
SONIA	56,744.2	162.8
SARON	413.2	NA
TONAR	2,065.2	NA
€STR	6,908.1	5.7

Source: Reuters, <http://swapsinfo.org/>, compiled by Deloitte  
 Data as of January 31, 2022



## Global Highlights

### United Kingdom

- The Bank of England (BoE) and the Financial Conduct Authority (FCA) issued a joint press release on finalizing LIBOR transition achievements in the Sterling markets. The press release is available [here](#).
- "LIBOR: Sonia, proceed as planned". The article is available [here](#).

### Asia

- The Bank of Japan published the key results of Cross-Industry Committee questionnaire survey on progress in the transition away from Japanese Yen (JPY) LIBOR. The report is available [here](#).
- "Dealers slam alternative for Tokyo Interbank Offered Rate (TIBOR) Tokyo swap rate". The article is available [here](#).
- Steering Committee for Singapore Swap Offered Rate (SOR) & Singapore Interbank Offered Rate (SIBOR) Transition to Singapore Overnight Rate Average (SORA) (SC-STO) published their transition roadmap for 2022. The roadmap is available [here](#).

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## 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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