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Newsletter IBOR Reform 10/2021

Compilation by the Helaba IBOR Task Force

Last Update 14 October 2021

Foreword by Helaba IBOR Task Force

Ladies and Gentlemen,

In our August newsletter dd. 4 August 2021 we reported in detail on the numerous, recent developments in the most important currency regions affected by the IBOR reform. In our October newsletter we would like to provide you with an update and share our market observations with you. As always, we have focused on aspects that might be important to you. Our compilations do not claim to be complete.

The transition to new, risk-free rates (RFRs) is progressing rapidly. Until the end of the year and the discontinuation of the EONIA as well as the GBP/CHF/JPY/EUR LIBOR reference rates, numerous legacy contracts still have to be converted. This is very time-consuming on a broad scale. For this reason, work is already underway on an EU implementing act for the conversion of EONIA to €STR and CHF LIBOR to SARON, in order to use legal regulations to absorb contracts that cannot be settled individually between the contracting parties by 31 December 2021. The FCA is considering the use of synthetic rates for GBP and JPY LIBOR after 31 December 2021 to facilitate the settlement of existing business. Although the clear recommendation is to actively agree on contract conversions before the end of the year, these legal acts provide market participants with a solution should a timely agreement not be reached. For USD legacy business, most USD LIBOR rates will still be available until 30 June 2023. It will be interesting to see if the forward-looking Term SOFR rate, which comes closest to USD LIBOR in its application, will become established in the European market not only for special business but on a broader scale.

We would like to encourage everyone, where applicable, to work towards a timely transition. All new business transactions must be concluded directly on an RFR basis from 2022 at the latest. In this respect, it is important to prepare accordingly in good time.

Due to the continuous flow of information, which often necessitates a renewed assessment of the situation and, if necessary, also entails adjustments to the options for action, we are at your disposal - also repeatedly - for a personal exchange. We would be happy to discuss the latest information and market practices with you and support you and your companies in the transition to the new reference rates.

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.

Highlights and Market Observations since 4 August 2021 (1/3)

- For new business, EONIA and USD/GBP/CHF/JPY/EUR LIBOR rates will no longer be available from 2022 onwards.
- Market participants are requested to actively convert existing financings in EONIA and GBP/CHF/JPY/EUR LIBOR to the new Risk Free Rates (RFRs) by the end of 2021.
- The conversion of loan agreements is progressing rapidly - deadline 31 December 2021.
- Depending on the operational capability of all parties involved, transition to new benchmarks will take place at the start of the contract or with a rate switch mechanism and transition by 31 December 2021 at the latest.
- The 1W and 2M USD LIBOR rates will be discontinued as of 31 December 2021. Most USD LIBOR rates can still be used for existing business until 30 June 2023.
- The Alternative Reference Rates Committee (ARRC) announced at the end of July 2021 that, as an alternative to the backward-looking SOFR, a forward-looking Term SOFR rate could be used for multi-lender facilities if a switch to the robust SOFR and SOFR average rates proves difficult. As of yet a Term SOFR derivatives market has still to evolve to allow adequate refinancing of Term SOFR based loans. The establishment of market conventions and contractual implementation is still in its infancy.
- Up to the time of the ARRC publication in July 2021, USD LIBOR had usually been switched to Compounded SOFR in arrears, a rate that continues to be recommended by both ARRC and the UK Financial Conduct Authority (FCA) due to its robustness. Since then, particularly in the European market, a partial wait-and-see attitude on the part of clients regarding the USD LIBOR transition and the following examples of action have been observed:
  - Temporary (partial) suspension of currency options, so that all benchmarks to be adjusted can be arranged in one contract amendment.
  - Transition of the other IBOR currencies, but holding out on the USD, i.e. no arrangements yet for the USD LIBOR.
  - As a precaution transition of USD LIBOR to Compounded SOFR in arrears with a rate switch in 2023, but further amendment possible before the rate switch date.

Highlights and Market Observations since 4 August 2021 (2/3)

- Contracts that contain a USD LIBOR rate switch mechanism could still be converted to Term SOFR by contract adjustment up to the rate switch date if the borrower so desires.
- When considering possible alternative courses of action, the operational preparation for the implementation plays a role in addition to company requirements for currency options and capacities/costs for the contractual changeover.
- Recommendations for action are made on the basis of current developments to the best of our knowledge and may under certain circumstances change during the course of the IBOR transition phase due to new market developments and the continuous flow of information, which often makes a renewed assessment of the situation necessary and may also result in adjustments to the options for action. The introduction of the Term SOFR rate is a good example of this.
- Recommendations for action are not only dependent on the general market situation, but often also on the country of domicile of the agent / IBOR transition coordinator and the local requirements/guidelines/developments, which may also shape preferences and lead to different recommendations from different banks.
- A consultation process is currently underway by the EU Commission for a draft implementing act on the EONIA:
  - Scope: All contracts and financial instruments without an EONIA adjustment provision
  - Substitution of the EONIA by the €STR plus an adjustment spread of 0.085%
  - Entry into force of the implementing act as of 3 January 2022 (corresponds to last publication of the EONIA)

Replaced benchmark	Replacement Rate	Spread Adjustment Value (%)
EONIA ISIN EU0009659945	Euro short-term rate (€STR) ISIN EU000A2X2A25	0.085

https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13120-Interest-rates-Statutory-replacement-rate-for-the-EONIA-benchmark_en

- Contractual adjustments are also necessary if temporary use is made of an implementing act. Nevertheless, temporary use of the implementing act on the EONIA could be a temporary alternative course of action in the following cases:

Highlights and Market Observations since 4 August 2021 (3/3)

- The optional contract currency is the USD. The client would like to wait for the market developments on the Term SOFR rate and only then decide whether to switch the contract to Term SOFR or Compounded SOFR in arrears. The EONIA is only used in the calculation of late payments. These are assessed by the contract participants as not likely for the next few months. In case of doubt, they would be covered by the EU Implementing Act. The contract transition for USD LIBOR and EONIA could take place as soon as it has been clarified for the client which SOFR rate he would like to work with.
- Initial situation for USD as above. The EONIA is used for the swingline. As the credit facility has backup character, it is not expected that the swingline will be used. The contract transition for USD LIBOR and EONIA could take place as soon as it has been clarified for the customer which SOFR rate he would like to work with. Should the swingline be used until the contract is adjusted, the regulations of the EU Implementing Act would apply. The risks of relying on legal regulations could be considered acceptable by the parties, not least because of the limited period of application. In this way, the contract would not have to be amended twice in a capacity- and cost-intensive manner.

We recommend to exchange with your agent and your banking group on what is important to you. A lean waiver process might help to fix an intermediate problem. Please let us know, if we can support you with tailor-made solutions.

- EURIBOR fallback clauses
  - The (reformed) EURIBOR can continue to be used as a "forward-looking" reference rate beyond 31 December 2021 until further notice.
  - Nevertheless, contracts must determine fallback solutions that would take effect if EURIBOR were to be permanently discontinued as a reference rate. Currently, these are mostly abstract / flexible default descriptions.
  - On 11 May 2021, the Working Group on Euro Risk-Free Rates published recommendations on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates after taking into account the results of two public consultations. We have not observed any significant new developments with regard to the contractual implementation.
    https://www.ecb.europa.eu/pub/pdf/other/ecb.recommendationsEURIBORfallbacktriggereventsandESTR.202105~9e859b5aa7.en.pdf

Highlights and Market Observations since 4 August 2021 (1/3)

- Transition of GBP and JPY LIBOR transactions is progressing. Due to the high number of contracts to be transitioned, probably not all transactions will be amended until the end of this year.
- Therefore, the UK's Financial Conduct Authority (FCA) encourages market participants to actively move along with the transitions, but also prepares for supporting the market with the publication of synthetic rates for a still to be defined range of legacy business.
- In this context and following its consultation proposals on this issue in June 2021, the FCA confirmed on 29 September 2021, that it will require ICE Benchmark Administration Limited to continue to publish 1/3/6M GBP and JPY LIBOR settings under a 'synthetic' methodology. The synthetic GBP and JPY LIBOR rates would be calculated using a forward-looking term version of the relevant risk-free rates SONIA and TONA together with the fixed ISDA spread adjustments published on 5 March 2021 by Bloomberg, which are being used in the derivatives business. Publication is expected to be limited to the period 4 January 2022 to 31 December 2022.
    - In a consultation running until 20 October 2021, the FCA proposes to permit legacy use of synthetic GBP and JPY LIBOR in all contracts except cleared derivatives at least for the duration of 2022. Clearing houses plan to transition all cleared GBP, JPY, CHF and EUR LIBOR contracts to risk-free rates by the end of 2021.
    - The FCA is obligated to review its power to require publication of a ceasing benchmark (i.e. synthetic LIBOR) at least annually. No renewal is intended for the synthetic JPY rates, which will cease at the end of 2022. Should for example work to reduce the stock of outstanding legacy LIBOR contracts not continue, the FCA would also consider progressively restricting continued permission to use synthetic LIBOR in legacy contracts if this would help maintain progress towards an orderly cessation.
    - Before year-end the FCA will decide and specify which legacy contracts are permitted to use these synthetic LIBOR rates. Given the temporary nature of the synthetic LIBOR rates, the FCA has emphasised that market participants should continue to focus on active transition rather than relying on synthetic LIBOR. New business has to be contracted on SONIA and TONA basis from 1 January 2022 onwards. https://www.fca.org.uk/news/press-releases/further-arrangements-orderly-wind-down-libor-end-2021

Highlights and Market Observations since 4 August 2021 (2/3)

- In its consultation the FCA also proposes to prohibit most new use of overnight 1/3/6/12M USD LIBOR after end-2021 in line with US guidance and existing FCA and PRA (Prudential Regulation Authority/Bank of England) supervisory expectations. Its decisions to require publication of synthetic GBP and JPY LIBOR settings cannot be seen as determinative of any future decisions in respect of US dollar LIBOR from end-June 2023.
- We can only stress the importance of a timely transition of GBP and JPY LIBOR. The new risk-free rate benchmarks SONIA and TONA are available and have to be used for any new business. Furthermore, profound market conventions have developed in recent months. By choosing an active transition approach parties can agree on their preferred terms. They thus prevent being dependent on the actions of the FCA in terms of timing regarding a “scope of use” announcement or potential restrictions on the use of synthetic rates if the conversion activities do not continue as expected.
- In total, a timely transition before year-end 2021 would be the safest solution. In this respect, the use of synthetic LIBOR rates should, in our opinion, only be considered as an absolute emergency solution.
- For multicurrency credit facilities with back-up character that beside of GBP and/or JPY also contain USD as optional currency and where clients explicitly prefer to wait until 2022 to take care of the transition of USD LIBOR and GBP/JPY LIBOR at the same time, a temporary (partial) suspension of currency options might be an alternative.
- It should be considered that the number of contracts being amended will further increase towards the year-end and that sufficient time should be allowed for the transition also taking into account potential capacity restrictions at banks and law firms.
- To help market participants facilitate and streamline the amendment process, the Loan Market Association (LMA) has provided a practical guidance for the documentary amendment process to transition legacy LIBOR syndicated loan facilities to compounded risk-free rates.

  https://www.lma.eu.com/application/files/9116/2797/7360/Transitioning_to_RFRs_-_Practical_guidance_for_Amendments.pdf

Highlights and Market Observations since 4 August 2021 (3/3)

- HM Treasury has introduced the Critical Benchmarks (References and Administrators' Liability) Bill to Parliament. The Bill aims to reduce the scope for uncertainty and litigation arising from the withdrawal of a key interest rate which is used as a “benchmark” in the UK financial system. It therefore supports the wind-down of benchmarks and powers given to the FCA. The Bill is supposed to provide immunity to critical benchmark administrators due to requirements imposed by the regulator and greater legal certainty that tough legacy contracts can continue to operate using the designated benchmark. In addition, the Bill contains provisions on fallback arrangements, with no intention to override contracts that provided for alternative arrangements before or during LIBOR’s wind-down. On 13 October 2021, members of the House of Lords considered the key purpose and principles of the Critical Benchmarks Bill at its second reading. The committee stage, when the Bill will be considered line by line for the first time, has not yet been set.

  https://researchbriefings.files.parliament.uk/documents/LLN-2021-0023/LLN-2021-0023.pdf

Highlights and Market Observations since 4 August 2021 (1/2)

- On 16 September 2021, the Swiss Financial Market Supervisory Authority (FINMA) issued further guidance on the transition away from LIBOR, provided best practices for market participations as well as an update on the transitions status of legacy contracts:
  - Since the start of 2020 legacy contracts without robust fallbacks have been reduced by almost 90%. However, some areas, like the syndicated loan market, are lagging behind. Since the beginning of 2021 contracts without robust fallback clauses have only been reduced by 28%. Consequently, FINMA is therefore repeating its appeal to the banks to actively contact the syndicate banks and borrowers in order to amend the relevant credit agreements and achieve legal certainty for the future.
  - The milestone to contract new business directly on risk-free rates from July 2021 onwards also applies to USD. In this context FINMA also appealed to supervised institutions that high priority should be accorded to amending GBP and JPY LIBOR legacy contracts before year-end 2021.
  - FINMA will consider disregard for the cessation of LIBOR-based new business transactions in the second half of 2021 as a violation of the supervisory requirements with regard to adequate risk management, save for limited and documented exceptional cases. FINMA will therefore take institution-specific measures, where necessary, to mitigate the risks of inadequate preparation for the LIBOR transition. This is relevant for banks under FINMA supervision.

    https://www.finma.ch/en/news/2021/09/20210916-meldung-finma-aufsichtsmitteilung-3-21/

- A consultation process is currently underway by the EU Commission for a draft implementing act on the CHF LIBOR:
  - Scope: All contracts and financial instruments without an CHF LIBOR adjustment provision
  - Entry into force of the implementing act as of 1 January 2022
  - The following rates are designated as replacement for the CHF LIBOR in contracts and financial instruments as referred to in Article 23a of Benchmarks Regulation:

Highlights and Market Observations since 4 August 2021 (2/2)

→ 1/3/6/12M CHF LIBOR is replaced by 1/3/6/12M compounded Swiss Average Rate Overnight (SARON), as observed over the 1/3/6/12-month period preceding the interest period.

- The spreads published on 5 March 2021 (historical median spread between CHF LIBOR and the respective SARON) are added to these fixed replacement rates as a fixed spread adjustment for each relevant maturity.

LIBOR	TENOR	Replacement Rate	Spread Adjustment Value (%)
CHF	1M	SARON 1 month Compound Rate (SAR1MC)	-0.0571
		ISIN CH0477123886	
CHF	3M	SARON 3 months Compound Rate (SAR3MC) ISIN CH0477123902	0.0031
CHF	6M	SARON 6 month Compound Rate (SAR6MC) ISIN CH0477123910	0.0741
CHF	12M	SARON 12 month Compound Rate (SAR12MC) ISIN CH0477123936	0.2048

Source: EU draft implementing regulation

- Credit institutions and other financial institutions that are a party to a CHF LIBOR contract shall inform their counterparts of the change in the rate and the effects on their contracts in writing and not later than thirty days before the statutory replacement rate starts to apply.

  https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13177-Interest-rate-benchmarks-statutory-replacement-rate-for-Swiss-Franc-LIBOR-CHF-LIBOR-_en

The extent to which the EU implementing legislation will actually be implemented by the end of 2021 cannot be conclusively assessed at the time of publication of this newsletter. It is advisable to also individually follow further developments in this regard.

Highlights and Market Observations since 4 August 2021 (1/3)

- In a series of five SOFR Symposiums the Alternative Reference Rates Committee (ARRC) covered various transition topics from lessons learned on reference rates to the experience of transitioning away from LIBOR and how SOFR supports these efforts as well as the impacts of U.S. supervisory guidance about the transition.

  https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/20210414-sofr-symposium-home-page

- Following its formal recommendation of the SOFR Term Rate the ARRC published Frequently Asked Questions (FAQs) on best practices in relation to the scope of use of the CME SOFR term rates (SOFR Term Rate).

  https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC-Scope-of-Use-FAQ.pdf

- On 6 October 2021, the ARRC published a summary of its current recommendations relating to its fallback language and state legislation referencing ARRC-recommended fallbacks in order to provide market participants with a central document setting out all of its recommendations in relation to spread-adjusted fallbacks for contracts referencing USD LIBOR. The ARRC-recommended spread adjusted fallbacks are intended for voluntary use by market participants for USD LIBOR contracts that contain the ARRC-recommended hardwired fallback language or for legacy USD LIBOR contracts where a spread-adjusted SOFR may be selected as a fallback. They would also apply to USD LIBOR contracts covered by state legislation referencing the ARRC-recommended fallbacks.

  https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/spread-adjustments-narrative-oct-6-2021

- Given the transition deadlines, the ARRC has been recommending to stop using USD LIBOR for new contracts, instead using the various forms of SOFR available. Where possible, legacy contracts should be amended by a timely implementation of its fallback recommendations. Alternatively, contracts should be renegotiated. Federal legislation provides a critical safe harbour for contracts without effective fallbacks (so called tough legacy contracts).

- On 14 October 2021, the ARRC published a recommendation that all market participants should act now to slow their use of USD LIBOR and leverage the time until year-end as a key window to reduce such activity to promote a smooth end to new LIBOR contracts by the end of the year. The ARRC is of the opinion that a proactive slowdown of new USD LIBOR contracts should apply across markets and across the full range of derivatives and cash products, including but not limited to syndicated and bilateral

Highlights and Market Observations since 4 August 2021 (2/3)

loans. Proactively slowing new use of LIBOR will support firms' efforts to safely meet the supervisory guidance as they enter the final months of the year, when year-end deadlines may impose resource constraints and potential limitations on system changes and testing. The ARRC is aware of firms being at different stages in their transition plans, but all market participants should be ready for the year-end U.S. regulatory deadline.

- As the ARRC seeks clear and timely final regulations to facilitate a smooth market-wide LIBOR transition, its Accounting/Tax Working Group released a comment letter to the Treasury on alternatives to the fair market value requirement.

  https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC_FMV_alternatives.pdf

- The ARRC's Securitization Working Group published a supplemental update to its recommended contractual fallback language for USD LIBOR securitisations to amend the definition of a Benchmark Trigger Event within the recommended fallback language. This was done to acknowledge occurrence of a Benchmark Trigger Event as a result of the March 2021 announcement of the FCA and the ICE Benchmark Administration.

  https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Securitization_Fallback_Language.pdf

- Various official bodies like the New York Fed, the Office of the Comptroller of the Currency (OCC) and the Financial Industry Regulatory Authority (FINRA) provided supervisory guidance and stressed the urgency of a timely transitioning away from LIBOR to robust new benchmarks, as from 2022 onwards new business has to be contracted on new risk-free benchmarks, and a timely preparedness of market participants.

  https://www.newyorkfed.org/newsevents/speeches/2021/hel210915

  https://www.occ.gov/news-issuances/congressional-testimony/2021/ct-occ-2021-79-written.pdf

  https://www.finra.org/rules-guidance/notices/20-26

Highlights and Market Observations since 4 August 2021 (3/3)

- Refinitiv, being the ARRC's preferred spread adjustment vendor, launched a prototype publication of the ARRC's recommended spread adjustments and spread adjusted rates for cash products on 11 August 2021.
  - The initial prototype will not have fallbacks based on the SOFR term rate, but will be incorporated in a second iteration based on the ARRC's recommendation of the CME term rates.
  - The USD IBOR Cash Fallbacks prototype is intended to support market participants including borrowers and lenders with their transition away from USD LIBOR. Fallbacks will be published to 5 decimal places and are being available in two versions: one for consumer cash products, the other for institutional cash products.
  - Refinitiv USD IBOR Consumer Cash Fallbacks will be published in 1/3/6M tenors, both with and without a floor, and are based upon compound SOFR in advance plus the spread adjustment, which will gradually be introduced during the 12 months immediately following 30 June 2023.
  - Refinitiv USD IBOR Institutional Cash Fallbacks will be published in up to 7 tenors (Overnight, 1W, 1/2/3/6/12M) and are available in a number of different versions. The Adjusted SOFR component includes SOFR compound in arrears, Daily Simple SOFR and SOFR compound in advance. Each of the SOFR compound in arrears and Daily Simple SOFR rates will be available with and without a lookback, observational shift, and lockout. A spread adjustment is added to the rate without a transition period.

  https://www.refinitiv.com/en/media-center/press-releases/2021/august/refinitiv-launches-usd-ibor-cash-fallbacks-prototype-to-facilitate-industry-transition-from-usd-libor

  https://www.refinitiv.com/content/dam/marketing/en_us/documents/fact-sheets/refinitiv-usd-ibor-cash-fallbacks-factsheet.pdf

Highlights and Market Observations since 4 August 2021 (1/3)

- Users of benchmarks should consider the robustness and reliability of the benchmarks they choose and ensure that they have reliable fallback mechanisms that can be used if necessary.
- This is also highlighted by a statement the Board of the International Organization of Securities Commission (IOSCO) released on 8 September 2021 on the use of credit sensitive rates (CSRs). In light of some of the alternative benchmarks being suggested as replacement for LIBOR rates the IOSCO emphasised the need for robust alternative financial benchmarks that are compliant with its Principles on Financial Benchmarks in the transition away from LIBOR. Administrators were advised to pay particular attention to Principles 6 and 7, and to evaluate whether such benchmarks are based on active markets with high volumes of transactions, are representative of those markets, and resilient during times of stress. Administrators of CSRs should consider how their benchmarks would continue to meet Principles 6 and 7 over time if use of that benchmark became widespread. In the absence of such controls, IOSCO warns that the use of CSRs with insufficient underlying transaction volumes could lead to issues similar to those with using LIBOR, which in turn would lead to problems related to market integrity, conduct risks and financial stability risks. The use of a risk-free-rate with a deep underlying market, such as SOFR, could avoid these risks to financial stability.

  https://www.iosco.org/library/pubdocs/pdf/IOSCOPD683.pdf

Highlights and Market Observations since 4 August 2021 (2/3)

- Recent releases by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks include:
  - The Committee's feedback to the FCA's Consultation on proposed decision under Article 23D Benchmarks Regulation for the 1/3/6M GBP and JPY LIBOR settings, also supporting the FCA's decision to use its legal powers to help the JPY LIBOR transition. In addition, the Committee encourages market participants to actively transition legacy contracts and instruments before the end of 2021 by either using an active conversion or by inserting robust fallback languages.

    https://www.boj.or.jp/en/paym/market/jpy_cmte/data/cmt210826a1.pdf
  - A statement from the Working Group on Currency Swaps that supports the recommendation of the Cross Currency Basis Swap Subgroup of the Alternative Reference Rates Committee (ARRC), that interdealer trading conventions for cross-currency swaps involving CHF, GBP, JPY and USD LIBOR move to each currency's respective RFR as of 21 September 2021.

    https://www.boj.or.jp/en/announcements/release_2021/rel210813b.pdf
- The Australian Taxation Office (ATO) asked market participants for feedback on the common tax implications of the LIBOR cessation and other aspects of IBOR reform. The feedback will be used by ATO to provide advice and guidance.

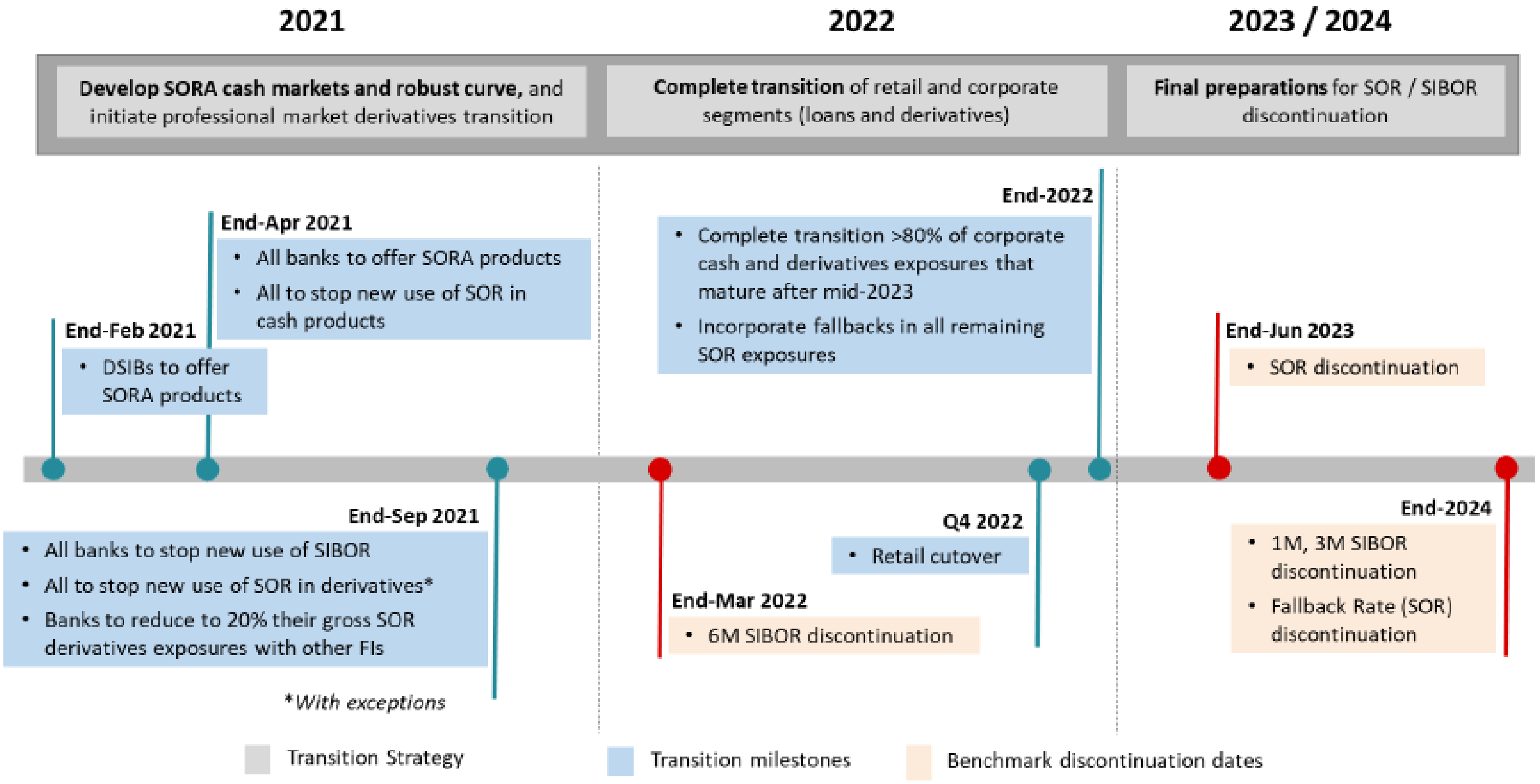
  https://www.ato.gov.au/law/view/document?DocID=TDP/TDP20211/NAT/ATO/00001
- A circular issued by the Hong Kong Monetary Authority (HKMA) on 19 August 2021 outlines the exceptional circumstances in which banks can continue to issue new USD LIBOR-linked contracts after 2021. While the HKMA has requested authorised institutions to cease entering new LIBOR contracts after 2021 it also accepts certain risk management related exceptions.

  https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210819e1.pdf

Highlights and Market Observations since 4 August 2021 (3/3)

- The Association of Banks in Singapore updated its booklet "Timelines to Cease Issuance of SOR and SIBOR-Linked Financial Products" originally published on 31 March 2021. The updates include clarification on the wind-down recommendations for SOR derivatives and exposures, as well as FAQs on ceasing new SOR-linked and SIBOR-linked loans.

  https://abs.org.sg/docs/library/timelines-to-cease-issuance-of-sor-derivatives-and-sibor-linked-financial-products-version-1-1.pdf



Extract from „Timelines to Cease Issuance of SOR and SIBOR-linked Financial Products“

Highlights and Market Observations since 4 August 2021 - Derivatives Markets (1/3)

- On 4 August 2021, the ICE Benchmark Administration (IBA) announced that it will cease the publication of *GBP LIBOR ICE Swap Rate* for all tenors immediately after publication on 31 December 2021. The announcement followed after the consideration of feedback received in conjunction with a corresponding consultation on the potential for the cessation of GBP LIBOR ICE Swap Rate.
- Consequently, users of the GBP LIBOR ICE Swap Rate benchmark should take account of its upcoming cessation and ensure their contractual and other arrangements linked to the benchmark contain appropriate fallback or other arrangements to address the cessation.
- Other ICE Swap Rate settings like USD LIBOR ICE Swap Rate, EUR ICE Swap Rate or GBP SONIA ICE Swap Rate were not part of the consultation and will continue to be published after 31 December 2021.
- After launching SONIA indices for GBP in April 2021, on 22 September 2021, IBA launched ICE risk-free rate (RFR) indices for USD (SOFR), EUR (€STR) and JPY (TONA) RFRs. These indices are designed to simplify and standardise the calculation of interest for financial contracts referencing an RFR.
  - Option for lookback: Parties can agree to use a lookback (time-shifted view) of the underlying RFR, so that total interest due on a loan can be determined before the end of the accrual period. This allows borrower and lender to agree on the interest amount and ensure that payment is cleared on the appropriate day.
  - Daily values: The indices provide values for every calendar day to facilitate accounting for loan accruals on reporting dates that are not business days.
  - Zero Floor Option: For providing a solution to concerned lenders that an RFR may fall below 0%, the indices also provide an option with a floor of 0%.

  https://www.theice.com/iba/rfr-indexes
  https://www.theice.com/publicdocs/ICE_Risk_Free_Rate_Indexes_Overview.pdf

Highlights and Market Observations since 4 August 2021 - Derivatives Markets (2/3)

- As of 9 August 2021, the British Clearing House LCH transitioned the Price Alignment Interest and Price Alignment Amount from Singapore Swap Offer Rate (SOR) to Singapore Overnight Rate Average (SORA) in applicable SwapClear contracts. In addition, in place of SOR LCH started using SORA-based instruments for discounting.

  https://www.lch.com/membership/ltd-membership/ltd-member-updates/transition-sor-sora-paipaa-discounting

- On 18 August 2021, to assist with amending the terms of certain ISDA collateral agreements, ISDA published the ISDA 2021 European overnight index average (EONIA) Collateral Agreements Fallbacks Protocol. The protocol can be used by market participants to have legacy EONIA contracts fallback to the euro short-term rate (€STR) plus 8.5 basis points when EONIA is discontinued.

  https://www.isda.org/a/jkTgE/ISDA-2021-EONIA-Collateral-Agreement-Fallbacks-Protocol.pdf

- On 14 September 2021, ISDA published data on its ISDA-Clarus Risk-Free Rate Adoption Indicator which tracks how much global trading activity is conducted in cleared over-the-counter and exchange-traded interest rate derivatives referencing RFRs across six major currencies, i.e. USD, EUR, GBP, JPY, AUD and CHF. The Indicator increased from 14.1% in July to an all-time high of 17.5% in August since data collection started in July 2018.

  https://www.isda.org/2021/09/14/isda-clarus-rfr-adoption-indicator-august-2021/

- The American Global Markets Company CME Group reported in its August 2021 statistics a 195% rise in average daily volume of SOFR futures.

  https://www.cmegroup.com/media-room/press-releases/2021/9/02/cme_group_reportsaugust2021monthlymarketstatistics.html

Highlights and Market Observations since 4 August 2021 - Derivatives Markets (3/3)

- Following the successful completion of the first phase of the "SOFR First" initiative, which saw interdealer conventions transition to trade Secured Overnight Financing Rate (SOFR) linear swaps in place of USD LIBOR, and the ARRC's formal recommendation of Term SOFR, SOFR use has picked up significantly. According to Clarus data, SOFR trading now accounts for 30% of the USD market.

- Starting on 21 September 2021, interdealer trading conventions for cross-currency basis swaps between USD, JPY, GBP and CHF LIBOR moved to each currency's risk-free rate (RFR). The Interest Rate Benchmark Reform Subcommittee of the Commodity Futures Trading Commission (CFTC) Market Risk Advisory Committee (MRAC) recommended this move as a market best practice modeled after the "SONIA First" best practice in the UK. The ARRC, Bank of England, U.K. FCA and others showed support for the "RFR First" move of interdealer cross currency swap market trading conventions.

- The US Treasury Department, Federal Reserve, SEC and CFTC published a response to a letter from the Center for Capital Markets Competitiveness at U.S. Chamber of Commerce regarding LIBOR transition concerns. The Treasury, Federal Reserve, SEC and CFTC reiterated the importance of financial institutions offering LIBOR alternatives, such as SOFR, as soon as possible to meet the needs of borrowers seeking loan agreements.

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:

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

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