LIBOR Transition Presentation To The Financial Research Advisory Committee
Office of Financial Research

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Chair Alternative Reference Rates Committee
September 29, 2021
Looking Forward | Transition Timeline in the US

- **April-May 2019**: ARRC released new LIBOR fallback terms for use in new cash products.
- **October 16-19, 2020**: CCPs adjusted USD discounting/PAI regime from EFFR to SOFR.
- **July 29, 2021**: ARRC formally recommends Term SOFR.
- **July 26, 2021**: MRAC “SOFR First” recommendation for changing broker quoting conventions for linear derivatives.
- **December 31, 2021**: Banks required to generally cease entering into new contracts that use USD LIBOR.
- **February 2022 – June 2023**: LIBOR publication continues for legacy contracts.
- **December 30, 2022**: CCP conversion events for LCH, JSCC, CME and ICE.
- **January 2022 – June 2023**: LIBOR publication continues for legacy contracts.
- **July 26, 2021**: MRAC’s “RFR First” recommendation for changing broker quoting conventions for interdealer cross-currency derivatives.

**Timeline Highlights**

- **2018**: NY Fed began publishing SOFR.
- **2019**: ISDA published new IBOR fallback terms to repair legacy derivative contracts via voluntary protocol.
- **2020**: ISDA “big bang” effective date for IBOR Fallbacks Protocol.
- **2021**: MRAC’s “RFR First” recommendation for changing broker quoting conventions for interdealer cross-currency derivatives.
- **2022**: CCP conversion events for LCH, JSCC, CME and ICE.
- **2023**: Final publication date of USD LIBOR.
Key Market Developments
RFR market development is progressing with Official Sector support

1. ‘SOFR & TONA First’
   - Interdealer quoting of most types of USD and JPY LIBOR swaps have switched to SOFR and TONA respectively.

2. Term SOFR
   - Term SOFR has been endorsed by ARRC and official sector for the institutional lending market and also for end user hedging.

3. Credit Sensitive Rates
   - SEC as well as others in the official sector and IOSCO have continued to voice concerns regarding the robustness of these rates and additionally expressed support for SOFR.

Implication

Interdealer swap liquidity has improved significantly for SOFR & TONA. Non-dealer demand for SOFR is slowly picking up.

There have been some early indicators of Term SOFR adoption but the full switch of the institutional lending market has not occurred yet.

This may dampen the use and adoption of credit sensitive rates.
### LIBOR Industry Progress – Q4 2021 Update

Strong adoption of ISDA’s IBOR Fallbacks Protocol, coupled with “SOFR First,” has greatly improved SOFR liquidity. While Term SOFR is widely discussed, lending market has not transitioned yet.

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<tr>
<th>Legacy</th>
<th>New</th>
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<td><strong>Derivatives</strong></td>
<td><strong>New</strong></td>
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<tr>
<td>• Protocol and bilateral negotiations of remaining non-USD LIBOR exposures</td>
<td>• SOFR and TONA swap liquidity has increased post ‘SOFR &amp; TONA First’ event</td>
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<td>• CCP conversion approaches may drive artificial increases in Firms’ notional exposure</td>
<td>• Term SOFR derivatives recommended for end users</td>
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<td><strong>Inst.</strong></td>
<td><strong>New</strong></td>
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<td>• Despite Term SOFR availability, active conversions of LIBOR loans not broadly underway</td>
<td>• Term SOFR widely discussed but market transition has not yet occurred</td>
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<td>• Lenders have discretion to determine fallbacks</td>
<td>• Official sector remarks on Credit Sensitive Rates’ robustness</td>
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<td><strong>Retail</strong></td>
<td><strong>Bonds</strong></td>
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<td>• FCA approach to Synthetic LIBOR not yet announced</td>
<td>• SOFR is gaining traction as USD market standard</td>
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<td>• SONIA is GBP market standard</td>
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