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IBOR Transition

#14: Buying More Time For An Orderly Cessation Of Libors

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Victor Yong
Rates Strategist
Victor.YongTC@uobgroup.com

Heng Koon How, CAIA
Head of Markets Strategy
Heng.KoonHow@uobgroup.com

- IBA has proposed a later date of 30 Jun 2023 for the publications of some longer dated and more widely referenced USD Libor tenors to cease.
- US regulators continue to encourage banks to limit new contracts that reference USD Libors by end Dec 2021. However, the runway for legacy contracts to mature will likely be extended to end Jun 2023.
- Regulators express their support for an orderly and fair transition whilst continuing to nudge the transition momentum.

30 November Announcement By ICE Benchmark Administration Limited (IBA)

In early December, IBA will seek public feedback for its proposal to 1) cease the publication of 1-week and 2-month USD Libors after 31 Dec 2021, and 2) cease the publication of overnight, 1-, 3-, 6- and 12-month USD Libors after 30 Jun 2023.

In addition to the above, the IBA will also be consulting on its intention to cease the publication of all GBP, EUR, CHF, and JPY Libors although no tiered deadlines have been proposed for the other currencies.

The consultation period is expected to close by end Jan 2021.

What Has Changed?

Based on IBA's engagement with stakeholders, it appears that there is consensus that the transition from Libors to risk free rates, currently set for end Dec 2021, will require a longer runway in order to facilitate an orderly and fair transition.

To this end, the IBA is proposing to cease publication of only the 1-week and 2-month USD Libor tenors after 31 Dec 2021 because both tenors are not commonly referenced. Subject to feedback, the cessation of the 1-week and 2-month tenors could also apply to to GBP, EUR, CHF, and JPY Libors.

For the rest of the longer dated and more widely referenced tenors, the IBA has proposed a later date of 30 Jun 2023 for their publications to cease.

The UK's Financial Conduct Authority (FCA) and a joint press release from the US Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency have come out in support of the proposals put forth by IBA.

US Federal Reserve Governor Randal Quarles, who serves as the FED's vice chair for supervision said that "*Today's plan ensures that the transition away from Libor will be orderly and fair for everyone – the market participants, businesses and consumers*".

New York Federal Reserve President John Williams added that "*these announcements represent critical steps in the effort to facilitate an orderly wind down of USD Libor*".

What Has Not Changed?

In addition to articulating their support for the proposed tiered cessation deadlines, the coordinated responses from key regulators have reiterated their recommendation that banks should limit the use of Libors in new contracts by end 2021. Specifically, much attention has been focused on highlighting that while existing legacy contracts will now have a longer runway till end Jun 2023 to transit into the new risk free rates, all new contracts should still aim to stop referencing USD Libors by end 2021.

Thus, whilst Libors may have bought some time with the latest IBA proposal, the transition process to risk free rates remains very much ongoing. To quote the chairman of the US Alternative Reference Rates Committee (ARRC), Tom Wipf in an interview with Reuters, "*This by no means should slow down work, it should actually give people the clarity they need to navigate this transition with more information than they had before today*".

In addition, the IBA proposal will also not have an impact on the launch date (25 Jan 2021) of the International Swaps and Derivatives Association (ISDA) supplement and protocol which will introduce robust fallback language into derivatives contract. This ISDA update is a critical one for mitigating systemic risk because it puts in place an automatic process for relevant adjusted risk free rates to apply in the event where Libors cease or are deemed non-representative.

At the moment of writing, the Monetary Authority of Singapore (MAS) and Association of Banks Singapore (ABS) have made no comments regarding this latest announcement by IBA of the extended timeline. As such, we assume that there are no changes to existing efforts and timeline by the MAS and ABS to transit away from existing away from SOR to SORA and phase out Sibor.

Links To Additional Documents

- ICE Benchmark Administration Announcement
- UK Financial Conduct Authority Press Release
- US Agencies Joint Press Release

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