Frequently Asked Questions

IBOR Fallback Rate Adjustments

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Background

Inter-bank Offered Rates (IBORs), a series of interest rate benchmarks, are undergoing a period of change as regulators and industry groups have recommended that firms transition away from the London Inter-bank Offered Rate (LIBOR) and other IBORs and prepare to replace them with alternative, overnight Risk Free Rates (RFRs). These RFRs, including SOFR (USD), €STR (EUR) and SONIA (GBP), are typically administered and published by major central banks worldwide.

Transitioning to the RFRs will be a demanding and complex process for the industry as RFRs are structurally different from IBORs. They are overnight rates and exhibit different liquidity characteristics and supply/demand issues than IBORs.

To address the risk that one or more IBORs are discontinued while market participants continue to have exposure to that rate, counterparties are encouraged to agree to contractual fallback provisions that would provide for adjusted versions of the RFRs as replacement rates.

Due to the fundamental differences in the nature of IBORs and the RFRs, key adjustments are necessary if fallbacks to RFRs are to take effect in contracts that were originally negotiated to reference the IBORs. ISDA ran public consultations to finalize the adjustment methodologies and subsequently issued a tender invitation for a vendor to perform and distribute these necessary adjustments.

These consultations yielded industry consensus, and more information about them can be found here.

Bloomberg Index Services Limited (BISL) (collectively with its affiliates, Bloomberg) was selected as the vendor to calculate and distribute these adjustments.

General Overview

1. What is an IBOR fallback?

It is anticipated that over the next several years, LIBOR and potentially various other IBORs may be discontinued. To address the risk that counterparties may have exposure to a discontinued IBOR, they are encouraged to agree to contractual fallback provisions that would provide for adjusted versions of the RFRs as replacement rates. To facilitate such agreements, ISDA is amending its definitions for derivative contracts that reference IBORs. These amendments will incorporate fallbacks to adjusted versions of the RFRs that would apply in the event of permanent discontinuation of IBOR(s).[1]

[1] Market participants may agree that they would move to the replacement rates (i.e., the adjusted RFRs) upon certain events that occur prior to cessation. See ISDA's summary of responses to a consultation on pre-cessation issues here. We note that market participants could also separately voluntarily agree to amendments to their IBOR contracts to reference non-adjusted versions of the RFR prior to cessation.

2. Which IBOR benchmarks are covered?

Below are the IBOR benchmarks covered:

- Australian Dollar AUD BBSW
- Canadian Dollar CAD CDOR
- Euro EUR LIBOR*
- Euro EURIBOR*
- Hong Kong Dollar HKD HIBOR
- Japanese Yen Euroyen TIBOR
- Japanese Yen JPY LIBOR
- Japanese Yen TIBOR
- Sterling GBP LIBOR
- Swiss Franc CHF LIBOR
- US Dollar USD LIBOR

*Application of methodologies described herein subject to confirmation in pending consultation.

<u>**Figure 1**</u>
Additional details on the IBOR benchmarks covered

Currency	IBOR	RFR	IBOR Tenors	IBOR Bloomberg Tickers <Index>	RFR Bloomberg Ticker <Index>
AUD	BBSW	RBA Cash Rate	1M, 2M, 3M, 4M, 5M, 6M	BBSW1M ---- 6M	RBACOR
CAD	CDOR	CORRA	1M, 2M, 3M, 6M, 12M	CDOR01 ---12M	CAONREPO
CHF	LIBOR	SARON	S/N, 1W, 1M, 2M, 3M, 6M, 12M	SF00S/N SF0001W SF0001M --- 12M	SRFXON1 – 12pm CET fixing SRFXON2 – 4pm CET fixing SRFXON3 – 6pm CET Market Close
EUR	EURIBOR	€STR	1W, 1M, 3M, 6M, 12M	EUR001W EUR001M --- 12M	ESTRON
EUR	LIBOR	€STR	O/N, 1W, 1M, 2M, 3M, 6M, 12M	EE00O/N EE0001W EE0001M --- 12M	ESTRON
GBP	LIBOR	SONIA	O/N, 1W, 1M, 2M, 3M, 6M, 12M	BP00O/N BP0001W BP0001M --- 12M	SONIO/N
HKD	HIBOR	Adjusted HONIA	O/N, 1W, 2W, 1M, 2M, 3M, 6M, 12M	HIHDO/N HIHD01W --- 2W HIHD01M --- 12M	HOISHKD
JPY	Euroyen TIBOR	TONA	1W, 1M, 3M, 6M, 12M	EUYN01W EUYN01M --- 12M	MUTKCALM
JPY	LIBOR	TONA	S/N, 1W, 1M, 2M, 3M, 6M, 12M	JY00S/N JY0001W JY0001M --- 12M	MUTKCALM
JPY	TIBOR	TONA	1W, 1M, 3M, 6M, 12M	TI0001W TI0001M --- 12M	MUTKCALM
USD	LIBOR	SOFR	O/N, 1W, 1M, 2M, 3M, 6M, 12M	US00O/N US0001W US0001M --- 12M	SOFRRATE

3. Why is there a need for fallbacks if IBORs are still available?

The adjusted RFRs will only apply as reference rates if the fallbacks take effect because an IBOR is discontinued and therefore no longer available.

The fallback rates were developed to ensure that the contracts align as closely as possible to the original agreement after the fallback kicks in, resulting in a rate that is predictable, transparent and fair.

4. What are permanent cessation triggers?

The fallbacks in the 2006 ISDA Definitions will be triggered upon:[2]

- A public statement or publication of information by or on behalf of the administrator of [the relevant IBOR] announcing that it has ceased, or will cease, to provide [the relevant IBOR] permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to provide [the relevant IBOR]; or

- A public statement or publication of information by the regulatory supervisor for the administrator of [the relevant IBOR], the central bank for the currency of [the relevant IBOR], an insolvency official with jurisdiction over the administrator for [the relevant IBOR], a resolution authority with jurisdiction over the administrator for [the relevant IBOR] or a court or an entity with similar insolvency or resolution authority over the administrator for [the relevant IBOR], which states that the administrator of [the relevant IBOR] has ceased or will cease to provide [the relevant IBOR] permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to provide [the relevant IBOR].

Note that the fallbacks will not apply until the actual discontinuation of the relevant IBOR (if that is after the announcement date).

5. What is a fallback adjustment?

Since RFRs are structurally different from IBORs, certain adjustments based on feedback from market participants and regulators would be applied if the fallbacks are triggered and the replacement rates apply to contracts that continued to reference the IBORs upon the discontinuation of the relevant IBOR. These adjustments are to account for:

(i) the fact that an RFR is an overnight rate while IBORs have term structures (e.g., 1, 3, 6-month LIBOR); and

(ii) the historical spread differential between IBORs and their 'term equivalent' RFR compounded rates.

Bloomberg and ISDA will publish the final formulas for these adjustments.

[2] Market participants may agree that they would move to the replacement rates (i.e., the adjusted RFRs) upon certain events that occur prior to cessation. See ISDA's summary of responses to a consultation on pre-cessation issues here. We note that market participants could also separately voluntarily agree to amendments to their IBOR contracts to reference non-adjusted versions of the RFR prior to cessation.

Bloomberg's Role

6. What is Bloomberg's role in the calculation of this new rate?

ISDA announced that Bloomberg will be the adjustment services vendor for IBOR fallback calculations. Consequently, Bloomberg will calculate and publish the term and spread adjustments for the fallbacks that ISDA intends to implement for certain IBORs. The calculations will be based on the methodology developed by ISDA through a series of market consultations, which can be viewed on ISDA's website.

7. What calculations will Bloomberg be publishing?

- Compounded setting in arrears for each RFR for each relevant term (Adjusted RFR) – daily compounding of publicly available Risk Free Rates (RFRs) published by central banks (e.g. SOFR, SONIA)
- Spread Adjustment – median of the historical differences between the IBOR for each tenor and the compounded RFR for that tenor over a five-year period prior to an announcement triggering a fallback
- The "all in" fallback rate, which is the combination of the Adjusted RFR and the Spread Adjustment for each relevant tenor

Access to Fallback Adjustment Data

8. How will this data be made available?

Bloomberg will make IBOR fallback calculations broadly available to industry participants through the following:

- Bloomberg:
  - The data will be available to Bloomberg customers through various distribution channels such as the BLOOMBERG TERMINAL® service (including its Desktop API feature) and Bloomberg Data License. *Separate to the ISDA fallback calculations, Bloomberg Terminal customers already have access to RFRs and compounded RFRs data at <EONC> <GO>. Further information about this, and LIBOR transition more widely, is available at <RFR> <GO>.*

- Third party vendors:
  - The data will also be available through SFTP.

- Bloomberg website:
  - Delayed data will also be publicly available on Bloomberg's website.

9. What will it cost to access the ISDA fallback rates?

Commercial details around usage licenses and access to historical data sets will be announced in Q1 2020 along with publication of the final adjustment methodology. Delayed access to ISDA fallback adjustments will be available at no charge through Bloomberg's website.

10. Will a license be required for usage of Bloomberg calculated ISDA fallback rates? What use cases will be covered with this license?

Yes, a license will be required for the usage of ISDA fallback rates.

Use of the Bloomberg calculated fallback rates within ISDA contracts, including swaps and interest rate options, whether cleared or uncleared, will require a usage license. Separate commercial arrangements will be made for use of Bloomberg's data outside the scope of an ISDA contract.

11. When can I access the data?

Bloomberg expects to begin publishing the adjusted RFRs, the spread adjustments and the all in fallback rates within a reasonable period of time after publication of the adjustment methodologies. The expectation is that calculations will be published before the fallback provisions take effect in the amended definitions, and ISDA publishes a protocol for inclusion of the amended definitions (i.e., the definitions with the fallback provisions). ISDA plans to complete this work in early 2020.

Prior to the cessation of an IBOR, Bloomberg will calculate the fallback rates on a 'what-if' basis, i.e. what would the fallback rate be on any given day if the trigger event occurred and the fallback rates were to take effect on that date or on a specified future discontinuation date. This will give market participants transparency as to what the fallback rates 'would be' on any given day.

Post-cessation (post the trigger event), the spread adjustment becomes fixed for each tenor of the relevant IBOR. Thereafter, Bloomberg will continue to publish the fallback rates, which will be the compounded in arrears adjusted RFR plus the fixed spread Adjustment.

12. At what times of the day will the data be published?

Publication times are determined in accordance with the time zones and publication times of the relevant RFRs, allowing for any revision windows the RFR administrators may maintain. The expected publication times are in the table below.

Figure 2

RFR	RFR Publication time	Latest RFR delayed publication or restatement time	IBOR publication time (for T-1) (Local)	Latest IBOR delayed publication or restatement time	Expected Bloomberg publication time (tbd)
RBA	09:00 AEST/AEDT	16:00 AEST/AEDT	10:30 AEST/ADET (BBSW)	12:00 AEST/ADET	
CORRA	09:00 ET	11:00 ET	10:15 ET (CDOR)	12:00 ET	
SARON	12:00, 16:00, 18:00 CET	"Within the trading day" and potentially "retrospectively"	11:55 London time (LIBOR)	16:00 London time	
€STR*	09:00 CET	11:00 CET	11:55 London time (LIBOR)	15:00 CET (EURIBOR) 16:00 London time (LIBOR)	
SONIA	09:00 London time	12:00 London time	11:55 London time (LIBOR)	16:00 London time	TBD
Adjusted HONIA	17:00 Hong Kong Time	TBD	11:15 HKT (HIBOR)	14:30 HKT	
TONA	10:00 JST	TBD	13:00 Tokyo (TIBOR & Euroyen) 11:55 London time (LIBOR)	Undefined (TIBOR & Euroyen) 16:00 London time (LIBOR)	
SOFR	08:00 EST/EDT	14:30 EST/EDT	11:55 London time (LIBOR)	16:00 London time	

* €STR is the fallback RFR for *Euro LIBOR and EUR EURIBOR, which will follow a different timeline*