Benchmark Reform – New Reference Rates

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The announcement the market has been waiting for …

- The UK's Financial Conduct Authority (FCA) announcement on the 5th March confirms that all LIBOR settings will either cease to be published by an administrator or cease to be provided on a representative basis**.**
- As a result of the announcement;
  - ISDA – Constituted an 'index cessation event' under the ISDA IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings
  - Bloomberg – Published the official spread adjustments for all 35 LIBOR settings, fixed as of the 5th March 2021[1]
- The announcement follows the completion of the ICE Benchmark Administration Limited (IBA) consultation on its intention to cease publication of LIBOR in its various currency-tenor settings as the administrator of LIBOR.
- Although one bank will leave the USD panel at the end of 2021, the FCA clarified that LIBOR settings are likely to remain representative until the-end-dates included in their announcement.
- US banking supervisors have encouraged banks to cease entering into new contracts that use USD LIBOR as soon as practicable and in any event by December 31, 2021 but recognize that there may be limited circumstances for a bank to enter into new contracts after that date.
- Authorities across the globe welcomed the news:

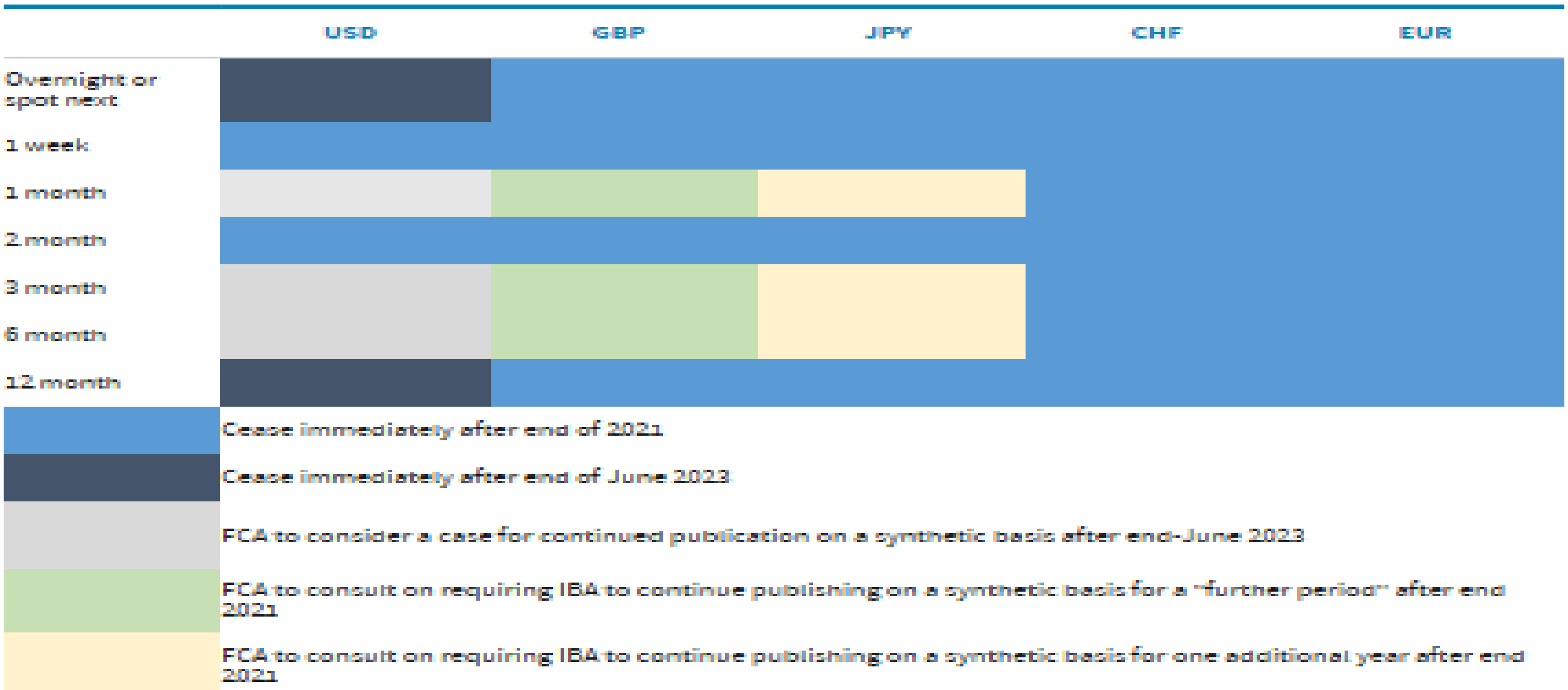
Bank of England Governor Andrew Bailey:
'Today's announcements mark the final chapter in the process that began in 2017, to remove reliance on unsustainable LIBOR rates and build a more robust foundation for the financial system. With limited time remaining, my message to firms is clear – act now and complete your transition by the end of 2021[2].'

Financial Stability Board Co–Chair and President of NY Federal Reserve Bank John Williams:
"LIBOR's flaws were exposed over a decade ago and the intervening years revealed just how challenging it is to move away from an unsound rate. With LIBOR's endgame now clear and knowing we want to avoid going through such a transition again, market participants need to swiftly move to robust reference rates,[3]"

1 https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation_Announcement_20210305.pdf
2 https://www.fca.org.uk/news/press-releases/announcements-end-libor
3 https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC_Press_Release_Endgame.pdf

FCA provides roadmap going forward

- As part of their announcement, the FCA outlined a timetable and next steps for each LIBOR setting.
- Subject to FCA consultation, any ‘synthetic’ LIBOR which may be published will no longer be representative of the underlying market and is therefore not intended to be used for any new business.
- A ‘synthetic’ LIBOR publication is intended to support instances where removing a LIBOR setting from a product or service is not easily achieved ahead of the LIBOR settings ceasing (“tough legacy” contracts). The FCA will define which legacy contracts will be permitted to use ‘synthetic’ LIBOR.
- For USD LIBOR, the FCA will consider the case for continued publication on synthetic basis after end of June 2023



Source: FCA, Barclays Research

The work continues for market participants

- Responses due for the HM Treasury consultation on a safe-harbour provision proposed to be included in the Financial Services Bill.
- FCA to publish two consultations:
  - Using its proposed new powers that the UK government is potentially legislating to grant to it under the Benchmarks Regulation (BMR) to require continued publication of some LIBOR settings on a 'synthetic' basis
  - The 'tough legacy' definition and potential instruments and contracts to be in scope to use a 'synthetic' LIBOR to ensure an orderly wind-down
- CCP conversion of cleared swaps from LIBOR to RFR
- Supervised firms to expect tighter examination from authorities on their transition progress
- Legislative solutions currently in progress aimed at addressing legacy contracts (e.g. do not have fallback language or that fall back to a rate based on LIBOR (such as last quoted LIBOR)
  - US – Included in the NY State Legislation, allows specific contracts to fall back to the "recommended benchmark replacement"
  - UK – Financial Services Bill with Parliament (announcement expected in Q2)
  - EU - European Commission – to begin the process of designating the statutory fallback rates for LIBOR under the new mechanism that was published in the Official Journal of the EU earlier in February with the review of the EU BMR.

15 March 2021	Q2 2021	18 Oct 2021	Est Dec 2021
Responses due HMT Consultation **on safe** harbours under the Financial Services Bill	FCA expected to publish consultations exploring 1) Defining 'tough legacy' 2) Using their new proposed powers under the BMR	CCP's perform EONIA to €STR conversion exercise	CCP's perform LIBOR to RFR conversion exercise

Term Rates

Forward looking term rates

- International regulators expect the majority of market participants to use compounding in arrears

- Jurisdictions are in different stages of development and moving at different speeds

- There are some legitimate uses for a forward looking term rate, although the possibility for production of a robust rate is still unclear
  - **CHF**: authorities have announced no forward looking term rate to be published
  - **JPY**: published daily, still in 'beta' form with publication of live benchmark by end Q2 2021
  - **U**K: ICE and Refinitiv commenced publication of a Term SONIA Benchmarks in early Q1 2021
  - **EUR**: feedback from consultation on potential use cases for a forward looking €STR rate-expected in early Q2 2021. Authorities have expressed concerns of the robustness of a term rate due to low volumes and concentration risk
  - **USD:** anticipating forward looking SOFR by mid 2021, volumes still a concern. Discussions continue on the need for a credit sensitive benchmark, numerous alternatives currently in 'beta' form or live.

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