

MARKET CONSULTATION ON THE ACCELERATED REPLACEMENT OF USD TERM LIBORS AND THE USAGE OF THE ISDA FALLBACK SPREAD ADJUSTMENTS IN SOLACTIVE- ADMINISTERED INDICES

10 November 2021





Content of the Market Consultation

1. Background

- On the 23rd of June 2021, Solactive issued a market consultation to solicit the input from stakeholders on the replacement rates for discontinued EONIA and LIBOR rates in existing Solactive-administered indices (<https://www.solactive.com/market-consultation-on-the-replacement-rates-for-eonia-and-libor-rates-in-solactive-administered-indices/>).
- On the 24th of September 2021, Solactive announced the treatment it would follow for replacing the EONIA and LIBOR rates with a phased approach (<https://www.solactive.com/response-to-market-consultation-on-the-replacement-rates-for-eonia-and-libor-rates-in-solactive-administered-indices/>) (the '**Replacement Rates Announcement**')
 - o Starting 1st of January 2022 for indices referencing EONIA or LIBOR rates discontinued on that date (all overnight, spot/next and tenors of GBP LIBOR, CHF LIBOR, JPY LIBOR and EUR LIBOR, as well as the 1-week and 2-month USD LIBOR tenors, and the EONIA rate) and
 - o Conduct a further market consultation in Q1 2022 for rates to be discontinued in 2023 (overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR tenors).
- On the 29th of September 2021, the UK Financial Conduct Authority (FCA) issued a consultation for the orderly wind-down of LIBOR at end-2021 (<https://www.fca.org.uk/publication/consultation/cp21-29.pdf>). The FCA's proposed decision is to prohibit new use of overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR (see Chapter 4 of the FCA consultation). New use would, in Solactive's understanding, lead to the inability of clients subject to FCA supervision to increase their exposure to Solactive indices referencing these USD LIBOR settings.
- On the 20th of October 2021, five United States federal financial institution regulatory agencies¹, in conjunction with the state bank and state credit union regulators, (the '**US Agencies**') jointly issued a statement to emphasize the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR (<https://www.federalreserve.gov/supervisionreg/srletters/SR2117a1.pdf>)
- The US Agencies commented in the statement: '*Given LIBOR's discontinuance, the agencies believe that entering into new contracts, including derivatives, that use LIBOR as a reference rate after*

¹ The agencies are the Board of Governors of the Federal Reserve System (Board), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), and the Consumer Financial Protection Bureau (CFPB).



December 31, 2021, would create safety and soundness risks, including litigation, operational, and consumer protection risks’.

- In parallel with the above developments and since the Replacement Rates Announcement, a number of stakeholders have expressed a wish for Solactive to use as a fixed spread adjustment the ISDA fallback spread adjustments which have been announced on 5th March 2021 (https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation_Announcement_20210305.pdf)

2. Proposal

- In light of the recent developments, Solactive proposes two measures.
- Proposal 1: Acceleration of the transition for indices referencing overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR settings to the 1st of January 2022 and by that deviate from the timetable originally foreseen in the Replacement Rates Announcement.
- As per Solactive's Replacement Rates Announcement, the replacement rates for USD LIBOR overnight and term rates would consist of
 - o SOFR as the new reference rate
 - o Plus a fixed spread adjustment to account for both the historical difference between SOFR and USD LIBORs (overnight and term) as well as the different credit risk associated with USD LIBORs
- Proposal 2: Usage of the ISDA fallback spread adjustments for overnight and term rates. This deviates from the spread adjustments originally announced in the Replacement Rate Announcement. The technical notice and fixing of these spreads can be found at https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation_Announcement_20210305.pdf



3. Questions for consulted parties

- a) In light of the FCA consultation and the position of the US Agencies, do you agree with Solactive's proposed acceleration of the replacement of the overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR tenors effective as per 1st January 2021?
- b) Do you agree with Solactive's proposed approach to use the ISDA fallback spread adjustments instead of the spread adjustment rates contained in the Replacement Rates Announcement?



Feedback on the Market Consultation

If you would like to share your thoughts with Solactive, please use this consultation form and provide us with your personal details and those of your organization.

Name	
Function	
Organization	
Email	
Phone	
Confidentiality (Y/N)	

Solactive is inviting all stakeholders and interested third parties to evaluate a) the proposed accelerated replacement of the overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR tenors in Solactive administered indices and b) the usage of the ISDA fallback spread adjustments. Solactive welcomes any feedback on the questions above.



Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond by 19 November 2021.

Please send your feedback via email to RFR.Replacement@solactive.com, specifying "Market Consultation on the accelerated replacement of USD LIBOR tenors and the usage of the ISDA fallback spread adjustment in Solactive administered indices" as the subject of the email, or

via postal mail to: Solactive AG
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Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us via above email address.



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