



FEDERAL RESERVE BANK *of* NEW YORK

# Last Call on LIBOR: Final Steps to Transition

## Preparing for Cessation Part II: Client Communications Panel Discussion

*This material is provided for discussion purposes only. The views expressed in this material do not necessarily represent those of the Federal Reserve, the ex officio members of the Alternative Reference Rates Committee, or the Financial Conduct Authority.*

July 11, 2022

# USD LIBOR Cessation: Developments in LCH-cleared Swaps

Philip Whitehurst

Head of Service Development, SwapClear and Listed Rates

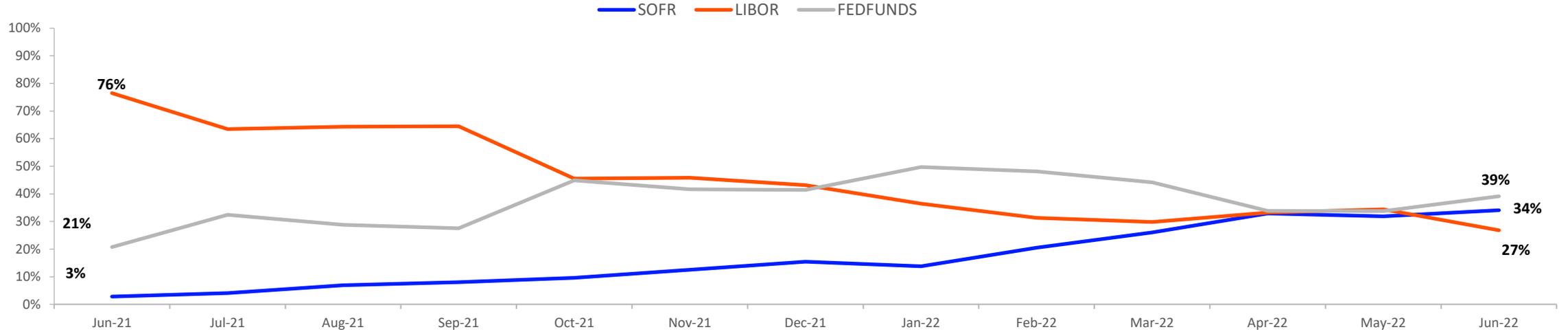
July 2022



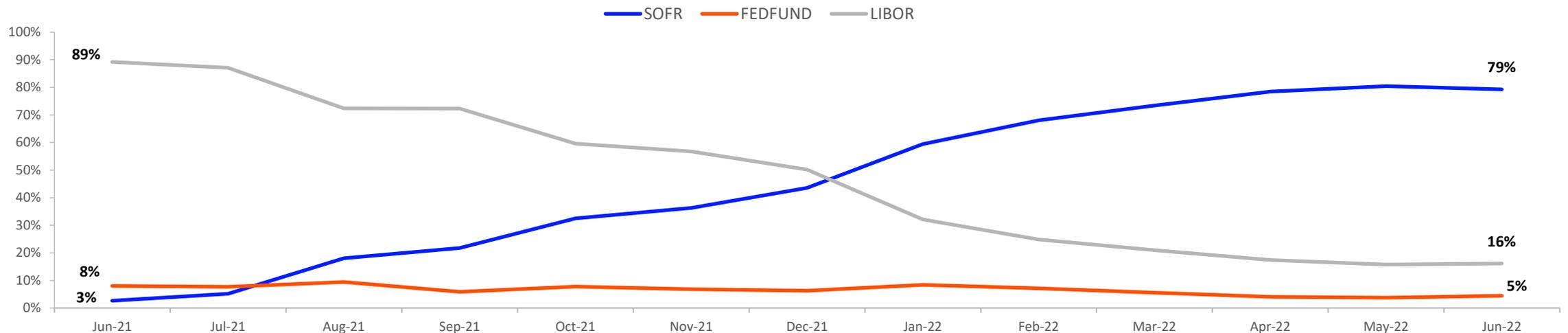
**LSEG**

# USD LIBOR Cessation: Cleared Swap Market Liquidity

## USD RELATIVE REGISTRATION NOTIONAL VOLUMES



## USD RELATIVE REGISTRATION DV01 VOLUMES



# USD LIBOR Cessation: LCH's Treatment of Cleared Swaps following Consultation\*

“LCH plan to convert **Outstanding USD LIBOR Contracts** into **Market-Standard SOFR OIS** equivalents on a cash-compensated basis in mandatory events conducted shortly before USD LIBOR cessation”

<b>Outstanding USD LIBOR Contracts</b>	All LCH-cleared USD LIBOR swap contracts which are outstanding on the Conversion Dates and which rely on at least one LIBOR setting beyond 30 <sup>th</sup> June 2023 will be subject to conversion		
<b>Market-standard SOFR OIS</b>	The contracts generated by the conversion process will carry a market-standard SOFR floating leg in which LIBOR will be replaced by standardised backward-looking compounded SOFR and to which the relevant IBOR Fallbacks Spread Adjustment will be added (see table below). The terms of any non-LIBOR leg on the original contract will be unchanged		
<b>Conversion Dates</b>	Tranche 1 Date: 22 <sup>nd</sup> / 23 <sup>rd</sup> April 2023	Tranche 2 Date: 20 <sup>th</sup> / 21 <sup>st</sup> May 2023	
<b>Products in scope</b>	Tranche 1 Products: LIBOR/FEDFUNDS Basis, VNS, ZCS	Tranche 2 Products: All other USD LIBOR-based products	
<b>Representative LIBOR Continuity</b>	To minimise disruption, LCH aim to preserve the cashflows associated with representative USD LIBOR settings via overlay bookings		
<b>Cash Compensation</b>	LCH will cash compensate for any valuation difference between the original LIBOR trade and the SOFR contract (including overlays)		
<b>Process Mechanics</b>	LCH expect to characterise the process legally as a trade amendment; operationally, trades will be terminated and rebooked		
<b>Process Fees</b>	Applicable Fallback Fees and Conversion Fees are available here: <a href="#">Rates Reform: USD LIBOR Fallback and Conversion Fees   LCH Group</a>		
<b>Back-stop</b>	LCH's conversion process should be treated as a back-stop. Market participants are strongly encouraged to convert pro-actively		

USD LIBOR Tenor in original contract	1M	3M	6M	12M
IBOR Fallback Spread Adjustment (BISL)	0.11448	0.26161	0.42826	0.71513

\* Subject to regulatory review

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**ARRC Operations & Infrastructure Working Group**

**Oliver Bader, Ann-Marie Bria, Scott Longo**

# How are Bondholders informed in different jurisdictions today about rate replacement decisions?

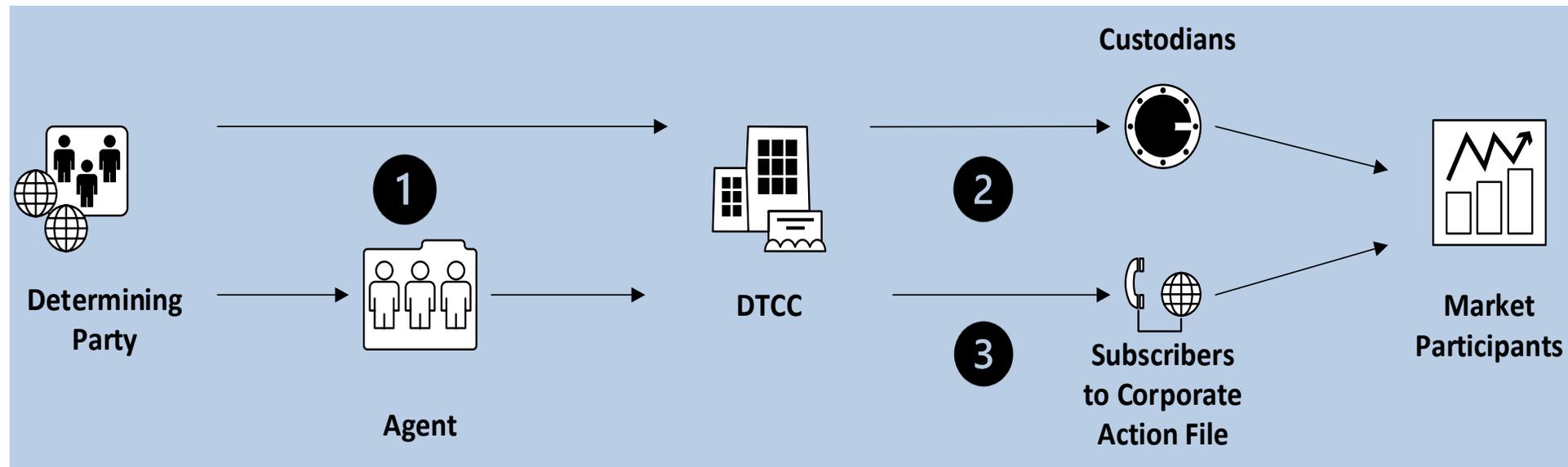


<b>Rate Change Event</b>	<ul style="list-style-type: none"> <li>Is treated as a Corporate Action</li> </ul>	<ul style="list-style-type: none"> <li>Is currently <u>not treated as a Corporate Action</u></li> <li>Rates Changes are a <u>non-serviceable event</u></li> </ul>
<b>Announcement of the Change</b>	<ul style="list-style-type: none"> <li>International Central Securities Depositories (ICSDs) will send corporate action notification via SWIFT when received from issuer or agents</li> </ul>	<ul style="list-style-type: none"> <li>Change notifications received from Issuers or Agents are published on DTCC LENS message board (subscription service)</li> <li>Notifications are comingled with redemption and default notices and are therefore difficult to identify</li> </ul>
<b>Details of the Change</b>	<ul style="list-style-type: none"> <li>ICSDs distribute detailed term sheet via other channels to their network</li> </ul>	<ul style="list-style-type: none"> <li>Are included on the LENS messaging board</li> </ul>
<b>Informed Parties</b>	<ul style="list-style-type: none"> <li>Broad range of investors, infrastructure providers and data providers</li> </ul>	<ul style="list-style-type: none"> <li>Limited reach due to subscription model and difficult data extraction process</li> </ul>

**ARRC O&I Working Group does not believe that the current US process will be fit for purpose to deal with transition event in June 2023**



## Proposed Solution – Detailed Design to take place in July/August



1

- Agent, Issuer or any other party responsible for disseminating the information will leverage existing LENS service to submit new Lens Event type through a UI to populate information on the UI or upload through a standardized template

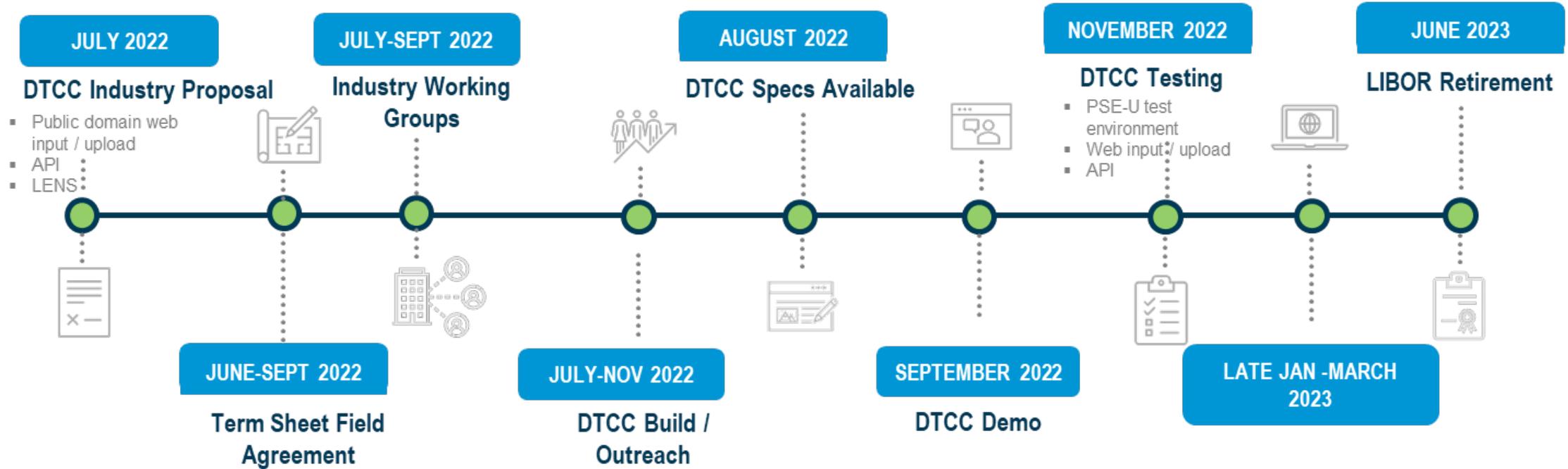
2

- Document available through traditional LENS interface and subscription model

3

- Fielded data available through API enabled subscription service which includes detailed content of the data mapping template from step 1
- Market Data providers would use data to populate their own static data masterfiles

# LIBOR Transition Timeline



\*Production Go-Live dependent on PSE testing results