# Don’t Let the ICE Announcement “Freeze” Your LIBOR Transition Progress

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*The ICE Benchmark Association (IBA) recently published a consultation on its intention to delay retirement of the most commonly used US Dollar LIBOR tenors past the end of 2021. Does this mean the industry can relax with an extra 18 months to complete the LIBOR transition? Not exactly. If confirmed, this change may provide a little breathing room on legacy contract conversion, but that’s not the whole story. The proposal does not shift all deadlines and pausing in-flight transition activities may not be the best strategy. The delay also offers opportunities, such as moving straight to Term SOFR, that may not have been possible within the previous timeline.*

## What exactly does the IBA’s consultation say … and not say?

The IBA’s consultation confirms its intention to cease publication of most LIBOR currencies at the end of 2021 - except for the more popular tenors of US Dollar LIBOR. For overnight, 1-, 3-, 6- and 12 -month tenors of USD LIBOR, the IBA proposes continuing to publish until June 30, 2023. The IBA expects to accept feedback until the end of January 2021, and make formal announcements following the outcome of the consultation.

The proposed change seems to be motivated by several factors related to converting legacy LIBOR contracts. In addition to simply providing more time to deal with the legacy contracts, pushing the date to June 2023 could:

- Allow some USD LIBOR contracts to mature without requiring a rate conversion (this may be more beneficial for commercial loans and derivatives than for longer term consumer contracts like mortgages)
- Create enough time for potential legislative relief (safe-harbor) on LIBOR-based contracts
- Provide additional runway to work with regulators to understand expectations

But equally as important is what the IBA’s proposal does *not* change.

- Most industry deadlines hold firm - i.e., the GSEs’ have already begun accepting SOFR ARMs and will still cease to accept LIBOR ARMs as of December 31, 2020
- There is no extension for creating new LIBOR contracts - regulatory bodies continue to encourage market participants to cease entering into new LIBOR contracts by the end of 2021

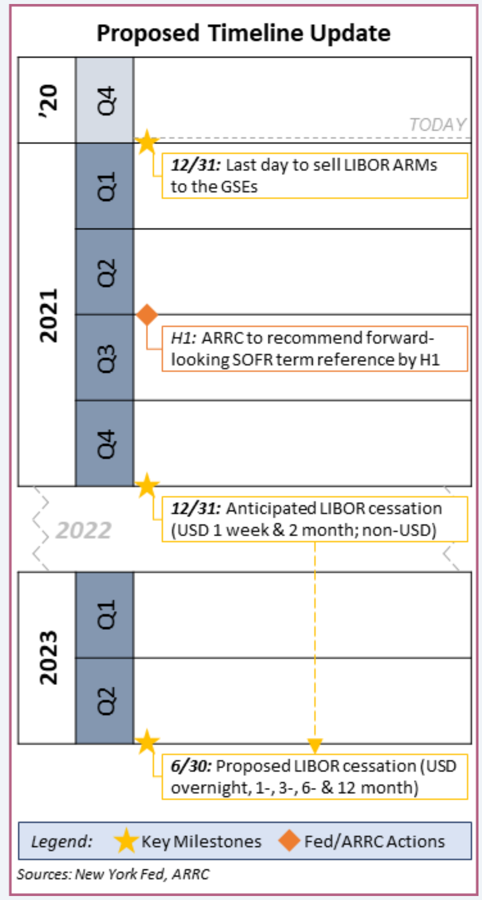
***“The agencies believe entering into new contracts that use USD LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and will examine bank practices accordingly.”***

*Source: Federal Reserve Press Release, November 30, 2020*

## What does this mean for you?

If you were lagging behind, we encourage you to take full advantage of the extra time. If you were progressing on target with your transition plans, this doesn’t mean you should stop. But it does warrant a re-evaluation of your plans and approach. Potomac Point Group has a few specific recommendations:

- ***Shuffle Priorities:*** If you are not already well into your transition, consider reprioritizing to focus first on establishing or accelerating non-LIBOR alternatives for new products, since that deadline remains December 31, 2021
- ***Maintain Momentum:*** If your transition is already underway, consider deploying your technical changes according to plan in order to maintain the momentum of a knowledgeable team and get updates into your production code base now. You will avoid stop-and-start costs, and knowing that things will inevitably change in the next two years you can avoid re-testing outdated code
- ***Revisit Impacts:*** Revisit your exposure and impact analyses to descope legacy contracts that will mature before June 2023
- ***Consider Term SOFR:*** Determine what impact the anticipated 2021 arrival of Term SOFR will have on your transition plans. The ARRC’s RFP asks that a vendor be prepared to publish by Q2 2021. Issuers of SOFR-based products will have a choice between Compounded Average or Term SOFR, or a combination of both
- ***Analyze Rate Alternatives:*** Leverage the cessation delay to further analyze alternate rates for your legacy contracts. For instance, publication of a spread-adjusted SOFR rate (the ARRC’s recommended replacement) should still happen well in advance. This provides additional time to study the behavior of the rate and possibly run it through your own models in parallel with LIBOR to compare




- ***Get Involved:*** Participate in industry discussion around proposed safe-harbor legislation at the state and federal level. This could significantly mitigate legacy contract risk

Regardless of how you adjust to this new development, our advice at Potomac Point Group remains the same. Don’t take your foot off the gas - this is still a large, complex transition and as evidenced by the last couple of weeks, an ever-evolving one. So consider the cessation delay of USD LIBOR not as a reason to rest, but as an opportunity to better prepare your organization for a smooth transition. We all still have a lot of work to do.

If you would like to discuss your organization’s LIBOR transition needs, please contact us at **inquiries@potomacpointgroup.com**
You can also visit our **LIBOR transition page** for resources and tips for a successful transition.