



# SKADI impact piece

## LIBOR USD Delay



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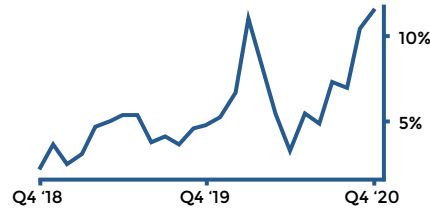
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### LIBOR Roll-off Timeline



### Global Adoption of LIBOR Alternative RFRs



#### Summary:

*The IBA will continue to publish the 5 main USD rates for an extra 18 months, to end Jun-23.*

*Delay allows more contracts to expire and extension should allow refinancing.*

*Take up of SOFR has been slow compared to SONIA.*

*Basis risk implications.*

*Pegged currencies (e.g. HKD, SGD) could lead to two-tier market.*

#### Background

In November 2020, the ICE Benchmark Association (IBA) announced an extension to the publication of the five main US dollar rates until 30-Jun-2023. The one-week and two-month LIBOR rates that cease in Dec-21 will still be calculable through linear interpolation of the remaining rates. The NY Fed estimates there are \$200tn of contracts linked to dollar LIBOR, far larger than any other currency rate. The extension is almost exclusively for legacy contracts that extend beyond the end of 2021 - there should be very few contracts originating after 2021 that are LIBOR-referencing. However, regulators have conceded that there will be "limited circumstances" where it will be appropriate, for example, to hedge against legacy LIBOR-referencing contracts.

#### Reasoning

Whilst the announcement caught market participants by surprise, there has been general relief from banks and borrowers that are struggling to work out how to move away from the US dollar benchmarks. Take-up of the proposed alternative RFR, the Secured Overnight Financing Rate (SOFR), has been slow, and adhering to the ISDA Fallbacks Protocol could cause firms to lock themselves into an interest rate that is impractical to hedge. The delay to the cessation date will greatly reduce the number of contracts that need to be remediated. An estimate of all outstanding US investment grade floating-rate notes that expire before the end of 2021, is just 41% compared to 80% by June 2023. The situation in the loan market is even more stark, with an estimate that 90% of US leveraged loans have a maturity after 2023 - the 18-month extension should allow time for these to either be refinanced or set against a new reference rate. A final reason for the delay has been to allow more time for liquidity in the SOFR to develop. Currently less than 10% of US interest rate swaps reference SOFR, compared to 40% of UK interest rate swaps referencing SONIA (source: ISDA, ClarusFT).

#### Implications

The staggering of the cessation of different IBORs has a knock-on effect on basis risk for any cross-currency product, especially in multi-currency structured products. For example, a GBP-USD cross-currency basis swap will, during the 18-month extension, have the GBP leg linked to SONIA and the USD leg still linked to USD LIBOR. This basis risk could be tricky to hedge. There are also implications for currencies that are pegged to the USD, including Middle Eastern currencies and, more importantly, both the Hong Kong Dollar and Singapore Dollar. The delay could lead to a two-tier market, possibly disadvantaging companies that convert automatically to a RFR before the peg-linked USD LIBOR ceases 18-months later. Authorities have been keen to stress that the delay is not an excuse to reduce preparation for the switchover and have warned they will be watching banks for utilising LIBOR in contracts beyond 2021.

SKADI is an independent consultancy providing advice to the Finance, Mining, Renewable Energy and Shipping Industries. SKADI's LIBOR Transition Team of complex product experts can assist with the process to help you determine how best to approach the transition.

- Cataloguing of current inventory of relevant contracts
- Valuation of exposure
- Scenario analysis
- Bilateral negotiation

Whether you have yet to consider the transition, are determining how to execute, or would benefit from independent experienced negotiators acting on your behalf, SKADI can offer help. We would welcome the opportunity for a short introductory call.