



IBOR TRANSITION

Market Update - March 2023

GLOBAL MARKET DEVELOPMENTS

FCA ANNOUNCES DECISION ON SYNTHETIC US DOLLAR LIBOR (APRIL 03)

FCA announced the publication of 1-, 3- and 6-month synthetic USD LIBOR settings [until end-September 2024](#).

- The synthetic USD LIBOR will be computed using the relevant CME Term SOFR Reference Rate plus the respective ISDA fixed spread adjustment.
- The use of the 1-, 3- and 6-month synthetic USD LIBOR settings is permitted in all legacy contracts except cleared derivatives.
- New use of synthetic USD LIBOR will not be permitted.

The synthetic settings are intended for use in legacy contracts only, to help ensure an orderly wind-down of LIBOR. Firms must therefore **prefer to continue actively transition** their contracts.

ARRC FORMALLY RECOMMENDS FALLBACK RATES AND ADJUSTMENT SPREADS FOR USD LIBOR (MARCH 15)

[ARRC released a paper](#), formally recommending the replacement rates and adjustment spreads to be used as fallbacks for USD LIBOR after 30 June 2023. For most non-consumer financial contracts, the recommended replacement is CME Term SOFR plus the applicable ISDA spread, in line with replacement rates applicable to US law-governed contracts under the US Adjustable Interest Rate (LIBOR) Act.

PROGRESS ON GLOBAL TRANSITION TO RFRS IN DERIVATIVES MARKETS (MARCH 15)

[ISDA published a paper](#) that examines the progress made on the global transition to RFRs. Specifically, it analyzes the adoption of SOFR in different regions and highlights major industry developments that are expected to take place in the first half of 2023. It also tackled other topics related to the transition, such as Term RFRs and CSR.

EU MARKET DEVELOPMENTS

CENTRALIZED CALCULATION OF EURIBOR LEVEL 3 CONTRIBUTIONS AT ADMINISTRATOR (MARCH 13)

[EMMI](#) informed about its intention to explore potential ways of centralizing – at Administrator level – the calculation of Level 3 contributions on the Hybrid Methodology for Euribor.

The project relies on two features:

- To provide a harmonized, consistent, and transparent calculation methodology in line with Euribor's underlying interest.
- To propose a model for Level 3 contributions calculated centrally and independently by EMMI.

For any given Euribor tenor, the Panel Bank contributions from the previous day would be considered as the basis for the calculation of Level 3 contribution when needed. In such a situation, the previous day contribution would be adjusted using the corresponding change in interest rates, as well as a change in credit spread.

Emmi plans to launch a public consultation in Q3 of this year to collect their insights before an expected implementation in 2024.

US & NORTH AMERICAN MARKET DEVELOPMENTS

LIBOR REMEDIATION IS SPEEDING UP (MARCH 02)

[The LSTA recently published an article](#) stating the switch to SOFR is accelerating, emphasizing a substantial jump in both refinancings and loan extensions, which forces a switch to SOFR, as well as LIBOR fallback amendments. All told, more than \$60 billion of leveraged loans were observed switching to SOFR last month.

MARKET NEWS

- ISDA published its [Transition to RFRs Review](#) of February. The ISDA-Clarus RFR Adoption Indicator increased to a monthly average of 52,9% compared to 51% in January 2023.
- For the week ending on March 31st, ISDA Swap Info analysis shows that SOFR trade count totaled 217.9 thousand (including 15.6 thousand basis swaps), vs 36.1 thousand for USD LIBOR.

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More information on our website: [click here to access our dedicated IBOR transition webpage](#).

Contact us for any queries: sgcib-regulatory-support.par@sgcib.com.

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