

# ARRC

## Alternative Reference Rates Committee | Newsletter

*December 2021 – January 2022*

This periodic newsletter provides an update for those with an interest in the work of the Alternative Reference Rates Committee (ARRC), keeping you well informed on key news relating to alternative reference rates transitions in the U.S. and global markets.

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### Top 3 Takeaways

#### 1. The December 31, 2021 end of sterling, yen, swiss franc, and euro LIBOR achieved a major milestone in the LIBOR transition without market disruption.

- Publication of all 7 euro LIBOR settings, all 7 Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12-month sterling LIBOR settings, and the 1-week and 2-month USD LIBOR settings have ceased.
- The publication of major U.S. dollar (USD) LIBOR settings—overnight, 1-month, 3-month, 6-month, and 12-month—will cease immediately after June 30, 2023. It is regulators' expectation that new use of USD LIBOR between now and June 2023 is [limited](#).
- The Financial Conduct Authority (FCA) is allowing the temporary use of “synthetic” sterling and yen LIBOR rates in all legacy LIBOR contracts, other than cleared derivatives, that were not changed at or ahead of year-end.

#### 2. Progress in the transition to the Secured Overnight Financing Rate (SOFR) accelerated across cash and derivatives markets ahead of the 2021 year-end milestone and into 2022.

- The ARRC released the [“Year-End Progress Report: The Transition from U.S. Dollar LIBOR”](#) highlighting progress in the transition away from USD LIBOR. The report highlights the significant, positive momentum in the transition to SOFR across cash and derivatives markets.
- SOFR now accounts for the majority of risk traded by LCH, and throughout January 2022, syndicated loans have continued to move to SOFR. CME has also noted that SOFR trading activity *“hastened dramatically to begin 2022, with... activity in SOFR futures and swaps surging relative to their Libor-based counterparts.”*

#### 3. The U.S. Department of the Treasury and Consumer Financial Protection Bureau (CFPB) issued final rules relating to the transition away from LIBOR.

- The Treasury Department and Internal Revenue Service (IRS) issued [final regulations](#) providing guidance on the tax consequences of amendments to debt instruments and/or certain associated interest rate swaps or other derivative contracts in order to replace LIBOR.
- The CFPB issued a [final rule](#) to facilitate the transition away from LIBOR for consumer financial products. The final rule will be effective as of April 1, 2022, by which all creditors must select alternative reference rates for existing LIBOR-linked consumer loans.

### ARRC Developments

- The ARRC released a [statement](#) on statutory fallback recommendations for 1-week and 2-month USD LIBOR contracts which are no longer being published as of December 31, 2021.
  - As a “Relevant Recommending Body” under New York and Alabama State LIBOR Legislation (State LIBOR Legislation), the ARRC selected and recommended forms of SOFR, along with associated spread adjustments and conforming changes, to replace references to 1-week and 2-

month USD LIBOR in certain contracts affected by the State LIBOR Legislation. *More information on the New York State legislation which informed these recommendations can be found in the [FAQs](#).*

- The ARRC and its member firms submitted a [letter](#) to request modifications to no-action relief issued by the U.S. Commodity Futures Trading Commission (CFTC). The CFTC issued revised no-action letters to swap dealers and other market participants on December 22, 2021. The letters provide relief particularly to older, legacy swaps and contained conditions for counterparties to qualify for relief.

## U.S. Developments

- The LIBOR transition was on the Financial Stability Oversight Council's (FSOC) agenda at its [December Principals Meeting](#). The discussion on LIBOR included input from a wide swath of key regulators who acknowledged the positive progress made heading into the year end, underscored the importance of transitioning to more durable rates such as SOFR, and highlighted the importance of adopting federal legislation to support the transition of legacy contracts going forward.
  - Of note, Treasury Secretary Janet Yellen said, *"The market has made a great deal of progress in the transition away from LIBOR. The share of new issuance in secondary market activity tied to LIBOR continues to decline, and the pace of transition to more durable rates like SOFR has accelerated in the past few months. The CFTC-sponsored SOFR First initiative has been helpful in driving the transition in interdealer markets, and the ARRC's formal recommendation of a term SOFR rate has given derivatives markets the tools to increase SOFR liquidity, particularly for business loans."*
- Staff of the U.S. Securities and Exchange Commission (SEC) released a [statement](#) on the LIBOR transition. The SEC statement outlines key issues to consider as the LIBOR transition continues for broker-dealers, investment advisors, and other market participants with LIBOR disclosure obligations.
- The U.S. House of Representatives passed the [H.R. 4616 Adjustable Interest Rate \(LIBOR\) Act of 2021](#) (Bill) to reduce risks associated with the transition away from USD LIBOR to help effect a fair transition for financial contracts which do not consider the permanent cessation of LIBOR and have no workable fallbacks.
  - The ARRC [welcomed](#) the Bill's passage, noting that the Bill will minimize the risk of disruptive litigation and adverse economic impacts associated with the transition — providing greater certainty to investors, businesses, and consumers as the financial system continues its transition away from LIBOR.
  - The ARRC will advocate for passage of similar legislation by the Senate and will also advocate for legislative solutions in other states as is needed in case federal legislation does not pass in time.
- Pursuant to the Commodity Futures Trading Commission's Market Risk Advisory Committee's (MRAC) approval of the SOFR First Initiative at its July 13, 2021 meeting, the MRAC Subcommittee on Interest Rate Benchmark Reform issued a [User Guide for Exchange Traded Derivatives Transactions](#).
  - Of note, the user guide states that, *"all market participants are encouraged to ensure operational capability to transact in SOFR exchange-traded derivatives as soon as possible, and it would be a best practice for all market participants to replace use of LIBOR with SOFR for new contracts, including exchange-traded derivatives, after end-2021"*.

## Market Developments

- LIBOR's regulator, the Financial Conduct Authority, released several updates, including:
  - [Final messages on LIBOR before end-2021](#), summarizing the path forward for the 35 LIBOR settings;
  - [Decisions on the use of LIBOR \(Articles 23C and 21A BMR\)](#), permitting legacy use of the 6 synthetic LIBOR settings (i.e., 1-, 3- and 6-month sterling and Japanese yen LIBOR tenors) by certain supervised entities and prohibiting new use of the remaining USD LIBOR settings (with few exceptions);
  - [Article 23D Benchmarks Regulation - Notice of Requirements](#), notifying the changed methodology it requires ICE Benchmark Administration Limited to use to calculate the synthetic LIBOR settings; and

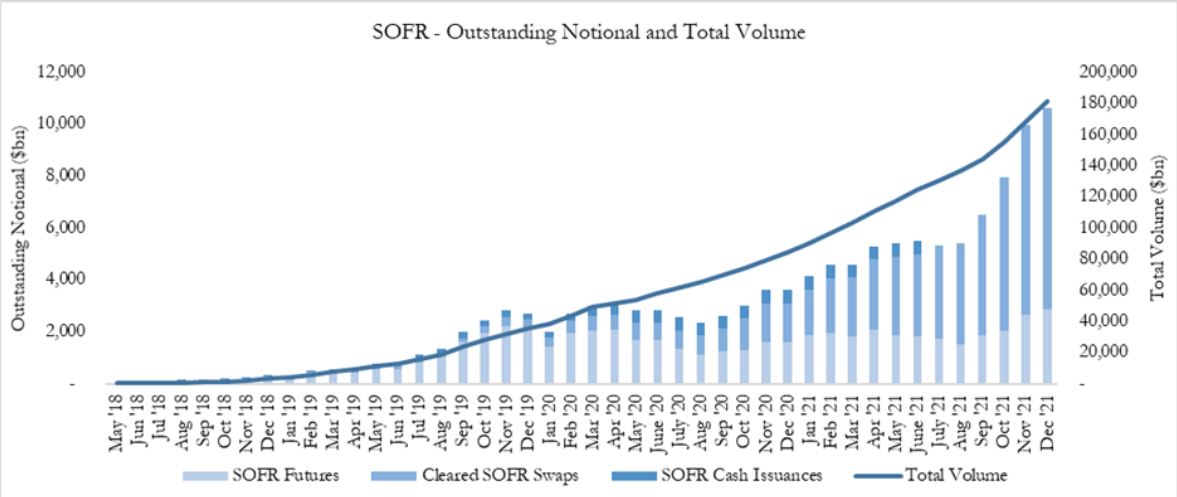
- [Benchmarks Regulation and amendments under the Financial Services Act 2021](#), detailing the enhanced powers of the FCA in managing the wind-down of critical benchmarks, such as LIBOR.
- ISDA released several updates including:
  - [Supplement to the 2006 ISDA Definitions](#) and a new version of the [2021 ISDA Interest Rate Derivatives Definitions](#), covering fallbacks for [additional IBOR derivatives](#) (i.e., LIBORs in India, Malaysia, New Zealand, Norway, the Philippines and Sweden);
  - In conjunction with the International Islamic Financial Market (IIFM), [ISDA/IIFM IBOR Fallback Definitions Booklet for Islamic Hedging Transactions](#) and [ISDA/IIFM Shari'ah-Compliant Bilateral Amendment Agreement](#), covering [Islamic hedging transactions](#) using USD, euro, sterling, yen and Singapore dollar; and
  - [December's ISDA-Clarus Risk-Free Adoption Indicator](#), which increased to an all-time high of 31.7% in December compared to 26.3% in November.
- CME Group reported [2021 Annual, Q4 and Monthly Market Statistics](#), which included a record SOFR average daily volume of 277,464 contracts across asset classes, an increase of 301%.
- The Loan Syndications & Trading Association published a [“LIBOR Transition Checklist”](#) addressing key considerations for market participants as they prepared for the end of 2021 and the next stage in the “phase-out” of LIBOR. It includes considerations such as non-LIBOR originations, internal system readiness, notices and best practices for amendments.

## International Developments

- The UK Government passed the [Critical Benchmarks \(References and Administrators' Liability\) Act 2021](#) providing safe harbor provisions to support the wind-down of critical benchmarks.
- The European Securities and Markets Authority published official [guidelines](#) on methodology, oversight function, and record keeping under the Benchmarks Regulation, following its consultation in 2021. The guidelines, mainly pertaining to the competent authorities, will take effect on May 31, 2022.
- The Financial Services Agency (FSA) and Bank of Japan (BOJ) released a [statement](#) on the use of synthetic yen LIBOR in response to the [Final Report on the Results of the Public Consultation on the Treatment of Tough Legacy Contracts in Japan](#) published by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks.
  - Throughout 2022, the FSA and BOJ will monitor financial institutions on their use of synthetic yen LIBOR, particularly the rationale for using synthetic LIBOR and the progress of transitioning to alternative reference rates.
- The Bank of England amended [BTS 2015/2205](#) to include Overnight Index Swaps (OIS) that reference the Tokyo Overnight Average Rate (TONAR), which will come into force on January 31, 2022. TONAR OIS contracts with an original maturity between 7 days and 30 years will be subject to the derivatives clearing obligation under the European Market Infrastructure Regulation.
- The Canadian Alternative Reference Rate (CARR) working group published a [whitepaper](#) analyzing and providing recommendations on the future of the Canadian Dollar Offered Rate (CDOR). In summary, CARR recommends (i) no new CDOR issuances after June 30, 2023 (with limited exceptions) and (ii) Refinitiv Benchmark Services (UK) Limited (RBSL), CDOR's administrator, cease publication of CDOR after June 30, 2024.
  - In response to the whitepaper, RBSL [intends](#) to conduct its own analysis and engage with market participants to determine a path forward for the use of CDOR. Additionally, the International Swaps and Derivatives Association (ISDA) released a [statement](#) that these announcements do not constitute an index cessation event under the ISDA 2020 IBOR Fallbacks Supplement or the ISDA 2020 IBOR Fallbacks Protocol.

## SOFR Market Liquidity

Since SOFR's publication, approximately \$1.24 trillion notional in floating rate notes tied to SOFR have been issued, with approximately \$360 bn outstanding notional at December month-end.



*As of December 31, 2021*

*Sources: CME Group, LCH, ICE, Bloomberg*

*Note: Cleared SOFR swaps figures represent one side of each transaction (single-sided)*

*This newsletter is compiled by the ARRC's Outreach and Communications Working Group. If you have any questions, please email the ARRC Secretariat at [arrc@ny.frb.org](mailto:arrc@ny.frb.org). <https://www.newyorkfed.org/arrc>*