

## Update on LIBOR Transition

### ISDA Protocol: What do I need to do?

To ensure the smooth transition away from LIBOR upon a LIBOR cessation event, anticipated at the end of 2021, your bank should have proper LIBOR cessation fallbacks in place in each of your derivative transactions. For derivative transactions in place with Swap Dealers, the quickest and most efficient way to ensure your derivatives have proper LIBOR fallback terms is to adhere to the IBOR Fallbacks Protocol.

ISDA published the 2020 IBOR Fallbacks Protocol (the “Protocol”) on October 23, 2020. The Protocol enables adhering parties to incorporate updated ISDA definitions into Protocol Covered Documents (i.e. an ISDA Master Agreement and related trade confirmations). More specifically, the Protocol incorporates the Supplement No. 70 to the 2006 ISDA Definitions which contains updated LIBOR definitions to include fallbacks upon a LIBOR Cessation Event. The Protocol and updated definitions will become effective on January 25, 2021.

Parties who wish to adhere to the Protocol should consider doing so by the Protocol’s effective date on January 25, 2021. Parties adhering after January 25, 2021 will be subject to a \$500 fee for adherence.

### Adherence Instructions

Parties who wish to adhere to the Protocol can follow the step-by-step instructions to complete the adherence process at the link below:

<http://assets.isda.org/media/3062e7b4/562d1a52.pdf/>

Parties wishing to adhere will visit the Protocols section on the ISDA website and select the IBOR Fallbacks Protocol. From there, you will generate the form of Adherence Letter. You will sign the Adherence Letter either through wet signature or electronic signature. You will subsequently upload the Adherence Letter to the Protocol system, at which time you will become an Adhering Party.

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Update on LIBOR Transition

Derivative Path, Inc.  
LIBORTransition@derivativepath.com  
415-992-8200

derivativepath.com

DerivativePATH, Inc. is a San Francisco Bay Area-based company, with additional offices in New York City and Chicago, that is approaching the over-the-counter derivative markets with a fresh, technology-driven services offering. The company provides a technology-led solution known as DerivativeEDGE to assist financial institutions, buy-side, and commercial end-users in managing their over-the counter derivative transactions.

## Transactions Amended Via the Protocol

The Protocol incorporates the updated definitions, thereby incorporating proper fallback terms in non-cleared derivatives transactions that are entered into between parties who have uploaded adherence letters. For transaction amendments to be effective, all parties to the transaction must adhere to the Protocol. The Protocol and its terms will become effective in a transaction on January 25, 2021. If you adhere to the Protocol before the effective date, which we strongly recommend, the amendments will become effective on January 25<sup>th</sup>, 2021.

For cleared derivatives transactions, the Central Counterparty Clearing Houses (CCP), CME and LCH, have advised that they will use their rulebooks to implement terms analogous to the ISDA recommended fallbacks in their legacy cleared derivatives transactions. The fallback language will be effective on the date the updated rulebook is released.

If your bank runs a customer swap program, it is unlikely your end users will be inclined to sign up for the ISDA Protocol. As such, you will need to enter into a simple bilateral amendment with each customer to incorporate the protocol terms with them ensuring proper matching between your Swap Dealer trades and end user trades after LIBOR cessation. More detailed guidance on this process will follow in subsequent communications.

## Adhering Swap Dealers

ISDA publishes a list of Adhering Parties on its website [here](#). Some of the Swap Dealers who have already adhered to the Protocol include: Bank of America, CIBC, Credit Suisse, Goldman Sachs, JPMorgan, PNC Bank, US Bank, and Wells Fargo.

Swap Dealers will be contacting you prior to January 25, 2021 to confirm your plan for adherence to the Protocol. If you choose not to adhere to the Protocol, your bank can request a bilateral agreement from the Swap Dealer to incorporate LIBOR cessation fallbacks, but we would not anticipate much if any benefit.

## Fallback Terms in the Protocol

Fallback terms implemented as a result of adhering to the Protocol will incorporate SOFR plus a Spread Adjustment that will become effective upon a LIBOR cessation event. The fallback terms were designed to reflect the fact that LIBOR is a term rate and take into consideration the credit risk and other factors that impact LIBOR rate settings. In the fallback terms, SOFR will be term-adjusted using the compounded setting in arrears approach plus a spread adjustment calculated using the five-year historical median approach. The compounded setting in arrears rate is the SOFR rate observed over a period that is generally set to match the relevant LIBOR tenor and compounded daily. One major difference to note between LIBOR and the fallback rate is that LIBOR is generally known at the beginning of a period (i.e. set in advance), whereas the new fallback rate will not be known until the end of the relevant period. The observation period will be backward-shifted to allow for the rate to generally be known two days prior to the relevant payment date. The spread adjustment will be based on the median differences between USD LIBOR and compounded SOFR for the tenor calculated over a static lookback period of five years prior to the LIBOR cessation event. The spread adjustment will be fixed upon the announcement of a LIBOR cessation trigger.

Bloomberg Index Services Limited will produce and publish the compounded setting in arrears, the spread adjustment and an “all-in fallback rate”. The rates are currently available on an indicative basis. Bloomberg will continue to publish the relevant information after a trigger event occurs even though the spread adjustment will be set upon the Libor cessation date.

## Useful Links

### DPI's Update on LIBOR Transition published on October 15, 2020

<https://www.derivativepath.com/wp-content/uploads/2020/10/Oct-15-2020-LIBOR-Transition-Update.pdf>

### LIBOR Fallbacks Protocol

<http://assets.isda.org/media/3062e7b4/08268161.pdf/>

### ISDA Fallbacks Protocol FAQs

<http://assets.isda.org/media/3062e7b4/3cfa460a.pdf/>

### LIBOR Fallbacks Supplement

<http://assets.isda.org/media/3062e7b4/23aa1658.pdf/>

## Questions?

Please contact our LIBOR Transition Team at **415-992-8200** or [LIBORTransition@derivativepath.com](mailto:LIBORTransition@derivativepath.com).

## General Privacy & Risk Disclosure Statement

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