Alternative Reference Rates Committee

Guide on the Endgame for USD LIBOR*

On November 30, 2020, U.S. and UK regulators and LIBOR's administrator made a series of announcements regarding the end of U.S. Dollar (USD) LIBOR. A few months later, on March 5, 2021, LIBOR's administrator and regulator provided further detail on precisely when LIBOR panels will end. Together, these announcements propose a clear and certain endgame for USD LIBOR.

But what do they mean and how do they fit with the work of the Alternative Reference Rates Committee (ARRC)? *Here's what you need to know.*

What key announcements were made in November 2020?

Key Announcement by LIBOR's Administrator:

ICE Benchmark Administration (IBA)

IBA announced that it would consult on when to end the publication of various USD LIBOR tenors. If adopted, these proposed plans would cease the major USD LIBOR tenors in mid-2023 [overnight, 1M, 3M, 6M, 12M], and two little used USD LIBOR settings at the end of 2021 [1 week, 2M].

IBA started that consultation in early December 2020, as part of the same consultation as for GBP, EUR, CHF and JPY LIBOR settings. At the time of the announcement, IBA clarified that it expected to close the consultation by the end of January 2021.

Key Announcements by Supervisors:

The Federal Reserve Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency

These agencies issued supervisory guidance encouraging banks to stop entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021, in order to facilitate an orderly transition. The guidance explained that the June 30, 2023 cessation date should allow most legacy LIBOR contracts to mature, but noted that new USD LIBOR issuances after that "would create safety and soundness risks." Any issuance in 2021 should "either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's discontinuation."

The Financial Conduct Authority (FCA)

The FCA, LIBOR's regulator, welcomed and supported the proposed cessation dates, which would "incentivize swift transition, while allowing time to address a significant proportion of the legacy contracts that reference US$ LIBOR." The FCA said that it would coordinate with relevant authorities to consider whether and, if so, how to most appropriately limit new use of USD LIBOR by supervised entities in the UK. It noted that "We may exercise this power if we consider doing so protects consumers or market integrity" and that "We plan to consult in Q2 2021 on our proposed policy approach to the use of the power to prohibit some or all new use."

**This guide was initially was initially issued on December 4, 2020, then was updated on April 21, 2021 to reflect the definitive endgame announcements made on March 5, 2021.*

Statements Referring to These Announcements:

International Swaps and Derivatives Association (ISDA)

ISDA issued a statement about the key announcements, noting, "None of these statements constitute an index cessation event under the IBOR Fallbacks Supplement or the ISDA 2020 IBOR Fallbacks Protocol. Therefore, these statements will not trigger the fallbacks under the supplement or protocol (i.e., to the adjusted risk-free rate plus fixed spread adjustment) or have any effect on the calculation of the fixed spread adjustment. These statements will also not trigger fallbacks under the 2018 ISDA Benchmarks Supplement or its protocol."

The Federal Reserve Board

The Federal Reserve Board welcomed these developments which "lay out a path forward in which banks should stop writing new USD LIBOR contracts by the end of 2021, while most legacy contracts will be able to mature before LIBOR stops." Federal Reserve Board Vice Chair for Supervision Randall Quarles said the "plan ensures that the transition away from LIBOR will be orderly and fair for everyone—market participants, businesses, and consumers." Similarly, New York Fed President Williams and Official Sector Steering Group co-Chair John Williams said it represents, "critical steps in the effort to facilitate an orderly wind-down of USD LIBOR."

ARRC

The ARRC called the announcements a "major milestone," noting that it will accelerate market participants' use of the Secured Overnight Financing Rate (SOFR). ARRC Chair Tom Wipf said they "fully align with the ARRC's efforts, propose a clear path for ending USD LIBOR, and reinforce the importance of the transition to robust reference rates like SOFR."

Alternative Reference Rates Committee

Guide on the Endgame for USD LIBOR

ARRC
ALTERNATIVE REFERENCE RATES COMMITTEE

What key announcements were made in March 2021?

Key Announcements by LIBOR's Regulator and Administrator:

On March 5, 2021, the Financial Conduct Authority (FCA) and ICE Benchmark Administration (IBA) made announcements clarifying precisely when LIBOR panels will end. These announcements served to fix the spread adjustments in the IBOR Protocol offered by ISDA.

IBA stated that the feedback on its December 2020 consultation confirmed its proposed dates to stop publishing USD LIBOR on a representative basis. Specifically, the FCA announced that the publication of LIBOR on a representative basis will cease for the one-week and two-month USD LIBOR settings immediately after December 31, 2021, and the remaining USD LIBOR settings after June 30, 2023.

As a follow-up to the issuance of the U.S. banking agency guidance on LIBOR transition on November 30, 2020, the Federal Reserve issued guidance to assist examiners in assessing supervised firms' progress in preparing for the transition. The guidance notes that supervised firms that are not making adequate progress in transitioning away from LIBOR could create safety and soundness risks for themselves and for the financial system. Accordingly, examiners should consider issuing supervisory findings and other supervisory actions if a firm is not ready to stop issuing LIBOR-based contracts by December 31, 2021.

Subsequent Key Announcements:

International Swaps and Derivatives Association (ISDA)

These announcements should accelerate market participants' move away from USD LIBOR. On the heels of these developments, ISDA stated that the FCA's announcement constituted an "Index Cessation Event" under the IBOR Fallbacks Supplement (Supplement Number 70 to the 2006 ISDA Definitions) and the ISDA 2020 IBOR Fallbacks Protocol, which in turn triggers a "Spread Adjustment Fixing Date" under the Bloomberg IBOR Fallback Rate Adjustments Rule Book. When the panels for all USD LIBOR tenors apply after the end of June 2023 and the fallback rates apply, fallbacks for derivatives under ISDA's documentation would shift to forms of SOFR plus the spread adjustment that has now been fixed.

ARRC

On March 8, 2021, the ARRC confirmed that in its opinion, these announcements from IBA and FCA on future cessation and loss of representativeness of the LIBOR benchmarks constitutes a "Benchmark Transition Event" with respect to all USD LIBOR settings pursuant to the ARRC recommendations regarding more robust fallback language for new issuances or originations of LIBOR floating notes, securitizations, syndicated business loans, and bilateral business loans. The ARRC also released clarifying FAQs in conjunction with this statement.

The ARRC's Take:

In a press release, the ARRC shared its support for these important announcements from the FCA, ICE and ISDA.

ARRC Chair Tom Wipf encapsulated the ARRC's perspective when he stated: *"The end of this long transition road is clear. We now know when a representative USD LIBOR will end what its associated spread adjustments will be in no uncertain terms. As the ARRC continues driving the transition to SOFR forward, we have a straightforward plan for how this will work: with no new USD LIBOR contracts by the end of this year and further time for many legacy contracts to wind-down."*

Statements from the Public Sector:

The ARRC's press release also included supportive statements from leadership of the Federal Reserve Board and the New York Fed – co-conveners of the ARRC – and the Commodity Futures Trading Commission.

John Williams, President of the Federal Reserve Bank of New York and Co-Chair of the Financial Stability Board's Official Sector Steering Group: *"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."*

Randal Quarles, Vice Chair for Supervision at the Federal Reserve Board and Chair of the Financial Stability Board: *"Together with the actions taken at the end of last year, these announcements provide a clear end-date for USD LIBOR and a clear path for the change to alternative reference rates. As promised, the official sector has worked closely with all parties to ensure this transition is fair, transparent, and predictable. In the months ahead, supervisors will focus on ensuring that firms are managing the remaining transition risks."*

CFTC Acting Chairman Rostin Behnam: *"I applaud the statements by the FCA and IBA regarding the endgame for USD LIBOR. The market now has the clarity that it was seeking. The CFTC has played a leading role is providing appropriate regulatory relief to facilitate the transition away from LIBOR. Given the supervisory guidance from relevant U.S. authorities regarding no new USD LIBOR exposures post 2021, plus the best practices of the ARRC to achieve this outcome, we expect liquidity to shift away from USD LIBOR in the coming months. It is time for firms of all sizes, intermediaries, and end-users to start executing their plans to transition to SOFR and other robust alternative reference rates."*

Alternative Reference Rates Committee

Guide on the Endgame for USD Libor

ARRC
ALTERNATIVE
REFERENCE
RATES
COMMITTEE

Ok, so what does that actually mean? What are the key takeaways from these developments?

LIBOR's administrator (IBA) and regulator (FCA) have confirmed the endgame for USD LIBOR. IBA will cease publication of the one-week and two-month USD LIBOR tenors immediately after December 31, 2021, and the major tenors immediately after June 30, 2023. The period between end-2021 and mid-2023 is primarily intended to allow legacy contracts to mature.

These announcements are in line with U.S. supervisory guidance, which has stressed that entering into new contracts that use USD LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks. Key regulators have encouraged banks to cease entering into new contracts that use USD LIBOR as soon as practicable and stated that they will examine bank practices accordingly.

Given the announcements, what's on the horizon for USD LIBOR?

Overall:

The end of USD LIBOR is on the horizon. Everyone should continue to actively prepare to stop using LIBOR in new contracts by the end of 2021.

- The ARRC has a number of resources to support that effort, including recommended best practices and fallback language.
- The IBA has confirmed when it will stop publishing USD LIBOR on a representative basis. Specifically, the UK FCA announced that the publication of LIBOR on a representative basis will cease for the one-week and two-month USD LIBOR settings immediately after December 31, 2021, and the remaining USD LIBOR settings immediately after June 30, 2023.
- Legacy contracts will have time to mature through mid-2023.

Fallback Language:

When USD LIBOR ceases or is non-representative, contracts that contain fallback provisions will switch to a "fallback rate" that is triggered by those events. A "fallback rate" is the rate that a contract indicates should be used if the current rate referenced in that contract is not available.

- ISDA's latest fallbacks for derivatives and the ARRC's recommended fallbacks for cash products referencing USD LIBOR, would both fall back to forms of SOFR plus a fixed spread adjustment.
- ISDA determined that the IBA and FCA's March 5 statements constitute an "Index Cessation Event." Given that, the spread adjustments for fallbacks incorporated in ISDA's documentation – the calculation of the historical difference between LIBOR and SOFR – have now been set and will be applicable when the panels for all USD LIBOR tenors apply in June 2023 and the fallback rates apply.
- Note that, as some USD LIBOR tenors will stop publication before other tenors, ISDA's fallbacks will, where possible, interpolate using the still published representative LIBOR tenors until interpolation is not feasible (because there are no shorter and/or no longer tenors published on a representative basis).
- The fixed spread adjustments for USD LIBOR fallbacks will be based on a 5-year historical median of the spread between the relevant USD LIBOR tenor and SOFR.
  - The ARRC has stated its recommended spread adjustments for non-consumer cash products will be the same as ISDA's spread adjustments for USD LIBOR.
- The fallback rate referenced in ISDA's latest fallbacks is produced by Bloomberg in accordance with its IBOR Fallback Rate Adjustments Rule Book.

ALTERNATIVE REFERENCE RATES COMMITTEE

Given the announcements, what's on the horizon for USD LIBOR? (cont.)

The Setting of Spread Adjustments [See Appendix on Page 6 for relevant text directly from ISDA's IBOR Fallbacks Protocol and Bloomberg's IBOR Fallback Rate Adjustments Rule Book]:

The fixing of ISDA's spread adjustments takes place when there is a "Spread Adjustment Fixing Date" which can occur on or before the cessation date.

- A "Spread Adjustment Fixing Date" for all USD LIBOR tenors was triggered, and the ISDA spread adjustments were fixed, upon the FCA announcement. However, the date that ISDA's spread adjustment is fixed is not the same as when the fallback rate is applied.
  - Panel banks for the one-week and two-month tenors will cease after December 2021 and panel banks for the remaining tenors will cease after June 2023. In this case, the fallback rate (which comprises the fixed spread adjustment) will only be applied for all tenors after June 2023.
  - Between the end of December 2021 and the end of June 2023, if any contract subject to the latest ISDA fallback terms refers to the one week or two month tenors, the rate will be determined by linear interpolation.
- ISDA described the endgame for USD LIBOR in this respect in three key periods: now through end-2021; end-2021 to end-June 2023 and end-June 2023 onwards.

Confirmation of a Benchmark Transition Event

The announcements by IBA and FCA constitute a "Benchmark Transition Event" with respect to all USD LIBOR settings under ARRC-recommended fallback language.

- The occurrence of a Benchmark Transition Event does not require an immediate transition under ARRC-recommended fallback language. Actual transition under ARRC-recommended fallback language is based upon the "Benchmark Replacement Date," which is expected to be on or immediately after the following dates for USD LIBOR settings pursuant to the announcements:
  - December 31, 2021 for 1- week and 2-month USD LIBOR, and
  - June 30, 2023 for Overnight, 1-month, 3-month, 6-month, and 12-month USD LIBOR.

Guide on the Endgame for USD Libor

ARRC
ALTERNATIVE REFERENCE RATES COMMITTEE

Given the announcements, what's on the horizon for USD LIBOR? (cont.)

Legislation:

While most legacy USD LIBOR contracts will be able to mature by mid-2023, a significant portion of contracts will mature after that, including those without effective means to replace LIBOR, as well as those that do not have fallbacks or reference LIBOR in fallbacks, allowing parties to opt in or out.

- The ARRC has welcomed the passage of legislation in New York State to reduce risks associated with the transition away from USD LIBOR. The legislation will be crucial in minimizing legal uncertainty and adverse economic impacts associated with the transition – providing greater certainty to investors, businesses, and consumers as the financial system moves away from LIBOR – by addressing this subset of contracts that do not have effective fallback provisions that will work when LIBOR becomes unusable.
- The legislation addresses those contracts without effective fallbacks that are written under New York law, which is important because New York law governs many of the financial products and agreements referencing LIBOR. The legislation will provide legal clarity for these contracts and will lessen the burden on New York courts, as legal uncertainty surrounding the transition likely would have prompted disputes.
- The ARRC is grateful to the New York State legislature and New York Governor Andrew Cuomo for taking this important step to minimize legal uncertainty and adverse economic impacts related to the transition.

Recommended Best Practices:

- The ARRC's Recommended Best Practices provide critical timelines for the transition from USD LIBOR to SOFR. They are designed to prepare market participants for no new LIBOR use as soon as the ARRC deemed was practicable, in a way that minimizes market disruption and supports a smooth transition.
- They outline achievable dates for market participants to identify their exposures, implement fallback language, prepare systems and business processes, and cease new use of LIBOR.
- Given that, the recommended guidelines set about in the Best Practices are fully consistent with the timelines and message set out in U.S. supervisory guidance and the IBA and FCA announcements released since late 2020.

Resources

For more information, please refer to:

The ARRC's website

The SOFR Symposium: The Final Year [LINK WHEN AVAILABLE]

ARRC FAQs [LINK WHEN UPDATED VERSION IS AVAILABLE]

Alternative Reference Rates Committee

Appendix

ARRC
ALTERNATIVE REFERENCE RATES COMMITTEE

The following is the relevant content directly from the ISDA IBOR Fallbacks Protocol and Bloomberg's IBOR Fallback Rate Adjustments Rule Book regarding the triggering of an "Index Cessation Event" and its effective date.

From ISDA's Protocol (Pages 49 and 50):

"Index Cessation Effective Date" means, in respect of a Relevant IBOR (or, if either the Singapore dollar swap offer rate or the Thai baht interest rate fixing is the Relevant IBOR, U.S. dollar LIBOR) and one or more Index Cessation Events, the first date on which the Relevant IBOR (or, if either the Singapore dollar swap offer rate or the Thai baht interest rate fixing is the Relevant IBOR, U.S. dollar LIBOR) is either (a) in respect of a Relevant LIBOR (or, if the Relevant IBOR is the Singapore dollar swap offer rate or the Thai baht interest rate fixing, in respect of U.S. dollar LIBOR), Non-Representative by reference to the most recent statement or publication contemplated in subparagraph (c) of the definition of "Index Cessation Event" below and even if such rate continues to be provided on such date or (b) no longer provided. If the Relevant IBOR (or, if either the Singapore dollar swap offer rate or the Thai baht interest rate fixing is the Relevant IBOR, U.S. dollar LIBOR) ceases to be provided on the Relevant Original Fixing Date but it was provided (and, in respect of a Relevant LIBOR (or, if the Relevant IBOR is the Singapore dollar swap offer rate or the Thai baht interest rate fixing, in respect of U.S. dollar LIBOR), is not Non-Representative) at the time at which it is ordinarily observed, then the Index Cessation Effective Date will be the next day on which the rate would ordinarily have been published. An Index Cessation Effective Date may also occur in accordance with paragraph 6(d), subparagraph 6(e)(ii) or subparagraph 6(e)(iii) above.

"Index Cessation Event" means, in respect of a Relevant IBOR

a) a public statement or publication of information by or on behalf of the administrator of the Relevant IBOR announcing that it has ceased or will cease to provide the Relevant IBOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the Relevant IBOR;
b) a public statement or publication of information by the regulatory supervisor for the administrator of the Relevant IBOR, the central bank for the currency of the Relevant IBOR, an insolvency official with jurisdiction over the administrator for the Relevant IBOR, a resolution authority with jurisdiction over the administrator for the Relevant IBOR or a court or an entity with similar insolvency or resolution authority over the administrator for the Relevant IBOR, which states that the administrator of the Relevant IBOR has ceased or will cease to provide the Relevant IBOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the Relevant IBOR; or
c) if the Relevant IBOR is sterling LIBOR, Swiss franc LIBOR, U.S. dollar LIBOR, euro LIBOR, Japanese yen LIBOR, the Singapore dollar swap offer rate or the Thai baht interest rate fixing, a public statement or publication of information by the regulatory supervisor for the administrator of such Relevant IBOR (or, if the Relevant IBOR is the Singapore dollar swap offer rate or the Thai baht interest rate fixing, by the regulatory supervisor for the administrator of U.S. dollar LIBOR) announcing that (i) the regulatory supervisor has determined that such Relevant IBOR is no longer, or as of a specified future date will no longer be, representative of the underlying market and economic reality that such Relevant IBOR is intended to measure and that representativeness will not be restored and (ii) it is being made in the awareness that the statement or publication will engage certain contractual triggers for fallbacks activated by pre-cessation announcements by such supervisor (howsoever described) in contracts, provided that, if either the Singapore dollar swap offer rate or the Thai baht interest rate fixing is the Relevant IBOR, references to the "Relevant IBOR" in subparagraphs (a), (b) and (c)(i) above of this definition of "Index Cessation Event" will be deemed to be references to U.S. dollar LIBOR.

An Index Cessation Event may also occur in accordance with paragraph 6(d), subparagraph 6(e)(ii) or subparagraph 6(e)(iii) above.

From Bloomberg's Rule Book (Pages 8 and 11)

"IBOR Cessation Trigger Date" means, with respect to an IBOR and with respect to the defined terms used in this Rule Book, the date on which there is:

i. a public statement or publication of information by or on behalf of the IBOR Administrator announcing that it has ceased or will cease to provide the IBOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the IBOR; or
ii. a public statement or publication of information by the regulatory supervisor for the IBOR Administrator, the central bank for the currency of the IBOR, an insolvency official with jurisdiction over the administrator for the IBOR, a resolution authority with jurisdiction over the administrator for the IBOR or a court or an entity with similar insolvency or resolution authority over the administrator for the IBOR, which states that the IBOR Administrator has ceased or will cease to provide the IBOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the IBOR; or
iii. if the IBOR is Sterling LIBOR, Swiss Franc LIBOR, U.S. Dollar LIBOR, Euro LIBOR or Yen LIBOR only, a public statement or publication of information by the regulatory supervisor for the IBOR Administrator of such IBOR announcing that (a) the regulatory supervisor has determined that such IBOR is no longer, or as of a specified future date will no longer be, representative of the underlying market and economic reality that such IBOR is intended to measure and that representativeness will not be restored and (b) it is being made in the awareness that the statement or publication will engage certain contractual triggers for fallbacks activated by pre-cessation announcements by such supervisor (howsoever described) in contracts;

"Spread Adjustment Fixing Date" means, with respect to an IBOR and Tenor, the earlier of,

i. the IBOR Cessation Trigger Date, and
ii. the Tenor Cessation Trigger Date or, if later, the last date for which there is both a Live Tenor that is shorter than such Tenor and a Live Tenor that is longer than such Tenor.