ICMA
International Capital Market Association

A quick guide to the transition to risk-free rates in the international bond market

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Introduction

This Quick Guide is intended to highlight the key issues on which ICMA is focused in the transition from IBORs to alternative near risk-free reference rates ("**RFRs**") in the international bond market (including floating rate notes ("**FRNs**"), covered bonds, capital securities, securitisations and structured products, together, "**bonds**"); and provide links to relevant resources. More information is available on the ICMA benchmark reform and transition to RFRs webpage and from the ICMA contacts listed below.

This Quick Guide reflects the position as at its date, but market participants should note that there are frequent market and other developments in the transition to RFRs.

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Transition to RFRS - how is ICMA involved?

ICMA has been engaging with regulators and members on the global issue of benchmark reform for several years.

Most recently, ICMA's focus is the transition to RFRs, which has been developed in response to recommendations by the Financial Stability Board and IOSCO's work relating to increasing confidence in the reliability and integrity of interest rate benchmarks.

The transition to RFRs is a global issue requiring co-ordination across different products and markets. ICMA is facilitating communication among its members and the official sector. In particular, ICMA is a member of the Working Group on Sterling Risk-Free Reference Rates, with Paul Richards (Head of Market Practice and Regulatory Policy, ICMA) chairing a sub-group focusing on benchmark transition issues in bond markets. ICMA is a non-voting member of the Working Group on Euro Risk-Free Rates established by the ECB, the Belgian Financial Services and Markets Authority, ESMA and the European Commission, and also participates in the National Working Group on Swiss Franc Reference Rates.

ICMA regularly publishes information related to the transition to RFRs in its Quarterly Report and provides links to relevant ICMA and official sector materials on its dedicated benchmark webpage. For national currency benchmarks in selected Asia-Pacific markets, ICMA has published a separate compendium of announcements and initiatives. Links to recent ICMA and other publications are provided throughout this Quick Guide.

ICMA resources:

- ICMA benchmark reform and transition to RFRs webpage.
- Benchmark-related resources in selected Asia-Pacific markets.
- Key publications on the global transition to risk-free rates, January 2020.

The need to transition to RFRs

LIBOR

LIBOR (London Inter-Bank Offered Rate) is a wholesale funding rate anchored in LIBOR panel banks' unsecured wholesale transactions to the greatest extent possible. Due to limited activity in the wholesale, unsecured funding market, it became clear that panel banks' submissions were excessively based on expert judgment, rather than actual transactions. For this reason, authorities have been stressing the need to move away from LIBOR for some time[1]. In the UK, the FCA (the regulator of LIBOR) has stated that it expects that some LIBOR panel banks will withdraw from making submissions after end-2021, and market participants need to have removed their dependencies on LIBOR by this date[2] if they are to avoid disruption when publication of LIBOR ceases.

Official sector sponsored working groups have recommended robust, alternative RFRs for all LIBOR currencies, as summarised below.

Currency	Working Group	Alternative RFR	Administrator	Description
$ USD	Alternative Reference Rates Committee	SOFR (Secured Overnight Financing Rate)	Federal Reserve Bank of New York	SOFR is a broad measure of the cost of borrowing cash overnight collateralised by U.S. Treasury securities.
€ EUR	Working Group on Euro Risk-Free Reference Rates	€STR (Euro Short Term Rate)	European Central Bank	€STR reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area.
£ GBP	Working Group on Sterling Risk-Free Reference Rates	SONIA (Sterling Overnight Index Average)	Bank of England	SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions.
₣ CHF	The National Working Group on Swiss Franc Reference Rates	SARON (Swiss Average Rate Overnight)	SIX Swiss Exchange	SARON is a rolling, volume-weighted average based on transactions concluded and reference prices posted on a given trading day. The reference price is calculated on the basis of tradable quotes in the order book of the SIX Repo Ltd electronic trading platform, provided they lie within the parameters of the quote filter. SARON's fixing is at the close of the trading day.
¥ JPY	Cross Industry Committee on Japanese Yen Interest Rate Benchmarks	TONA (Tokyo Overnight Average Rate)	Bank of Japan	TONA is an uncollateralised overnight call rate.

1 See, for example, Reforming Major Interest Rate Benchmarks, FSB 2014; Andrew Bailey, Chief Executive of the FCA: The Future of LIBOR, July 2017 and LIBOR: preparing for the end, July 2019 and John C. Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York: 901 days, July 2019.

2 See Andrew Bailey, Chief Executive of the FCA: LIBOR: preparing for the end, July 2019

ICMA resources:

- See the information contained under the "Key recent materials" and "Joint trade association materials" tabs on the ICMA benchmark webpage, including the IBOR Global Benchmark Survey 2018 Transition Roadmap.

EURIBOR

EURIBOR is not currently scheduled to be discontinued. EU authorities anticipate that the use of EURIBOR will persist for the foreseeable future following a period of reform that has now been completed. However, authorities have also highlighted that users of EURIBOR should be prepared for all scenarios, including the possible disappearance of EURIBOR[3]. Market participants have been encouraged to consider fallbacks for EURIBOR (see further *Fallbacks in IBOR bonds*).

EONIA

Following an announcement by EMMI, the administrator of EONIA, that EONIA would not become compliant with the EU Benchmarks Regulation, the Working Group on Euro Risk-Free Rates endorsed recommendations to market participants regarding the transition from EONIA to €STR in March 2019. Since 2 October 2019, EONIA has been published daily on the basis of a reformed determination methodology, which is €STR + 8.5 bps. EMMI will continue to publish EONIA every TARGET day until 3 January 2022, the date on which EONIA will be discontinued. Considering ICMA's remit, EONIA is not typically referenced in bonds, but there was some limited usage of EONIA in the European repo market. In July 2019 (later updated in September 2019), the ICMA European Repo and Collateral Council Committee produced recommendations for the repo market in relation to the transition from EONIA to €STR. This has significantly reduced the volume of such repo activity, easing the necessary process of transition from EONIA to €STR for the remainder.

ICMA resources:

- Euro risk-free rate reform, October 2019.
- ICMA ERCC Committee Memorandum: Repo market best practice with respect to the transition from EONIA to €STR, updated September 2019.

3 See the minutes of the December 2019 meeting of the Working Group on Euro Risk-Free Rates.

New RFR-linked floating rate notes

International bond market participants have responded to the need to transition away from LIBOR by referencing the identified alternative RFRs, rather than LIBOR, in new issues of FRNs and securitisations. There have been significant volumes of new SOFR and SONIA-linked FRNs issued; and public issuance of sterling LIBOR-linked FRNs and securitisations with a maturity beyond the end of 2021 has all but ceased.

Estimates of the total volumes of new RFR-linked FRNs according to the [FSB's Reforming major interest rate benchmarks Progress Report] of 18 December 2019 are set out below.

RFR	Estimated volume of bonds issued
SOFR	$300bn
SONIA	£35bn
€STR	€2.5bn[4]

There is limited publicly available information in respect of TONA and SARON bonds; this might be due to the prevalence of private placements in those markets.

4 Source for €STR: Bloomberg

The differences between LIBOR and RFRs

The two key differences between LIBOR and RFRs relate to "term" and "credit".

Term

LIBOR is a forward-looking or "term" rate quoted for five currencies (USD, GBP, CHF, JPY and EUR) and seven tenors (overnight/spot next, one week, one month, two months, three months, six months and 12 months). In the international bond market, the most commonly used tenors are three months and six months. Importantly, the LIBOR-linked interest rate payable is known at the *start* of the relevant interest period. All the alternative RFRs identified by the official sector sponsored working groups are overnight rates, published the following day, and therefore are not known in advance. This means that determination of a three-month or six-month rate based on the alternative RFRs requires significantly different mechanics to those used for determination of a three-month or six-month rate based on LIBOR.

Credit

The LIBOR methodology is designed to produce an average rate that is representative of the rates at which large, leading, internationally active banks with access to the wholesale, unsecured funding market could fund themselves in such market in particular currencies for certain tenors. It therefore incorporates a bank credit risk element, which is not observable in the alternative RFRs.

RFR bond market conventions

New market conventions for bonds referencing RFRs are being developed, but are not yet fully bedded down.

SONIA bonds

The market conventions used in SONIA FRNs and securitisations have typically involved referencing SONIA compounded in arrears over an interest period, with a margin added, and a "lag" (also known as a "lookback"), in respect of each interest period. This means that the SONIA rate used to calculate a rate for each day in an interest period is based on the SONIA rate for a prior day (typically, five days prior). Another way to describe this is that the interest "observation period" starts a certain number of days (typically, five) prior to the first day of the relevant interest period and ends the same number of days prior to the end of such interest period. This allows the interest amount to be determined sufficiently in advance of the interest payment date so that issuers and agents can organise payment. See further Statement from the Working Group on Sterling Risk-Free Reference Rates on conventions for referencing SONIA in new contracts, August 2019.

However, in February 2020, the EBRD issued a SONIA FRN which used a five day observation period "shift" approach. This is similar to the "lag" approach described above, but the compounding formula in the "shift" approach weights the SONIA rate to account for calendar days when the SONIA rate is not published according to the *observation period*, whereas the "lag" approach weights the SONIA rate according to the *interest period*. It remains to be seen whether other SONIA bonds will be issued using the observation period "shift" approach.

In February 2020, the Bank of England announced that it intends to publish a daily SONIA Compounded Index, which is a number representing the returns from a rolling investment earning interest each day at the SONIA rate. The change in this index between any two dates could be used to calculate the interest rate payable on a SONIA product over that period. This is consistent with the approach taken by the Federal Reserve Bank of New York and the forthcoming publication of its SOFR Index (see below). Subject to feedback, publication of the SONIA Compounded Index is anticipated to commence by the end of July 2020. In addition to the SONIA Compounded Index, the Bank of England is considering whether – and, if so, how – to publish daily a simple set of SONIA Period Averages. These could directly provide the interest rate payable over specific periods of time (i.e. the compounded rate over the last X days or months). It is anticipated that the "shift" approach described above would be compatible with the SONIA Compounded Index.

SOFR bonds

The market conventions used in SOFR bonds vary, but typically involve referencing a simple average of SOFR over an interest period, with a margin added, and a "lockout" in respect of each interest period. The "lockout" operates such that one of the daily SOFR rates is "suspended" meaning that it is repeated for several (typically, four) days, usually at the end of an interest period. The realised rates for those four days are not used at all: i.e. they do not roll over and are therefore not used in the calculation of the rate for the next following interest period. However, some SOFR bonds have used market conventions that are similar to those used in SONIA bonds (see above). In addition, some SOFR bonds have used a "payment date delay" mechanism, where interest is paid several (typically, two) days after the end of the interest period (except for the final interest payment, which uses a two-day lockout mechanism that assumes the SOFR rate stays the same for those two days). The Alternative Reference Rates Committee made available a SOFR FRNs Comparison Chart and a SOFR FRNs Conventions Matrix in August 2019 and an Appendix to the Matrix in November 2019.

In February 2020, the Federal Reserve Bank of New York, the administrator of SOFR, announced that it will publish 30-, 90-, and 180-day SOFR Averages as well as a SOFR Index from 2 March 2020, in order to support a successful transition away from USD LIBOR. The SOFR Averages and Index will employ daily compounding on business days, as determined by the SOFR publication calendar. This could facilitate issuance of SOFR bonds based on a compounding in arrears, observation period "shift" approach (as described under *SONIA bonds* above).

€STR bonds

The market conventions used in €STR bonds issued to date are aligned with those typically used in the SONIA bond market, i.e. €STR compounded in arrears over an interest period, with a margin added and a "lag" or "lookback" of five days.

SARON bonds

There is limited public information available on SARON bonds. However, the National Working Group on Swiss Franc Reference Rates published a Discussion Paper on SARON FRNs in July 2019, which set out preferred standard language for compounded SARON FRNs. The recommended approach is broadly aligned with the market conventions in the SONIA bond market, i.e. SARON compounded in arrears over the interest period, with the margin added and a "lookback" of three to five days with the observation period "shift" approach described above. SIX, the administrator of SARON, is in the process of launching SARON Compound indices for one, three and six months.

TONA bonds

There is limited public information available on TONA bonds. However, market conventions for TONA bonds are under discussion by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks. A report published by that Committee in November 2019 revealed a general preference among respondents for term rates to replace JPY LIBOR, although there were a relatively large number of respondents who envisaged using TONA compounded in arrears for JPY FRNs.

ICMA resource:

- Risk-free rates: bond market conventions, October 2019.

Use of term rates

Because LIBOR and other IBORs are term rates available in a number of tenors, there has been some focus on whether it is possible to develop term rates derived from the alternative RFRs. However, the FSB has emphasised that there are limitations to RFR-derived term rates which may mean they are not the best choice in some markets[5].

That said, it is recognised that there may be some limited instances (likely outside of the international bond market) where a forward-looking term rate is required, and work is underway in several LIBOR jurisdictions to develop term rates based on the alternative RFRs.

- In the US, the Alternative Reference Rates Committee's Paced Transition Plan envisages the creation of a term reference rate based on SOFR derivatives markets. It is anticipated that this will be completed by end 2021. See further the Federal Reserve's publication Indicative Forward-Looking SOFR Term Rates of April 2019.

- The UK authorities have been consistently clear that the market should transition to SONIA compounded in arrears rather than waiting for a forward-looking term rate to emerge[6]. However, it is expected that a forward-looking term SONIA rate will be made available for use in limited instances in Q3 2020 (see further the Working Group on Sterling Risk-Free Reference Rates' publication Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives, January 2020).

- In the euro area, the Working Group on Euro Risk-Free Rates has established a sub-group to identify and recommend a €STR-based forward-looking term structure for use as a EURIBOR fallback. Presentations from potential providers are available on the ECB's website.

- In Switzerland, the use of a term RFR is not recommended by the National Working Group on Swiss Franc Reference Rates[7].

- In Japan, a report by the Cross Industry Committee on Japanese Yen Interest Rate Benchmarks published in November 2019 indicated a general preference among respondents for term rates to replace JPY LIBOR, although there were a relatively large number of respondents who envisaged using TONA compounded in arrears for JPY FRNs (including for a temporary period until a term rate is established). Publication of prototype JPY term reference rates is envisaged to begin in Q1 2020 with a JPY term rate to follow in Q3 2021.

5 See Interest rate benchmark reform – overnight risk-free rates and term rates, FSB, July 2018

6 See, for example, Edwin Schooling-Latter, Director of Markets and Wholesale Policy at the FCA: Next steps in transition from LIBOR, 21 November 2019: *"delaying transition of new business away from LIBOR until the production of forward-looking term rates based on SONIA may not be the best approach"*.

7 See various minutes of meetings of The National Working Group on Swiss Franc Reference Rates.

Fallbacks in IBOR bonds

Most international bonds contain fallback provisions catering for a situation in which the applicable reference rate is not available.

Traditional fallbacks - English law

Prior to July 2017 (when the FCA announced that the future of LIBOR could not be guaranteed beyond the end of 2021), international, English law-governed bonds were typically issued with "traditional" fallback provisions, which do not necessarily anticipate the permanent cessation of the reference rate and, absent any other intervention, would operate so that the fixing used for the last preceding interest period would be used for every interest determination for the remaining life of the bond. This means that the bond would become a fixed rate instrument in the event of a permanent cessation of LIBOR.

Recent developments in fallbacks

From July 2017, issuers of English law-governed bonds referencing IBORs began to adjust these fallback provisions to reflect the announcement that the future of LIBOR could not be guaranteed beyond the end of 2021. The adjusted provisions typically provide for a fallback on the permanent cessation of the relevant benchmark to an alternative or replacement rate and spread adjustment to be applied to such rate, as selected by an independent adviser on the basis of (a) any recommendations made by relevant official bodies or (b) if no such recommendations have been made, customary market practice. In some cases, an additional "pre-cessation trigger" (being a declaration by the FCA of non-representativeness of LIBOR) has been included as a trigger to the fallbacks. In the international bond market, where multi-currency issuance programmes are common, these adjusted fallback provisions generally apply across currencies and in respect of different benchmarks (not just LIBOR). This work also aligns with ISDA's work to implement more robust fallbacks for derivatives referencing key IBORs. Most recently, ISDA launched a consultation in February 2020 on how to implement pre-cessation fallbacks. In addition, LCH announced in January 2020 a consultation on a change to its rulebook regarding the inclusion of a pre-cessation trigger for fallback arrangements.

But while fallbacks are helpful, Andrew Bailey (Chief Executive of the FCA) said in July 2019 *"the even better option will be to avoid use of LIBOR altogether, or to convert those contracts before fallbacks are triggered"*.

- In the UK, public issuance of LIBOR-linked sterling FRNs and securitisations with a maturity beyond the end of 2021 has all but ceased (see *New RFR bonds* above).
- In the US, LIBOR-linked FRNs are still being issued, so the Alternative Reference Rates Committee published recommended fallback language for USD-LIBOR floating rate notes in April 2019 and a summary of its fallback language in November 2019.
- In the euro area, the Working Group on Euro Risk-Free Rates recommended that market participants should consider incorporating fallback provisions in all new financial instruments and contracts referencing EURIBOR, regardless of whether they fall within the scope of the EU Benchmarks Regulation, in their Report on high level recommendations for fallback provisions in contracts for cash products and derivatives transactions referencing EURIBOR of November 2019; and is doing further work on this topic.
- In Switzerland, Andrea M. Maechler, Member of the Governing Board of the Swiss National Bank, gave a speech in December 2019 in which she said that *"ideally, [LIBOR-based products] will be replaced by new, SARON-based contracts. At the very least, the existing contracts must be furnished with fallback clauses, which will come into effect when LIBOR is no longer available as a reference rate."* Further, the executive summary of the National Working Group on Swiss Franc Reference Rates' meeting of 12 November 2019 states that *"[market participants] should align fallback language to the chosen strategy and in particular consider the usage of a pre-cessation trigger"*. However, no further recommendations have been released.
- In Japan, a report by the Cross Industry Committee on Japanese Yen Interest Rate Benchmarks published in November 2019 indicated that a large majority of respondents agreed that the replacement rate and triggers for bond fallbacks should be aligned with fallbacks for ISDA derivatives.

ICMA resource:

- Fallbacks for LIBOR floating rate notes, July 2019.

Legacy LIBOR bonds

The biggest challenge associated with LIBOR transition in the bond market is how to handle bonds which already reference LIBOR, or which reset or otherwise reference a change in interest based on LIBOR or a LIBOR-based rate, and which are due to mature beyond the end of 2021[8]. As noted in *Fallbacks in IBOR bonds* above, many international bonds contain traditional fallback provisions which could result in those bonds becoming fixed rate instruments when LIBOR is permanently discontinued. Market participants may wish to avoid this outcome, as it may be commercially unacceptable for both the issuer and investors and there could be a risk of market disruption.

Bond contracts can be difficult to change, but a small number of English law-governed sterling bonds have already been transitioned successfully from LIBOR to SONIA by way of consent solicitation. The Working Group on Sterling Risk-Free Reference Rates published a Statement on Progress on the Transition of LIBOR-referencing Legacy Bonds to SONIA By Way of Consent Solicitation in January 2020 to encourage and support market participants in transitioning more bonds by way of consent solicitation.

Sterling Cash Market Legacy Task Force

The Working Group on Sterling Risk-Free Reference Rates has set up a Cash Market Legacy Transition Task Force, which is expected to produce a discussion paper to support awareness of consent solicitation and other potential approaches either to transition existing contracts (including bonds and loans) actively to alternative RFRs or update those contracts to include suitable, robust fallback language. The Cash Market Legacy Transition Task Force will also explore a range of key considerations around these approaches and solicit feedback on whether there are areas where further clarity is needed.

But transitioning the legacy bond market as a whole through consent solicitations and/or other potential approaches (such as other liability management exercises) would be a long, complex and costly process. Some bonds may be too difficult to transition from LIBOR to the relevant alternative RFR. For instance, consent thresholds for some bonds may be very high (e.g. in the US, where the consent threshold for a change to the reference rate may require unanimous bondholder consent). And as the process is voluntary, some issuers may decide not to transition and some investors may not accept the terms of the transition, potentially leaving a rump of bonds still referencing LIBOR. Even where transition is possible in principle, there are likely in practice to be too many bonds to transition from LIBOR to the relevant alternative RFR before the end of 2021.

Sterling Tough Legacy Task Force

A Tough Legacy Task Force has also been set up by the Working Group on Sterling Risk-Free Reference Rates to address products which cannot transition (so called 'tough legacy' by the FCA). The Tough Legacy Task Force is charged with establishing the expected extent of tough legacy instruments, likely market outcomes in the event of LIBOR cessation, any particular factors which lead contracts to be less likely to be able to transition, and any potential mitigants suggested by market participants to address the risks identified.

US legislative proposal

In the US, the Alternative Reference Rates Committee is discussing a potential legislative solution with New York state authorities to address the trillions of US dollars of existing LIBOR-linked contracts that either lack contractual provisions to deal with, or have contractual provisions that do not effectively address, a permanent cessation of LIBOR. The minutes of the Alternative Reference Rates Committee's November 2019 meeting provide an overview of this possible legislative solution. The legislation would:

- apply to all asset classes;
- apply to legacy contracts that are silent as to fallbacks;
- override legacy contract fallbacks if the legacy fallback is to a LIBOR-based rate (such as last-quoted LIBOR);
- not override legacy contract fallbacks to an express non-LIBOR based rate (such as Prime);

8 Market estimates indicate that legacy bonds referencing LIBOR with at least $864 billion equivalent globally are due to mature beyond the end of 2021, with around 80% denominated in USD and 9% in GBP (source: RBC, October 2018).

- provide a statutory safeharbour to parties who have the right to exercise discretion or judgment regarding fallbacks if they use the ARRC-recommended replacement rate and spread adjustment;
- allow parties to opt-out of the application of the statute in writing at any time before or after the occurrence of a trigger event;
- provide a safe-harbour to parties who add conforming changes to their documents to accommodate administrative/operational adjustments for the statutory endorsed benchmark rate; and
- apply or be available on the occurrence of statutory trigger events based on the ARRC permanent cessation and pre-cessation trigger events (for cash products) or ISDA's work (for derivatives).

ICMA resource:

- The transition from LIBOR to risk-free rates: legacy bonds, January 2020.

Spread adjustment

For any transactions that are being transitioned from LIBOR to the relevant alternative RFR, a spread adjustment needs to be added to the alternative RFR in order to maintain the economics of the transaction by reflecting the bank credit risk element which is present in LIBOR (see *The differences between LIBOR and RFRs* above).

Spread adjustment used in consent solicitations to date

In the consent solicitations undertaken to transition LIBOR bonds to SONIA to date, the spread adjustment has been the linear interpolation for the relevant tenor of LIBOR vs SONIA basis swaps, which is then added to the original margin of the legacy bond. This is considered to represent fair value on a forward-looking basis, whereas the conditions in the historical median approach may not match market expectations for future market conditions.

Recent developments in spread adjustments

- ISDA has issued a series of consultations on methodologies for calculating the spread adjustment on the permanent cessation of LIBOR in derivatives transactions. In summary, a majority of participants preferred a historical median spot spread approach between the IBOR and the adjusted RFR, calculated over a five-year lookback period. As noted under *Fallbacks in IBOR bonds* above, work is ongoing on the appropriateness and operation of a pre-cessation trigger in derivatives, including the appropriate spread adjustment.

- In the US, the Alternative Reference Rates Committee released in January 2020 a consultation paper on potential spread adjustment methodologies for fallbacks in cash products referencing USD LIBOR, to account for the differences between SOFR and LIBOR. The consultation is open for comment until 6 March 2020.

- The Working Group on Sterling Risk-Free Reference Rates released in December 2019 a consultation paper for the sterling cash market on appropriate methodologies to calculate the spread adjustment when a fallback is triggered (see *Fallbacks in IBOR bonds*). A summary of feedback is expected to be published in Q2 2020.

EU Benchmarks Regulation and regulatory issues in the UK

The EU Benchmarks Regulation was introduced in 2016 and implemented in January 2018. It regulates benchmark administrators, contributors and certain types of benchmark users. The European Commission is reviewing a number of aspects of the EU Benchmarks Regulation, including areas that relate to IBOR cessation. In particular, the Commission requested feedback from market participants on whether authorities should have broader powers to require benchmark administrators to change the methodology of a critical benchmark. ICMA responded to the consultation in December 2019, supporting such broader powers but highlighting the importance of being mindful of the need to support contractual continuity as far as possible if the methodology of a benchmark is modified.

In October 2019, the Working Group on Sterling Risk-Free Reference Rates published letters to the UK Prudential Regulation Authority ("**PRA**"), UK Financial Conduct Authority, European Commission and Basel Committee on Banking Supervision regarding regulatory and conduct barriers to transition away from LIBOR; covering the adoption of SONIA in new transactions, the transition to SONIA and the implementation of robust contractual fallbacks in existing LIBOR-linked contracts. These letters request that the issues raised are considered, and concrete actions are taken, where necessary, to ensure a smooth transition and thereby reducing risks to safety and soundness from continued reliance on a benchmark that is expected to cease at the end of 2021.

In December 2019, Sam Woods, Deputy Governor and CEO of the PRA, responded to the letter from the Working Group on Sterling Risk-Free Reference Rates stating, among other things, that in relation to AT1 and Tier 2 Capital, the PRA does not believe it is desirable to reassess the eligibility of instruments where the amendments are solely to replace the benchmark reference rate. The PRA has made this point to the Basel Committee on Banking Supervision and is making progress towards achieving an internationally consistent response. The PRA also noted that its rules on Contractual Recognition of Bail-In and Stay in Resolution could be considered relevant where legacy contracts are judged to have been materially amended. The PRA is considering possible implications of benchmark rate reform for those rules and plans to provide an update in spring 2020.

The FCA published in November 2019 a Q&A on conduct risk arising from LIBOR transition, outlining their expectations of supervised firms.

ICMA resource:

- Summary of ICMA's response to the European Commission's consultation on the EU Benchmarks Regulation, December 2019.

ICMA documentation

The Global Master Repurchase Agreement (GMRA)

The GMRA does not contain references to LIBOR in respect of pricing. However, the GMRA 1995 and GMRA 2000 versions reference LIBOR in the context of professional expenses and interest accruals on unpaid sums (the GMRA 2011 replaces such references with the concept of "Applicable Rate"). Users of the older versions of the agreement will need to consider amending these standard form references in the event of a permanent cessation of LIBOR.

In 2013, ICMA published the 2011 Global Master Repurchase Agreement Protocol (Revised) (the "**Protocol**"), enabling adhering parties to upgrade certain terms of older versions of the GMRA without the need to bilaterally amend their documentation. This tool was developed at the request of ICMA member firms who were keen to enjoy the benefits of using the improved default and close out provisions of the GMRA 2011, as well as having the ability to make other useful amendments to existing documentation, including the ability to amend LIBOR references in the GMRA 1995 and GMRA 2000. It is possible to amend the aforementioned boilerplate LIBOR references on a multilateral basis by making the relevant elections in Annex 5 of the Protocol (subject to both parties adhering to the Protocol and making the same elections). With respect to LIBOR references made on bespoke terms (pricing or otherwise), parties will need to make appropriate bilateral amendments to their documentation.

The ICMA Rule Book

The ICMA Rule Book does not contain references to LIBOR.

The ICMA Primary Market Handbook

ICMA is in the process of reviewing references to IBORs in its ICMA Primary Market Handbook.

ICMA resource:

- LIBOR and the GMRA, July 2019.

Next steps/key priorities

Official sector sponsored working groups

IBOR currency	Working Group next steps/key priorities
USD	The Alternative Reference Rates Committee adopted a Paced Transition Plan in 2017, which was complemented by Incremental Objectives in 2019.
GBP	See Working Group on Sterling Risk-Free Reference Rates' priorities and roadmap for 2020, published in January 2020.
EUR	See timeline of deliverables of the Working Group on Euro Risk-Free Rates for H1 2020, published in December 2019.
CHF	The National Working Group on Swiss Franc Reference Rates updates its Milestones as required.
JPY	The Cross Industry Committee on Japanese Yen Interest Rate Benchmarks set out a phased transition plan in Appendix 4 of its report on the results of the public consultation on the appropriate choice and usage of Japanese Yen Interest Rate Benchmarks of November 2019.

Derivatives

- ISDA anticipates publishing the results of its consultation on pre-cessation fallbacks and announcing its next steps for implementing permanent cessation and pre-cessation fallbacks in late April or early May 2020. Publication of Bloomberg indicative fallback rates is expected in the first half of 2020. The timing for publication of amendments to the 2006 ISDA Definitions and related protocol is yet to be determined. The amendments to the 2006 ISDA Definitions and related protocol will take effect three to four months after publication.

- The deadline for the LCH consultation regarding pre-cessation triggers for fallback arrangements ends on 23 March 2020.

International bond market

ICMA will continue to participate in the Working Group on Sterling Risk-Free Reference Rates, the Working Group on Euro Risk-Free Rates and the National Working Group on Swiss Franc Reference Rates and communicate with members, authorities and other stakeholders on the impact of the transition from IBORs towards RFRs for the international bond market. ICMA materials are made available on the ICMA benchmark reform and transition to RFRs webpage.

Other financial products

Various other trade associations are engaging on the topic of the transition to RFRs for their markets.

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