

## Improving Securities' Transition Away from LIBOR:

### Using DTCC's LIBOR Replacement Index Communication Tool for Documentation Changes

#### Best Practices: Simplifying Communications

The ARRC has recommended that all determining persons, their agents, or other parties responsible for the dissemination of the change information regarding LIBOR debt and securitizations should use DTCC's enhanced LENS system (DTCC's LIBOR Replacement Index Communication Tool) for communicating rate and conforming changes once it is available.

**Official sector messaging** has also highlighted the importance of communicating changes and using this tool. As recommended in the [2022 FSOC Annual Report](#), *"The Council advises responsible parties to communicate any outstanding decisions regarding the rates that outstanding legacy LIBOR contracts will transition to and any conforming changes well in advance of June 2023. The Council also encourages securities issuers and trustees to use the enhanced LENS system [i.e. LIBOR Replacement Index Communication Tool] to ensure they have effectively communicated rates and conforming changes where applicable."*

#### Background: Tool Development

As the markets get closer to the official end date for panel-based LIBOR, much work remains. Financial institutions and market participants of all sizes are still working through documentation and communicating information about the change in securities to the market.

To resolve some of the remaining challenges, DTCC and the ARRC Operations/Infrastructure Working Group have joined forces with key industry players to develop the LIBOR Replacement Index Communication Tool. This tool was created by enhancing the existing LENS (Legal Notice System) so that the enhanced system can serve as a centralized source of security convention change information.

Prior to these enhancements, the LENS tool did not have the capabilities required to support the rate change communications requirements introduced by LIBOR transition. This gap was identified early in the transition planning process, and as a result of collaboration across the industry, the current LENS solution has been upgraded to allow market participants to easily upload rate changes within the existing, established system via the LIBOR Replacement Index Communication Tool.

#### Value of the Tool

Maintaining accurate information about chosen alternative reference rates and convention changes is critical for market participants' financial and accounting systems. The LIBOR Replacement Index Tool

provides consistency of the information via templates as well as connectivity across the financial ecosystem from issuers to investors and holders of the securities. Consistency and connectivity aim to reduce the operational risk of the transition and potential reconciliation breaks of future coupon payments.

## **U.S.-Specific Issue**

In Europe and the UK, changes in securities are treated as a Corporate Action, utilizing a known workflow of corporate action announcements funneled to the financial system by market utilities like Clearstream or Euroclear.

However, in the U.S., changes made to the interest rate methodology of a fixed income security are not treated as a Corporate Action and are therefore not serviced by DTCC, hence lacking a clear utility to communicate these changes broadly. As a result, transaction parties in the U.S. are responsible for disseminating change information. This information is typically only given to current investors and/or made as an amended public disclosure, which can leave many market participants unaware, including those responsible for calculating and receiving accrued interest payments. If market participants end up with incomplete visibility into rate changes, gaps can arise which impact changes in timing for rate fixing and can further add to the complexity of the reconciliation process.

## **Industry Recognition**

The ARRC has acknowledged the DTCC's LIBOR Replacement Index Communication Tool (previously referred to as the enhanced LENS service) as the best option for communicating rate changes related to the transition away from LIBOR, as noted in its July [LIBOR Legacy Playbook](#) publication. There is still work to be undertaken to communicate changes in documentation to market participants, primarily for legacy LIBOR securities, and this tool will help to complete that.

## **Changes Required**

Original LENS notifications are unstructured, without a consistent content format, and are often commingled with other notifications, so they may be difficult for the recipient to easily distinguish key data. This can delay or inhibit updates about changes to contracts being made in accrual and valuation software.

To address these gaps, the ARRC Operations/Infrastructure Working Group, in cooperation with DTCC, [created](#) a new workflow to enable parties in a security's eco-system to share critical information about changes. The new workflow allows specification of interest rate changes via a term sheet and includes a website for bulk submissions. After it is launched, the LIBOR Replacement Index Communication Tool, via the enhancement of LENS, will apply for all transition related changes, including those securities transitioning in 2023.

## **Easy to Use**

To access the LIBOR Replacement Index Communication Tool, participants can go to the [existing LENS service page](#), and choose the LIBOR enhanced service. They can then select the appropriate term sheet for the security's new interest rate and can upload batches of security changes in bulk.

DTCC will make the term sheet information available through the current LENS portal, but in a more identifiable manner, and capture the standardized, structured term sheet data in a separate database. Participants (including market data providers) will be able to access the structured data and pass it on via their individual processes and market data files.

### **LIBOR Replacement Index Communication Tool Not Suitable for All Products Subject to LIBOR Transition**

The DTCC's LIBOR Replacement Index Communication Tool is primarily designed for securities with CUSIPs. Parties who are responsible for LIBOR transition of other products, such as derivatives, loans and securities without CUSIPs, must find other means for communicating and implementing changes with appropriate parties directly.