

**COMMERCIAL BANKING****BIG STRIDES TOWARD TRANSITION**

Welcome to our Newsletter. This is our twentieth edition providing an update on the transition away from the London Interbank Offered Rate (LIBOR) and other Interbank Offered Rates (IBORs). There are a number of important topics this month, which include:

- **REMEMBER, REMEMBER THE END OF SEPTEMBER**
- **GBP LIBOR ICE SWAP CESSATION**
- **CROSS CURRENCY SWITCH OVER**
- **CLEARED DERIVATIVE FEES**
- **USD LEGISLATION & CASH FALLBACKS**
- **EONIA TRANSITION**
- **A CLOSER LOOK: TERM RISK FREE RATES UPDATE**

Please contact your Relationship Team if you have any questions or queries on the contents.

**REMEMBER, REMEMBER THE END OF SEPTEMBER**

Industry and regulators worldwide continued to make substantial headway towards the transition away from LIBOR over the past month. Work in GBP markets has primarily focused on completing active conversion of the remaining legacy GBP LIBOR contracts that expire after end-2021 in line with the Bank of England (BoE) initiated Working Group on Sterling Risk-Free Reference Rates (BOE WG) end of September 2021 [milestone](#). Placed well ahead of GBP LIBOR's cessation at the end of this year, the milestone aims to avoid the risk of any transition bottlenecks at year-end.

Edwin Schooling Latter, Direct of Markets and Wholesale Policy at the FCA, commented in July 2021 that meeting this milestone "will help avoid risks of getting caught in a pre-Christmas rush – where we could see a squeeze in IT, legal or other resources, or would simply have too little time to adjust to unexpected hurdles."

To bolster efforts to meet this milestone, the BoE WG [published](#) further guidelines to support active transition in the GBP loan market in July 2021. Likewise, the Loan Market Association (LMA) [published](#) a note providing practical guidance on the document amendment process from legacy LIBOR syndicated loans to risk-free reference rates (RFRs) in early August 2021. This follows [release](#) of a real estate finance facility agreement for investment property transactions in the syndicated loan market earlier in July 2021.

**GBP LIBOR ICE SWAP CESSATION**

Progress in GBP has not been confined to the loan markets. On 4 August 2021, ICE Benchmark Administration (IBA) [announced](#) it will cease the publication of GBP LIBOR ICE Swap Rates for all tenors immediately after publication on 31 December 2021. In support of the announcement, the International Swaps and Derivatives Association (ISDA) [issued](#) a guidance note for counterparties of over-the-counter (OTC) derivatives that are affected by the announcement.

In the run up to the announcement, ISDA has been working on developing ICE Swap Rate Fallbacks and on 23 July 2021 [announced](#) the results of a consultation on their implementation for GBP LIBOR ICE Swap Rate and USD LIBOR ICE Swap Rate. In line with the results of the consultation, on 6 August 2021 ISDA published [Supplement 82](#) to the 2006 ISDA Definitions covering the addition of fallbacks to "GBP-ISDA-Swap Rate". This means that transactions which incorporate the 2006 ISDA Definitions and are entered into on or after August 6, 2021 will incorporate the new triggers and fallbacks for the GBP LIBOR ICE Swap Rate. ISDA are to publish template language to incorporate these new fallback provisions into legacy transactions in due course.

As an aside, ISDA also [distributed](#) its Transition to Risk-free Rates Review in August 2021, which analyses the trading volume of OTC and exchange-traded interest rate derivatives, that reference selected alternative RFRs.

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## CROSS CURRENCY SWITCH OVER

Another area of focus for the official sector has been the cross-currency swap market. On 21 July 2021 the Alternative Reference Rates Committee (ARRC) in the US [published](#) an endorsement of the Market Risk Advisory Committee (MRAC) recommendation that interdealer trading conventions for cross-currency basis swaps between USD, JPY, GBP, and CHF move to the relevant RFR on 21 September 2021. This move in trading conventions is the second phase in the MRAC's recommended SOFR First initiative and has received the support of other official sector working groups.

On the same day as the ARRC announcement, the BoE and the Financial Conduct Authority (FCA) [issued](#) a joint statement encouraging liquidity providers in the LIBOR cross-currency swaps market to also adopt the new quoting conventions.

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## CLEARED DERIVATIVE FEES

Ahead of LIBOR cessation, a number of central clearing counterparties have announced plans to promote active transition away from LIBOR before cessation. In order to help encourage an active transition approach rather than reliance upon its own conversion, the London Clearing House (LCH) [confirmed](#) on 26 July 2021, those who rely on the latter will be charged a fee. For those with cleared derivative exposure, please refer to the plans of the major clearing houses [LCH](#), [CME](#), and [EUREX](#).

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## USD LEGISLATION & CASH FALLBACKS

US Federal Reserve Chairman Jerome Powell [weighed](#) in with his views of RFRs and the need for Federal tough legacy legislation in his semi-annual report to Congress before the House Financial Services and Senate Banking Committees on 14 and 15 July 2021. He noted that use of Secured Overnight Financing Rate (SOFR) should be voluntary and supported the use of other benchmarks, but added that it would be appropriate to include SOFR in federal legislation to address outstanding tough legacy contracts. In addition, he said that the Federal Reserve “do not like to ‘bless’ individual rates, but would say that market participants have the freedom to choose the rates they want.”

Meanwhile, on 11 August 2021, Refinitiv [announced](#) the launch of its prototype USD LIBOR cash fallbacks rates - one for consumer cash products and the other for institutional cash products. The move was [welcomed](#) by the ARRC Chairman Tom Wipf who described the launch as, “an important step in the transition away from USD LIBOR for borrowers and lenders in the cash markets,” providing “robust fallback rates that all market participants can rely on...”. The launch follows Refinitiv's [selection](#) as the publisher of the ARRC's Spread Adjustment Rates for Cash Products in March 2021.

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## EONIA TRANSITION

Events in Europe have largely been centred on Euro Overnight Index Average (EONIA) transition. The Working Group on Euro Risk-Free Rates (EU RFR WG) [issued](#) a statement on 26 July 2021 with a recommendation for interdealer brokers to switch their swap trading conventions from EONIA to the Euro short-term rate (€STR) from Monday 18 October 2021. The statement also supports the initiative between official sector working groups, mentioned above, for a common start date of 21 September 2021 to switch the quoting convention for cross-currency swaps involving non-Euro currencies. For cross-currency swaps with a EUR denominated leg, the EU RFR WG will continue to monitor the development of market liquidity and the demand from end users.

Following this, on 3 August 2021, the European Commission (EC) [released](#) a draft Implementing Act (IA) for a statutory replacement rate for EONIA. The IA, which is open for comments until 31 August 2021, reflects the EC view that it would be appropriate to designate a statutory replacement for EONIA to be used in all legacy contracts that either do not contain fallback provisions or have fallback provisions that are not suitable. A formal [letter](#) from the EU RFR WG on 15 July 2021 had specifically requested that the statutory replacement of EONIA be based on €STR. The EC aims to adopt the IA by the end of September/ beginning of October 2021 so where required the designated rate can replace contractual references to EONIA in the EU when it ceases to be published on 3 January 2022.

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## A CLOSER LOOK: TERM RISK FREE RATES UPDATE

The [April 2021 edition](#) of this newsletter took an in-depth look at term RFRs. Over the past month, some of the outstanding questions regarding term RFRs have been answered.

In the case of SOFR, in July the ARRC published [conventions](#) and [use cases](#) for how best to employ term rates to successfully transition away from USD LIBOR noting that they will be especially helpful for the business loans market – particularly multi-lender facilities, middle market loans, and trade finance loans. A week after providing these confirmations, the ARRC formally [recommended](#) the CME Group's forward-looking SOFR Term Rates together with a [supporting factsheet](#).

The use cases envisaged for SOFR Term Rates are much wider than that those for the Sterling Overnight Index Average (SONIA) Term Rates. The finalised standard on use of Term SONIA references rates [published](#) by the FICC Markets Standard Board (FMSB) on 29 July 2021 expects the use of Term SONIA in lending products to be limited either to trade and working capital products or Islamic finance products. For derivatives, Term SONIA usage is only anticipated for use with cash products which reference Term SONIA or to hedge 'tough legacy' products that reference a synthetic LIBOR. The FSMB standard applies to sterling fixed income and wholesale lending markets, including sterling legs of multicurrency products.



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