



BNY Mellon – LIBOR Transition and Readiness Overview

November 2020

The Transition Continues

*Foreword by Oliver Bader,
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LIBOR Transition*

Despite the impacts of COVID-19, LIBOR transition deadlines remain largely unchanged. Around the world, regulators, national market authorities and market participants are continuing to work in close coordination to refine the functioning of new Alternative Reference Rates (ARRs) in the context of both cash and derivatives products. While there is still a significant way to go, the fundamentals of the transition are in place. Adoption of ARR-indexed products is gaining traction and we are entering a more intense phase of the transition before the expected cessation of LIBOR.

Considerable activity has already taken place in the U.S. and across Europe and we are now seeing increased activity in other parts of the world, especially across the Asia Pacific region. BNY Mellon continues to be very active both with changes to its own systems and processes and in supporting clients through the transition.

This update includes: a summary of recent market developments, an overview of the recent progress BNY Mellon has made in preparing for the transition, a reminder of the resources available for clients and a description of the key milestones prior to the end of LIBOR.

HOW BNY MELLON HAS BEEN PREPARING FOR THE LIBOR TRANSITION

BNY Mellon is currently preparing for the LIBOR transition at an industry level, across our organization and with our clients in a dedicated program inception in late 2018. To date, we have successfully:

- Updated our fund accounting and middle office platforms to support ARRs as well as the October 2020 derivative valuation change
- Traded Floating Rates Notes and derivatives indexed to the new ARRs
- Migrated our EUR deposit rates to €STR in July 2020, ahead of the recommended discontinuation planned for January 2022
- Transitioned from EONIA to €STR for all cleared EUR denominated products. Engaged with and informed clients of the impact to NPV and PAI for EUR trades, and compensating fees issued by clearing houses to offset this change.

OPERATIONAL AND TECHNOLOGY READINESS

BNY Mellon is preparing to address our operating model and technology implications to enable a successful transition through system enhancements, most of which will be delivered by the end of 2020. However, additional enhancements will be required to address the latest market developments, as well as tools to enable the transition itself. The system changes have gone hand-in-hand with adjustments to our internal model inventory.

Meanwhile, many of the procedures around operationalizing the relevant fallback language need to be further discussed in the market. We will continue to work together with the ARRC and other industry bodies to understand the implications of these market developments.

ACCOUNTING STANDARDS AND PROCESSES

BNY Mellon's LIBOR program has delivered new capabilities to support the transition away from LIBOR linked assets to ARR-indexed assets including data capture, calculations and data dissemination enhancements across various accounting applications and in a variety of markets.

Our fund accounting systems have been upgraded with the relevant security data elements in support of ARR calculation methodologies. Meanwhile, we continue to follow all prudential regulations on the impact of the transition from a tax, accounting and hedging guidelines perspective (e.g. IFRS9, US GAAP, etc).

PRODUCT IMPLICATIONS

In some instances, where there may be operational changes to clients' existing processes, we will engage clients directly via their Relationship Managers to ensure they are fully supported in transitioning to the new ARRs.

INDUSTRY ENGAGEMENT

BNY Mellon remains actively engaged with various industry bodies that are developing solutions to help smooth the transition from LIBOR to alternative benchmarks. These include:

- International Swaps and Derivatives Association (ISDA)
- Alternative Reference Rates Committee (ARRC)
- The Bankers Association for Finance and Trade (BAFT)
- UK Working Group on Sterling Risk-free Reference Rates (UK RFR)
- The International Capital Market Service Association (ICMSA)

HOW WE ARE ENGAGING WITH OUR CLIENTS

1. Support for specific transition events

Over the past few months there have been two significant milestones in the LIBOR transition journey. For each of these events, BNY Mellon executed a comprehensive plan in order to support and manage all aspects of the change:

EUR discounting regime transition to €STR

On July 27, 2020, EONIA was replaced by €STR on all cleared EUR denominated products. The change affected Net Present Values (NPVs) and Price Alignment Interest (PAI) for EUR trades. There was a compensating fee payment issued by the clearing house to offset this change ensuring the funds remained neutral.

For further information please refer to our [€STR Discounting Factsheet](#).

Cleared USD swap products transition to SOFR

On October 16, 2020, Central Counterparty Clearinghouses (CCPs) converted discounting and PAI/PAA from Effective Federal Funds Rate (EFFR) to the U.S. Secured Overnight Financing Rate (SOFR) on all outstanding cleared USD-denominated swap products.

For further information please refer to our [Managing Central Counterparty Discounting through the ARR Transition](#) information sheet.

2. Keeping our clients informed

BNY Mellon continues to produce a range of resources to keep clients informed on the transition to help them understand its impacts, and create awareness of possible developments in the future. Key communications resources include:

- [LIBOR Transition microsite](#)
- [Frequently Asked Questions](#)
- [LIBOR Transition and Readiness Overview](#)
- [Managing CCP Discounting through the ARR Transition: moving cleared USD swaps to SOFR](#)
- [Leaving LIBOR: the structural differences between LIBOR and SOFR](#)
- [Global ARR initiatives: beyond the big five](#)
- [Bracing for Impact: What's Complicating the Push to End LIBOR](#)
- [The Challenges of Losing LIBOR](#)
- [LIBOR: The Time for Wait and See is Over](#)

What are SOFR, SONIA and €STR? What is 'fallback language' in the context of the benchmark reform? What progress has been made on adoption of Alternative Rates across the APAC region?

The answers to these and other questions can be found in our [Frequently Asked Questions](#) document on our website.

PREPARING FOR THE TRANSITION

Given the broad use of LIBOR across many financial products, any potential cessation of publication could have a financial and operational impact. Market participants should seek to understand how this transition may affect them. This may be achieved by taking some initial steps, including:

- Identifying which products are linked to LIBOR.
- Documenting the amount of exposure products have to LIBOR, including those in contracts which mature after the end of 2021: such a review may include specific currencies and indices, notionals, risk, transactions numbers, maturity profiles, product types and counterparty concentration.
- Examining and, if necessary, amending existing and new legal contracts to ensure there is robust fallback language in place that sets out the steps to be taken, or the interest rate to be applied, in case LIBOR is permanently unavailable.
- Producing an inventory of relevant systems used (e.g., trade booking, risk systems) that may be affected should LIBOR no longer be published and consider making changes that will allow those systems to support ARR.
- Ensuring appropriate documentation is in place to adequately disclose or mitigate risks associated with the discontinuation of LIBOR.



WHAT TO EXPECT OVER THE COMING MONTHS

A summary of some expected changes for the key benchmark rates

KEEPING UP TO DATE WITH THE LATEST NEWS ON LIBOR TRANSITION

You can follow these links for the latest news and other resources from some of the key industry participants in LIBOR transition:

[Alternative Reference Rates Committee \(ARRC\) \(US\)](#)

[Loan Syndications & Trading Association \(LSTA\) \(US\)](#)

[Mortgage Bankers Association \(MBA\) \(US\)](#)

[International Swaps and Derivatives Association \(ISDA\)](#)

[The Bankers Association for Finance and Trade \(BAFT\)](#)

[Bank of England \(UK\)](#)

[Financial Conduct Authority \(UK\)](#)

[Loan Market Association \(LMA\) \(EMEA\)](#)

[IFRS \(International Financial Reporting Standards\) – IBOR Reform and its Effect on Financial Reporting \(Phase 1\)](#)

[IFRS \(International Financial Reporting Standards\) – IBOR Reform and its Effect on Financial Reporting \(Phase 2\)](#)

[Asia Pacific Loan Market Association](#)

[Asia Securities Industry and Financial Markets Association](#)

GBP transition to SONIA	<ul style="list-style-type: none"> • Publication of provisional live term SONIA • SONIA-indexed products become widely available • Clear and robust contractual fallback arrangements in all new and refinanced LIBOR-linked loan products ahead of conversion • Issuance of LIBOR-indexed loans expiring after 2021 will cease • Reduction in legacy GBP-LIBOR GBP stock <p>https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfr-working-group-roadmap.pdf?la=en&hash=92D95DFA056D7475CE395B64AA1F6A099DA6AC5D</p>
USD LIBOR Transition to SOFR	<ul style="list-style-type: none"> • RFP to administrators for SOFR spread adjustments • USD derivatives quoted in SOFR • No new LIBOR loans, FRN, derivatives trades • ARRC recommend forward-looking term SOFR reference rate • Banks no longer compelled to make LIBOR submissions <p>https://www.newyorkfed.org/medialibrary/microsites/arrc/files/libor-timeline.pdf</p>
SIBOR transition to SOR and SORA	<ul style="list-style-type: none"> • Launch of SORA-indexed syndicated loans • Publication of: <ul style="list-style-type: none"> – market guidance on fallbacks across cash markets – customer segmentation study on usage of benchmark rates – market guidance on cessation date for new SOR originations and transition mechanisms • The transition legacy of one-month and six-month SIBOR contracts to SORA should occur after the derivatives market has moved from the swap offer rate (SOR) to SORA <p>https://www.abs.org.sg/images/default-album/sc-sts-transition-roadmap-(sep-2020).png</p>
JPY LIBOR transition to TONAR	<ul style="list-style-type: none"> • Creation of a TONAR term structure based on futures or overnight index swap transactions
HONIA	<ul style="list-style-type: none"> • Expectation by Hong Kong Monetary Authority that Authorized Institutions (AIs) should: <ul style="list-style-type: none"> – from January 1, 2021, be in a position to offer products referencing ARRs – from January 1, 2021, include adequate fallback provisions in all newly issued LIBOR-indexed contracts that will mature after 2021 – by June 30, 2021, cease to issue new LIBOR-linked products that will mature after 2021 <p>https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200710e1.pdf?732</p>

APPENDIX

1. A ROUND-UP OF KEY DEVELOPMENTS AND ANNOUNCEMENTS FROM AROUND THE WORLD

June 2020	The Alternative Reference Rates Committee publishes recommended best practices	The best practices are intended to clarify timelines and interim milestones that will minimize market disruption and support a smooth transition to their recommended alternative reference rate, SOFR.
	Bank of England sets out its position on provision of compounded SONIA	Given near universal support from respondents to an earlier discussion paper, the Bank confirmed it would publish a daily SONIA Compounded Index.
July 2020	Bank of England and New York Fed deliver joint webinar: 'LIBOR: Entering the end game'	The speeches by Andrew Bailey , for the Bank of England and John Williams , for the New York Fed to explain that the transition away from LIBOR is still largely on track and remind us that there is a great amount of work to do.
	The Alternative Reference Rates Committee launches the SOFR Summer Series	A series of webinars designed to educate the public on the history of LIBOR; the development and strengths of the Secured Overnight Financing Rate (SOFR), the ARRC's recommended alternative to U.S. dollar (USD) LIBOR; progress made in the transition away from LIBOR to date; and how to ensure organizations are ready for the end of LIBOR.
	European Central Bank publishes good practices for banks to prepare for benchmark rate reforms	Results of European Central Bank industry-wide assessment of banks' preparedness for the benchmark interest rate reforms.
August 2020	The Alternative Reference Rates Committee launches the SOFR Starter Kit	A set of fact sheets to inform the public about the transition away from U.S. dollar (USD) LIBOR to SOFR, the ARRC's recommended alternative reference rate.
	The Alternative Reference Rates Committee releases updated recommended hardwired fallback language for bilateral business loans	The updated fallback language adjusts the "Hardwired Approach" and the "Hedged Loan Approach" of the final recommended language that was released in May 2019.
	Joint industry consultation on the SIBOR reform and a shift to a SORA centred SGD interest rate market	The Association of Banks in Singapore, the Singapore Foreign Exchange Market Committee and the Steering Committee for SOR Transition to SORA issued a consultation report, which recommends the discontinuation of the SGD SIBOR in three to four years, and a shift to the use of SORA as the main interest rate benchmark for SGD financial markets.
September 2020	Securing a SONIA-based sterling loan market	In order to support a timely transition away from use of LIBOR ahead of the end of 2021, the Bank of England's Working Group on Sterling Risk-Free Reference Rates has recommended for lenders to be ready by the end of September 2020.
	The Alternative Reference Rates Committee releases RFPs for the publication of forward-looking SOFR term rates	The ARRC is seeking a potential administrator to publish forward-looking SOFR term rates.
	Recommendation on conventions for referencing compounded in arrears SONIA in the sterling loan market	In recognition of widespread demand from sterling loan market participants, the Bank of England's Working Group on Sterling Risk-Free Reference Rates released a recommendation on standard market conventions for sterling loans based on compounded in arrears SONIA.
	Bank of England produces papers on transition of legacy cash products	The Working Group published two papers providing practical steps and considerations in the active transition of legacy cash products.
October 2020	ISDA statement on IBOR Fallbacks Supplement and Protocol	ISDA confirms that it will launch the IBOR Fallbacks Supplement to the 2006 ISDA Definitions and the ISDA 2020 IBOR Fallbacks Protocol on October 23, 2020.
	Bank of England welcomes Fallbacks protocols	Bank of England welcome the announcement by the ISDA that its IBOR Fallbacks Protocol and IBOR Fallbacks Supplement will be launched on October 23, 2020, with an effective date of January 25, 2021.
	Association of Banks in Singapore announces new transition timeline	The Association of Banks in Singapore has announced a new timeline which states that by end-April 2021, all lenders and borrowers should cease issuance of SOR-indexed loans and securities that mature after end-2021.

2. STATUS OF PROPOSED REGIONAL BENCHMARK REPLACEMENTS

On March 5, the Financial Conduct Authority (FCA) formally [announced](#) the future cessation and loss of representativeness of LIBOR benchmarks. The announcement followed a consultation by the ICE Benchmark Administration (IBA), LIBOR's administrator, in which they confirmed their plans to cease use and publication of the benchmark.

The FCA [confirmed](#) that all 35 LIBOR benchmark settings used by IBA, will either cease to be provided by any administrator or will no longer be representative:

- Immediately after December 31, 2021, in the case of all Sterling, Euro, Swiss Franc and selected Japanese Yen settings, and the 1-week and 2-month US Dollar settings; and
- Immediately after June 30, 2023, in the case of overnight, 1-, 3-, 6-, 9- and 12-month US Dollar settings
- After the end of 2021, LIBOR will no longer be available for use in new contracts
- The FCA will consult on requiring the IBA to continue to publish the three remaining sterling LIBOR settings (1-, 3- and 6-month), for a further period after end 2021 on a changed methodology basis (also known as 'synthetic') using powers proposed under the UK Benchmark Regulation.
- The FCA will also consult on requiring the IBA to continue to publish Japanese Yen LIBOR settings (1-, 3- and 6-month) after end 2021 on a synthetic basis, and for one additional year together with consulting on USD LIBOR settings (1-, 3- and 6-month) for a further period after June 30, 2023, on a synthetic basis.

Meanwhile, [ISDA confirmed](#) separately, that the spread adjustments to be used in its IBOR fallbacks have also now been fixed as a result of the FCA's announcement, providing clarity on the future terms of the many derivative contracts that now incorporate these fallbacks.

For the latest developments, please visit your local regulatory and/or national working group websites.

Jurisdiction	Prior Benchmark	Replacement Rate	Current Status
 US	USD LIBOR	SOFR (Secured Overnight Financing Rate)	<ul style="list-style-type: none"> • No new USD LIBOR issuance after 12/31/21 • USD LIBOR settings (overnight, 1-, 3-, 6-, 9- and 12-month) will cease to be provided by any administrator after 6/30/23
 UK	GBP LIBOR	SONIA (Sterling Overnight Index Average)	<ul style="list-style-type: none"> • Reformed SONIA since April 2018 • ICE SONIA SWAP rate to be added to ISDA rate option and collateral tables • No new GBP LIBOR Issuance after 3/31/21 • All GBP LIBOR settings non-representative after 12/31/21 and will cease publication in its current formulation
 Euro Area	EONIA	€STR (Euro Short-Term Rate)	<ul style="list-style-type: none"> • Publication of €STR since October 2019 • Reforms to EURIBOR's methodology were completed in Q4 2019 and will continue as a BMR compliant rate until at least 2023 • EURIBOR to continue alongside €STR beyond 2021 • All EUR LIBOR settings will cease publication and be non-representative after 12/31/21
	EURIBOR EUR LIBOR	EURIBOR (Reformed)	
 Japan	JPY LIBOR and TIBOR (Japanese Yen TIBOR and Euro Yen TIBOR)	TONAR (Tokkyo Overnight Average Rate)	<ul style="list-style-type: none"> • Investigation of market practices and contract design of TONAR ongoing • All JPY LIBOR settings non-representative after 12/31/21 and will cease publication in its current formulation
 Switzerland	CHF LIBOR	SARON (Swiss Average Rate Overnight Rate)	<ul style="list-style-type: none"> • Secured rate that reflects interest paid on interbank overnight repo rate • SARON swaps began trading in April 2017 • All CHF LIBOR settings will cease publication and be non-representative after 12/31/21
 Singapore	Singapore SWAP Offer Rate (SOR)	SORA (Singapore Overnight Rate Average)	<ul style="list-style-type: none"> • SORA now used in all derivative contracts
	Singapore Interbank Offered Rate (SIBOR)		
 Hong Kong	Hong Kong Interbank Offered Rate (HIBOR)	HONIA (Hong Kong Dollar Overnight-Index Average)	<ul style="list-style-type: none"> • Hong Kong Treasury Markets Association identified HONIA as the alternative RFR but announced there is no plan to discontinue HIBOR. Hong Kong will therefore adopt a multi-rate approach, whereby HIBOR and HONIA will co-exist

Further information on the broader global LIBOR transition can be found in BNY Mellon's LIBOR Information Series paper, [Global ARR Initiatives: Beyond the Big Five](#).

For more information on BNY Mellon's preparedness for LIBOR, please contact your BNY Mellon representative.

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