

# Newsletter IBOR Reform 05/2021

Compilation by the Helaba IBOR Task Force

Last Update 17 May 2021



## Foreword by Helaba IBOR Task Force



*Ladies and Gentlemen,*

*The necessity to move away from critical IBOR benchmarks by either reforming the existing reference rates or transitioning to alternative risk-free overnight rates in line with the EU Benchmark Regulation has been keeping the financial markets busy for some time. Due to the cessation of the majority of the LIBOR rates by the end of 2021 this year has many important milestones for the ongoing transition process. A lot of work has to be achieved by all market participants, with new conventions still developing in many places. The continued application of the reformed EURIBOR is a welcomed highlight in the extensive IBOR transition process.*

*It is our aim to regularly provide you with up to date information on IBOR transition and the endgame for LIBOR. As there is a constant flow of new information - new one moment and maybe overruled by more recent announcements soon after – this has become more challenging.*

*Our compilations do not claim to be complete. After providing detailed background information in our client information brochure, we have concentrated in our May Newsletter on selected information and recent events we believe are important to highlight. We had already touched on the FCA Announcement on LIBOR cessation in the last update of our brochure, published on 8 March 2021. As this is very important for many milestones in 2021-2023 and developing market conventions we have included this topic with further information.*

*Useful information on current developments can also be found directly at the websites of the different working groups or central banks. At the end of this newsletter you will find a compilation of useful links.*

*As Helaba we had many interesting and rewarding exchanges with many of you over recent months. We look forward to holding further positive and constructive discussions with you so that we can provide you with the latest information on market conventions and support you and your companies in transitioning to the new benchmarks.*

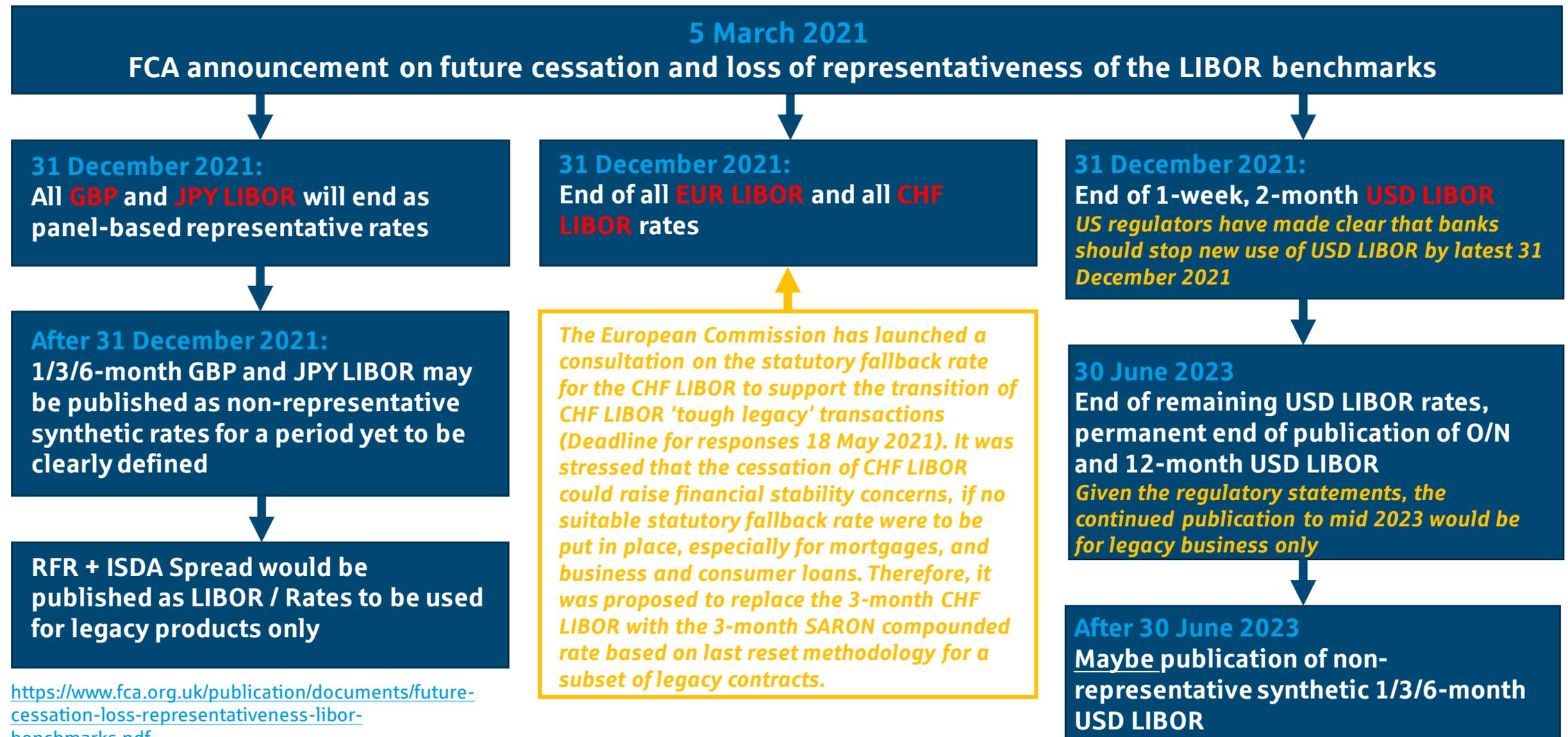
*In case of any questions please do not hesitate to contact either your relationship manager or send an e-mail to us at [ibor-reform@helaba.com](mailto:ibor-reform@helaba.com).*

## Highlights on IBOR Transition since March 2021

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- 5 March 2021: FCA Announcement on LIBOR cessation + ISDA Spread Adjustment Fixing (please see pages 4+5 for more details)
- Forward-looking RFR Term Rates / Forward-looking SOFR Term Rate (please see pages 6+7 for further information)
- The European Central Bank (ECB) started publication of compounded €STR rates on 15 April 2021 for 1 week and 1/3/6/12-month rates and a compounded €STR Index. It is expected that this helps increasing transparency on the use of backward-looking term structure methodologies.
- Loan Documentation:
  - In a public statement the European Money Markets Institute (EMMI) encouraged EONIA users to accelerate their transition to the Euro Short-Term Rate (€STR)
  - LIBOR transition / use of RFRs for new business: As per regulatory authorities, UK business starting Q2/2021 and US business starting Q3/2021 (see also page 8 for further milestones)
  - Observation: More relaxed approach on Mainland Europe so far, but in principle, new business shall be written on the basis of the new RFRs and no longer based on LIBOR rates (quick market adaption also important for repapering process)
  - RFR loan conventions are agreed for each individual currency (more information on page 9)
  - Repapering process of legacy documentation: Many details are still developing, therefore generally aimed for second half of 2021.
- Strong adherence of market participants to the ISDA Fallbacks Protocol. The Protocol determines the transition of derivatives transactions from various IBOR rates to RFRs to avoid time intensive and costly coordination with each party. Similar fallback solutions are being offered for agreements entered into under the DRV framework agreement (German Master Agreement for Financial Derivatives Transactions).

## Financial Conduct Authority (FCA) Announcement on 5 March 2021



## Fixed Spread Adjustments as of 5 March 2021

### Market Observation:

- Spread adjustments fixed by International Swaps and Derivatives Association (ISDA) not only used for derivatives, but also for loan business
- The Alternative Reference Rates Committee (ARRC)'s recommended long-run spread adjustments will equal ISDA's

#### List of impacted IBOR Fallbacks

LIBOR	Tenor	Ticker	Spread Adjustment (%)
CHF	Spot/Next	SSF00SN Index	-0.0551
CHF	1 Week	SSF0001W Index	-0.0705
CHF	1 Month	SSF0001M Index	-0.0571
CHF	2 Months	SSF0002M Index	-0.0231
CHF	3 Months	SSF0003M Index	0.0031
CHF	6 Months	SSF0006M Index	0.0741
CHF	12 Months	SSF0012M Index	0.2048
EUR	Overnight	SEE000N Index	0.0017
EUR	1 Week	SEE0001W Index	0.0243

**Bloomberg**

EUR	1 Month	SEE0001M Index	0.0456
EUR	2 Months	SEE0002M Index	0.0753
EUR	3 Months	SEE0003M Index	0.0962
EUR	6 Months	SEE0006M Index	0.1537
EUR	12 Months	SEE0012M Index	0.2993
GBP	Overnight	SBP000N Index	-0.0024
GBP	1 Week	SBP0001W Index	0.0168
GBP	1 Month	SBP0001M Index	0.0326
GBP	2 Months	SBP0002M Index	0.0633
GBP	3 Months	SBP0003M Index	0.1193
GBP	6 Months	SBP0006M Index	0.2766
GBP	12 Months	SBP0012M Index	0.4644

JPY	Spot/Next	SJY00SN Index	-0.01839
JPY	1 Week	SJY0001W Index	-0.01981
JPY	1 Month	SJY0001M Index	-0.02923
JPY	2 Months	SJY0002M Index	-0.00449
JPY	3 Months	SJY0003M Index	0.00835
JPY	6 Months	SJY0006M Index	0.05809
JPY	12 Months	SJY0012M Index	0.16600
USD	Overnight	SUS000N Index	0.00644
USD	1 Week	SUS0001W Index	0.03839
USD	1 Month	SUS0001M Index	0.11448
USD	2 Months	SUS0002M Index	0.18456
USD	3 Months	SUS0003M Index	0.26161
USD	6 Months	SUS0006M Index	0.42826
USD	12 Months	SUS0012M Index	0.71513

[https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation\\_Announcement\\_20210305.pdf](https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation_Announcement_20210305.pdf)

## Forward-Looking RFR Term Rates

- Currently forward-looking RFR term rates are being developed and are already available in the GBP market.
- The use is expected to be limited in most cases. Forward-looking term rates are relevant for example for supply chain finance transactions for the determination of the receivables rate.
- Availability dependent on liquidity in derivatives markets and robustness of rates.

Jurisdiction					
Currency	EUR	GBP	USD	CHF	JPY
Credit term rate	EURIBOR	No	No (but Bloomberg, IBA and IHS working on credit sensitive options)	No forward looking term rate being developed	TIBOR
Potential administrators	IBA/EMMI Refinitiv FTSE Russell	IBA Refinitiv FTSE Russell	ICE Benchmark Administration (IBA)		QUICK Corp.
Prototyp(s) available?	No	Yes	No		Yes
Expected timing for use	None specified (dependent on sufficient derivatives liquidity)	IBA and Refinitiv rates available for use as of 11 January 2021	Currently unclear, maybe until 31 December 2021 (if derivatives liquidity sufficiently developed)		By 30 June 2021
Limitations on use	Potential use cases outlined in Euro Working Group Consultation	Use cases as outlined in Sterling Working Group paper / FMSB code of conduct	Permitted for hardwired fallbacks; use cases for new SOFR transactions TBC		Permitted for fallbacks, but use cases for new deals TBC

Source: LMA (January + March 2021), ARRC

## Forward-looking SOFR Term Rate

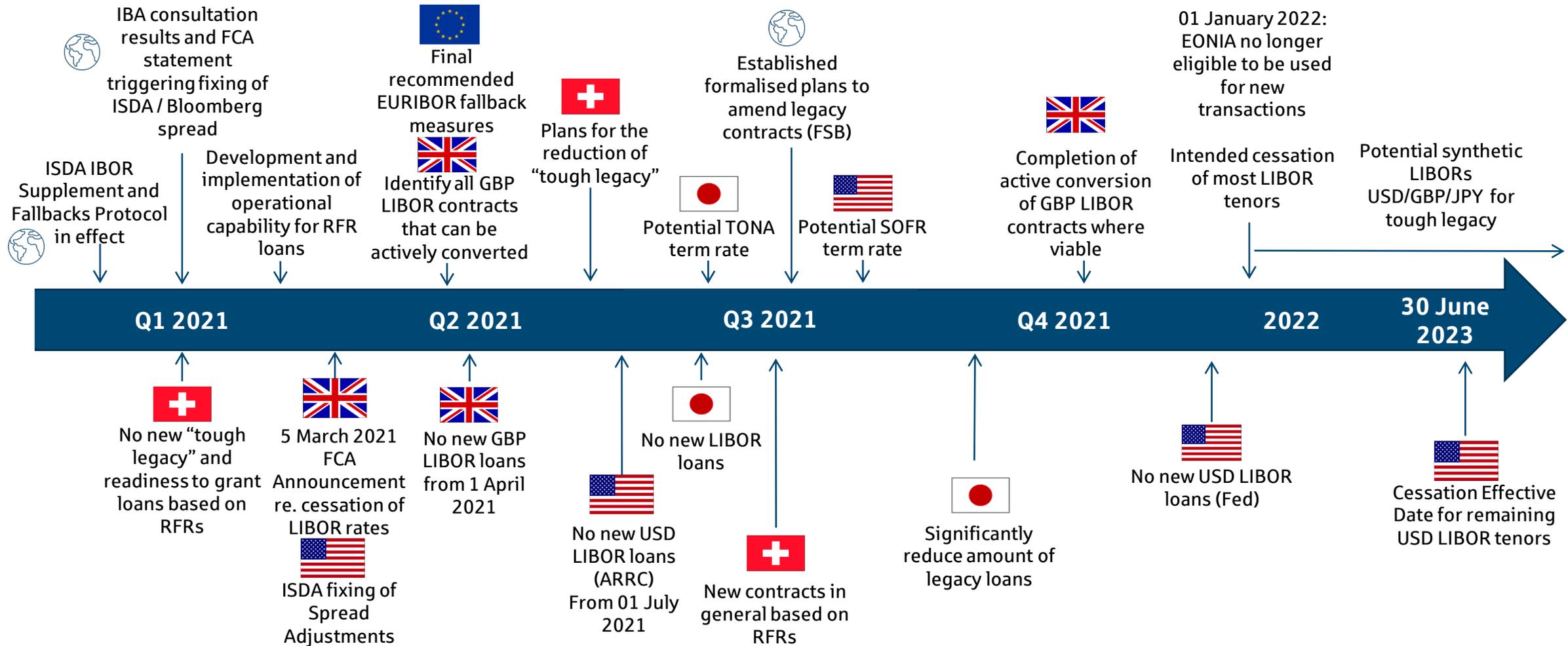
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- Recommendation from the Alternative Reference Rates Committee (ARRC) on any forward-looking SOFR Term Rate or administrator still outstanding. Consultation process ongoing. Maybe recommendation in 2nd half on 2021.
- In view of the US supervisory guidance on USD LIBOR usage for new loans the ARRC continues to encourage market participants not to wait for a term rate and to make use of current SOFR conventions available now.
- On 6 May 2021 the ARRC identified the following market indicators to support a recommendation of a forward-looking SOFR Term Rate:
  - Continued growth in overnight SOFR-linked derivatives volumes
  - Visible progress to deepen SOFR derivatives liquidity, consistent with ARRC best practices:
    - Offering electronic market-making and execution in SOFR swaps and swap spreads
    - Changing the market convention for quoting USD derivative contracts from LIBOR to SOFR
    - Making markets in SOFR-linked interest rate volatility products (including swaptions, caps, and floors)
  - Visible growth in offerings of cash products, including loans, linked to averages of SOFR, either in advance or in arrears.
- The indicators are designed to measure progress in establishing deep and liquid SOFR derivatives and cash markets, which are essential to a robust and stable term rate.

<https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/20210506-term-rate-indicators-press-release>

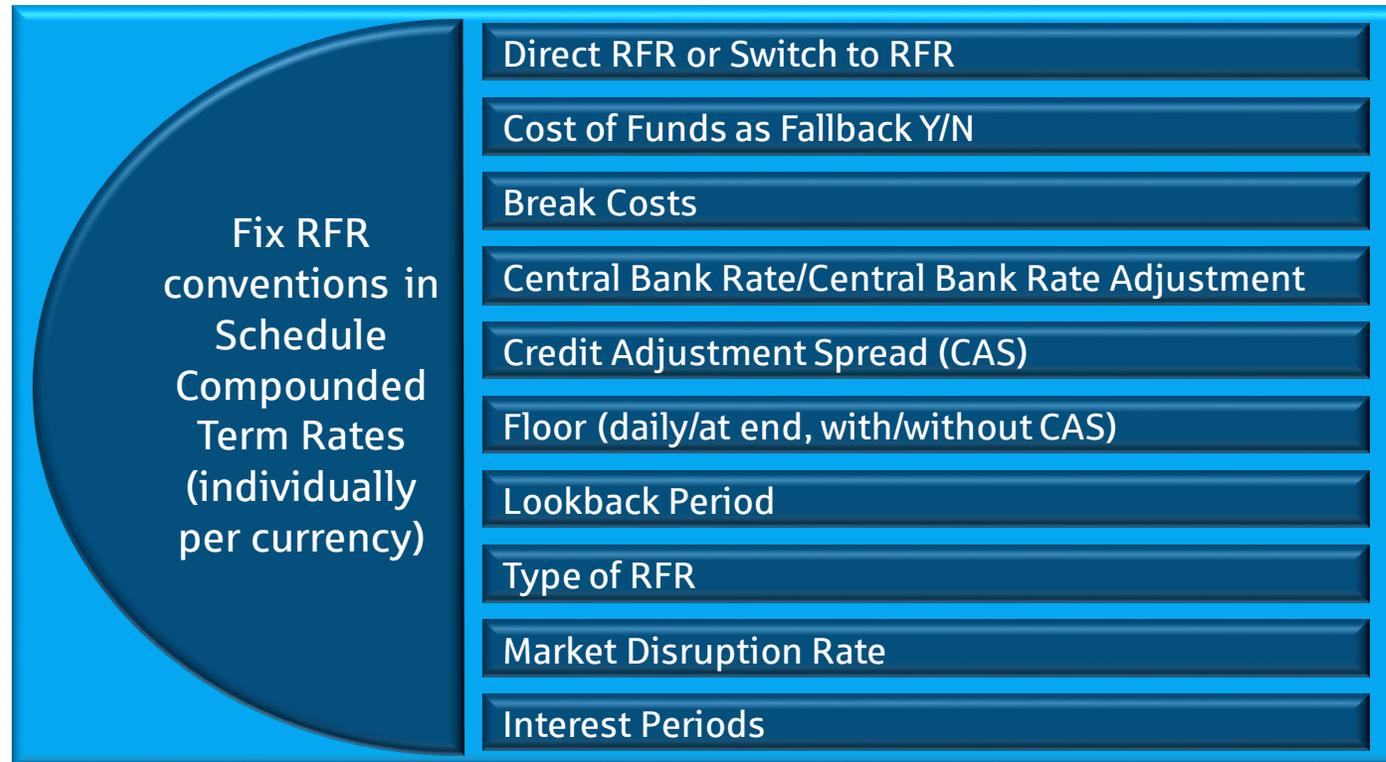
Source: ARRC, 6 May 2021

# Milestones and Timetable for IBOR Reform 2021-2023



## Key Issues to decide for new Facility Agreements and the Transition of Legacy Contracts

- RFR loan conventions are agreed for each individual currency at the end of a contract in Schedule „Compounded Term Rates“ (Legacy business can be transitioned via amendment agreement containing new benchmark(s) and relevant conventions)



- Calculation formulae in Schedules „Daily Non-Cumulative Compounded RFR Rate“ + “Cumulative Compounded RFR Rate”
- Re. System Updates: Beware of rounding methods for Daily Rate and Annualised Cumulative Compounded Daily Rate (Recommendation of Working Group and notation of RFR: GBP rounding to 4 decimal places, USD rounding to 5 decimal places)



## Useful sources of information for current developments

For latest information as well as general details on the transition from IBORs, please also refer to information published by supervisory authorities, working groups and other industry organisations. A selection of the most important websites can be found here:

	<a href="#">€STR: European Central Bank</a> <a href="#">EURIBOR: Emmi</a> <a href="#">Working Group on Euro Risk-Free Rates</a>
	<a href="#">Bank of England</a> <a href="#">Financial Conduct Authority</a>
	<a href="#">Federal Reserve Bank of New York</a> <a href="#">The Alternative Reference Rates Committee (ARRC)</a>
	<a href="#">SIX Swiss Exchange</a> <a href="#">National Working Group on Swiss Franc Reference Rates (SNB)</a>
	<a href="#">Bank of Japan</a> <a href="#">Cross-Industry Committee on Japanese Yen Interest Rates Benchmarks</a>
	<a href="#">ISDA</a>  <a href="#">Loan Market Association (LMA)</a>  <a href="#">LSTA</a>

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