

Headlines on LIBOR transition progress made over 2021

Key Announcements

- On 31 December 2021, publication of most LIBOR settings ended. The FCA published a short [statement](#) summarising the changes to LIBOR as of end-2021.
- The FCA [confirmed](#) that use of USD LIBOR would not be allowed in new contracts after end-2021, with limited exceptions.
- On 5 March 2021, the FCA [announced](#) that all LIBOR settings would either cease to be provided by any administrator or no longer be representative, immediately after 31 December 2021 for all GBP, EUR, CHF, JPY and 1-week and 2-month USD LIBOR settings; and 30 June 2023 in the case of remaining USD LIBOR settings.
- ISDA [confirmed](#) that the FCA's 5 March announcement constituted an Index Cessation Event under its IBOR fallbacks. As a result, the fallback 'spread adjustments' [published by Bloomberg](#) were fixed for all LIBOR currencies and tenors.
- The FCA [confirmed](#) its decision to compel the continued publication of 1-month, 3-month and 6-month sterling and Japanese yen LIBOR settings for a limited time period after end-2021, using a 'synthetic' methodology to help ensure an orderly wind-down. Use of these 'synthetic' rates would be permitted in all legacy contracts, other than cleared derivatives.
- The PRA and FCA wrote a [joint letter](#) to CEOs of supervised firms, reiterating supervisory expectations and setting out a list of priority areas where further actions were necessary to prepare for the cessation of LIBOR.

A look back at key developments in the run up to end-2021 progress

Key 2021 Official Sector Announcements

- On 1 April 2021, the Bank of England's LIBOR-linked collateral and haircut [policy](#) came into effect. From 31 December 2021, legacy LIBOR-linked collateral is subject to a 100% haircut, excluding collateral referencing the 5 remaining USD LIBOR settings.
- The [Financial Services Act](#) received Royal Assent on 29 April 2021 and became law. The Act includes measures which provide the FCA with relevant powers to oversee an orderly transition away from LIBOR.
- On 15 December 2021, the [Critical Benchmarks \(References and Administrators' Liability\) Act](#) received royal assent and became law. The Act provides legal certainty as to how contractual references to a critical benchmark should be treated once the FCA provides for that benchmark to be published with a changed methodology.

Key 2021 Market Developments

- The FICC Markets Standards Board (FMSB) published its final [Standard](#) on the use of Term SONIA reference rates, building on the Working Group's January 2020 [paper](#) on use cases of benchmark rates.
- The FCA and Bank of England supported and encouraged 'SONIA First' initiatives in the GBP [non-linear derivatives](#) market from 11 May 2021, and the [exchange traded derivatives](#) market from 17 June 2021.
- There is no more LIBOR in GBP, JPY, CHF and EUR cleared and exchange traded derivatives due to CCP conversion events through Q4 2021. LCH, CME, [ICE](#), [Eurex](#), and CurveGlobal all undertook conversion events throughout December.

Key 2021 Market Indicators

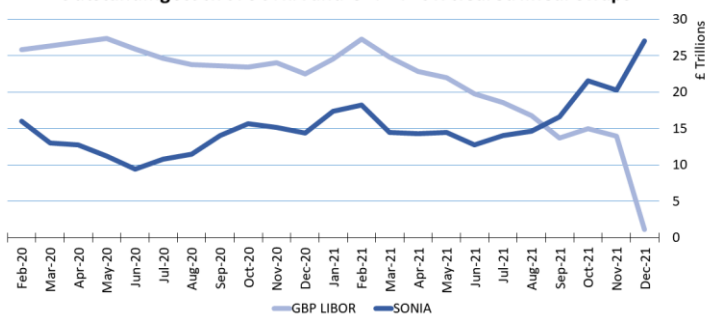
Cleared swaps*

£1.2tn GBP LIBOR | £27.0tn SONIA
(outstanding at end-2021)

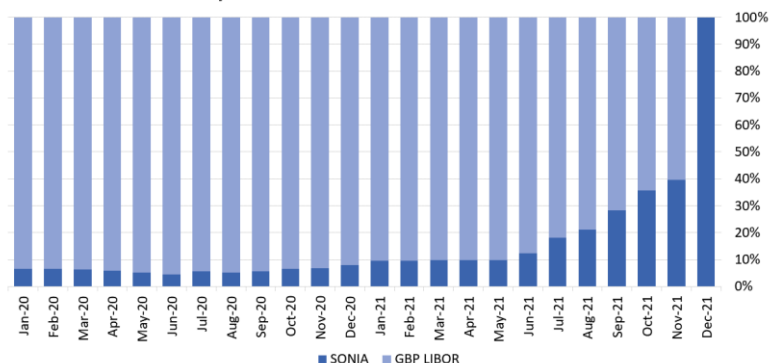
Exchange traded futures

£0 GBP LIBOR | £2.3tn SONIA
(outstanding at end-2021)

Outstanding stock of SONIA and GBP LIBOR cleared linear swaps*



Open interest in GBP futures contracts



Source: LCH and Bank of England calculations

*Total of all LIBOR and SONIA linked swap products cleared at LCH, excluding LIBOR-SONIA basis swaps. Residual GBP LIBOR swaps are due to legacy trades in their final coupon period. These will all mature by end-2022.

Source: CME Group, ICE, LSE Group and Bank of England calculations

Floating rate notes

£107.8bn SONIA | 239 deals SONIA
(cumulative subtotal of FRNs issued in 2018, 2019, 2020 and 2021. Provided by ICMA using Bloomberg L.P)

Loans

See LMA [website](#) for its updated list of publicly disclosed RFR-referencing loans to date

Key 2021 RFRWG Publications

- In January 2021, the Working Group published its [priorities and roadmap](#) for 2021. This set out its recommended milestones, intended to help businesses to finish planning the steps they needed to take in the coming months.
- The Working Group [published](#) a best practice guide for GBP loans.
- The Working Group published a [statement](#) setting out a range of considerations to help market participants, across GBP bond, loan and derivative markets, assess and prioritise the active transition of legacy GBP LIBOR contracts to SONIA.
- The Working Group published a [paper](#) to assist borrowers in understanding and achieving the 2021 end-Q3 milestone for active transition of legacy GBP LIBOR loans. The Working Group encouraged timely engagement with relevant parties and the preparations needed to ensure readiness for the recommended milestone on active transition.
- In December 2021, the Working Group [published](#) a statement encouraging the continued focus of market participants ahead of the cessation of most LIBOR panels.

Key 2021 International Developments

\$USD

- Following its [statement](#) on 30 November 2020, the Federal Reserve Board [re-iterated](#) its supervisory expectations that supervised institutions should cease entering into new contracts that use USD LIBOR by end-2021.
- The US CFTC's Market Risk Advisory Committee (MRAC) [adopted](#) a series of phased 'SOFR First' switches, beginning with USD linear swaps on 26 July 2021. The FCA and Bank of England [supported](#) a similar approach in the UK. This was followed by further phases for non-linear derivatives, cross-currency swaps and exchange traded derivatives.
- New York State LIBOR [legislation](#) was signed into law, and aimed to minimise legal uncertainty and adverse economic impacts associated with the transition from LIBOR.
- The ARRC formally [recommended](#) CME Group's SOFR Term rate, and also [published](#) recommendations on loan conventions and best practices for use of the forward-looking SOFR Term rate. The ARRC subsequently [released](#) FAQs on Best Practice Recommendations Related to Scope of Use of the Term Rate
- The [Adjustable Interest Rate \(LIBOR\) Act of 2021](#) was introduced to US legislators, and aims to establish a process for switching tough legacy USD LIBOR contracts to a benchmark replacement based on SOFR. The Bill will require Senate approval before being enacted.
- The Board of the International Organization of Securities Commissions (IOSCO) published a [statement](#) on credit sensitive rates, calling on their administrators to consider how they would continue to meet IOSCO Principles over time, if use of their benchmark became widespread. The statement noted that SOFR provides a robust rate suitable for use in most products, with underlying transaction volumes that are unmatched by other alternatives.
- The FCA and Bank of England published a [joint statement](#) to support and encourage market participants in a switch to risk-free rates in LIBOR cross-currency swaps from 21 September 2021.
- The CFTC's MRAC [selected](#) 13 December 2021 as the date for Part II - SOFR First for additional cross-currency derivatives, ahead of the end of year restriction on new use of USD LIBOR. This was formally [supported](#) by the EUR RFRWG.

¥JPY

- The Cross-Industry Committee on JPY Interest Rate Benchmarks [confirmed](#) a 'TONA First' initiative to switch quoting conventions in JPY interest rate swaps from JPY LIBOR to TONA on 30 July 2021.

FCHF

- The National Working Group [recommended](#) to use only SARON-based derivatives for new transactions starting from 1 July 2021, excluding transactions that reduce or hedge LIBOR exposures.

€EUR

- The euro Risk-Free Rates Working Group published [recommendations](#) for an '€STR First' initiative from 18 October 2021
- The European Commission confirmed statutory replacement rates for [CHF LIBOR](#) and [EONIA](#).

What next?

- The FCA has [said](#) the scope of legacy contracts permitted to use synthetic LIBOR could progressively reduce and continued focus on active transition of contracts rather than relying on synthetic LIBOR is encouraged, since availability of synthetic LIBOR cannot be assured beyond 2022. The FCA and PRA will continue to monitor firms' efforts to remove any remaining dependencies on LIBOR across all asset classes after end-2021.
- In line with FCA [rules](#) and [supervisory guidance](#) from the Federal Reserve Board, with support from the [FSB](#), [IOSCO](#) and endorsed by a wide array of jurisdictions worldwide, firms should no longer be using USD LIBOR in new contracts, with limited exceptions.