

LIBOR TRANSITION AND IBOR REFORM

LIBOR and other local interest rate benchmarks are being replaced by new risk-free rates (RFRs) with very different characteristics.

The liquidity and fiduciary problems affecting interbank offered rate (IBOR) benchmarks led to a series of recommendations from the Financial Stability Board (FSB) in 2014.

Many countries responded by establishing working groups comprising market participants, regulators and central banks to reform IBOR designs and introduced RFRs, such as SONIA in the UK, SOFR in the US and €STR in the eurozone to replace them.

The majority of LIBOR tenors and currencies ceased publication at the end of 2021 and the final USD LIBOR tenors will cease in mid-2023. Around the world local IBOR cessation plans are being announced with new RFRs being launched to replace them.

Transition comes with challenges and risks to be managed, both financial and nonfinancial. Market participants should act now and have appropriate plans in place to manage this transition effectively and in line with the June 2023 LIBOR deadline and ongoing cessation of local IBORs in the coming months.

Refinitiv is working to ensure our customers can continue to work seamlessly as IBOR reform and the LIBOR transition progress.

Hundreds of users all over the world use LIBOR and other IBORs. As this transition unfolds, financial institutions and companies need data, tools and services to move off these historical reference points and benchmark tools. Instead, alternative RFRs, term rates and/or adjusted RFRs will need to be employed.

Refinitiv products and services have been enhanced to allow customers to manage this transition to alternative reference and benchmarking tools, not to mention the many tools that are already available to help prepare for the transition.

At Refinitiv we are committed to providing the data and benchmarks customers need to adjust operating models across front, middle and back offices. We are creating new financial products in light of the IBOR reforms and LIBOR transition, while also ensuring we meet the high regulatory standards required for benchmark administration and calculation.

What actions do organisations need to take to prepare for the LIBOR transition?

Firms need to put in place programmes to manage the move away from LIBOR and other IBORs. IBORs are already embedded into multiple processes throughout financial institutions and companies, and organisations require a multitude of content and data points to support a transition to alternative reference rates and benchmarks.

A good starting point is to develop an understanding of the organisation's exposure to IBORs. Where is LIBOR currently being used, or which reference rates are currently being used? Which processes and functions are IBORs feeding into? Once the touchpoints have been identified, alternative benchmarks and reference rates need to be assessed.

What data do firms need to navigate the LIBOR transition?

New content, data and benchmarking tools are being made available by institutions to serve as alternatives to LIBOR:

- Refinitiv USD IBOR Cash Fallback Rates in advance of the cessation of final LIBOR tenors in June 2023
- New term reference rates such as Refinitiv® Term SONIA (the GBP LIBOR alternative)
- RFRs, both existing and recently launched, e.g., SONIA, SOFR and €STR
- New RFR-based products and derivatives as liquidity grows
- Industry-standard compound RFR indices and fallback rates
- Enhanced fields and search tools to find bonds and derivatives that reference LIBOR
- Updated fallback language and protocols to bonds and derivatives

Refinitiv content and tools available to support LIBOR

Refinitiv® Eikon®

Eikon landing page (search IBOR in Eikon)

Within Eikon, the IBOR Transition app allows you to keep up to date with global changes to interest rate benchmarks. The app is updated regularly and it provides news and values on a variety of rates:

- Risk-free realised rates (RFRs)
- Reformed IBOR benchmarks
- Broker and Exchange RFR derivative content
- ISDA Fallback Rates
- Refinitiv USD IBOR Cash Fallbacks, recommended by the ARRC

In the app, you will also find:

- All-new RFR data such as fixings, basis swaps (SOFR vs, LIBOR for instance), broker RFR content, exclusive news from Reuters News and Refinitiv® IFR®, and charts comparing new RFRs to LIBOR
- Open SOFR, €STR or SONIA and other dedicated tabs to view relevant data and news on these new risk-free rates across main jurisdictions

Explore additional products and solutions:

- OTC Pricer App (search OTCP in Eikon) for finding RFR Pricing Data, as well as existing IBOR rates, crucial basis and new cross-currency swaps
- Issuers have started issuing floating-rate notes (FRNs) based on new RFRs. To find them:
 - Use our advanced search tool: Type 'GOVSRCH' and enter 'SOFR' in Quick Filter to find the filter to apply
 - Monitor bond issuances referencing IBORs and RFRs using the FINIM app
- Real-Time analytics are available for FRN coupons based on RFRs, other calculations such as forward OIS. Swaption skews will be added as underlying data becomes available
- For derivatives such as OIS rates, FRAs and basis swaps use the Advanced OTC Interest Rate Derivatives search tool:
 - Enter the name of the new RFR as a criteria search. The search engine will return the Basis Swaps, such as SOFR vs. Fed Funds, and the FRAs available from the various brokers such as Fenics, Tradition and Tullett Prebon
- As with LIBOR-based rates, Refinitiv derives and calculates added value content from the new RFRs:
 - Bootstrapped OIS curves for SOFR, €STR and SONIA. These curves can be used in our Bond (BNDC) and Swap (SWPR) calculators to discount cash flows or project forward cash flows
 - Zero curves for SOFR, €STR SONIA and a number of other RFRs
- All this content and analytics can also be found in Refinitiv® Datascope® and at the platform level available through different feeds such as Real-Time Optimized

Refinitiv reference data

IBOR fallback language and event triggers

Regarding reference data, Refinitiv has made changes and introducing new fields into our data models:

- Fallback language captured in bond notes
- Working towards standardised model for fallback events and replacement
- Bond covenant and transition changes captured
- Changes in pricing models to support RFR-based derivative products like futures, caps, floors or swaptions

Refinitiv administered, calculated and published benchmarks

- Other new Refinitiv term reference rates (LIBOR alternative with a term structure) have been developed to support key markets such as loans transition away from LIBOR. Refinitiv has launched the first term reference rate, Refinitiv Term SONIA, the GBP LIBOR alternative, available in maturities up to one-year
- The Tokyo Swap Rate benchmark for JPY IRS has been updated to reference the new TONA RFR instead of JPY LIBOR
- Refinitiv USD IBOR Cash Fallbacks for institutional and consumer loans referencing USD LIBOR
- Refinitiv works with central banks, regulators and industry associations to either develop new RFRs or improve and reform existing IBORs
- Refinitiv calculates compound indices of major RFRs around the world, using market accepted conventions and ensures any central bank calculated compound indices are redistributed to customers
- We continue to add newly launched RFRs, term rates and fallback rates to our desktop and feeds as and when they are launched

RFR Calculators for use throughout the Enterprise

- Refinitiv's RFR helps project backward looking RFRs into forward looking interest rates and can convert interest rate and cross currency swaps from IBOR to RFR exposure
- Automated daily rates and calculations can be integrated into core banking systems via FTP or APIs avoiding lengthy and expensive system rebuilds

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