



NEWS RELEASE  
For Immediate Release

## **ISDA to Re-consult on Pre-cessation Fallbacks**

**NEW YORK, February 5, 2020** – The International Swaps and Derivatives Association, Inc. (ISDA) has announced that it will re-consult on how to implement pre-cessation fallbacks. Based on the results of that consultation, ISDA will move quickly to deliver the appropriate, industry endorsed fallback solution later this year.

The decision to re-consult on pre-cessation fallbacks follows the [release of new information](#) by the UK Financial Conduct Authority (FCA) and ICE Benchmark Administration (IBA) on the length of time LIBOR may be published following a regulatory statement that the benchmark is no longer representative of the underlying market. The launch of a [consultation by LCH](#) on proposed rule book changes to implement pre-cessation fallbacks on January 27 has also provided further clarity to the market on pre-cessation issues.

An [earlier consultation on pre-cessation fallbacks](#) last year failed to achieve market consensus on how to implement pre-cessation fallbacks in derivatives contracts.

The new consultation is expected to be published later this month, and will ask whether the 2006 ISDA Definitions should be amended to include fallbacks that would take apply to all covered derivatives following the permanent cessation of an interbank offered rate (IBOR) or a 'non-representative' pre-cessation event, whichever occurs first. Under this scenario, a single protocol would also be launched to allow participants to include both pre-cessation and permanent cessation fallbacks within their legacy derivatives trades.

If there is insufficient support for this approach, then ISDA will amend the 2006 ISDA Definitions to enable derivatives counterparties to incorporate pre-cessation fallbacks alongside permanent cessation fallbacks if they choose to. A protocol for amending legacy derivatives would also be published with a similar ability to opt-in to pre-cessation fallbacks when implementing permanent cessation fallbacks.

ISDA had intended to publish amendments to the 2006 ISDA Definitions to incorporate permanent cessation fallbacks in the first half of 2020, as well as a protocol to include permanent cessation fallbacks into legacy trades. The timing of publication will now be subject to the results of the new consultation. Additional detail on implementation will be available as soon as possible after the results of the consultation are announced.

In the meantime, ISDA will continue to work with Bloomberg to publish indicative spread calculations and all-in fallback rates during the first half of 2020 to help facilitate operational readiness for fallback implementation.

“ISDA is committed to delivering the appropriate documentation tools to support implementation of robust fallbacks for new and legacy derivative contracts. Given the additional information from the FCA, IBA and LCH, we felt a new market-wide consultation was necessary on whether to link pre-cessation fallbacks with permanent cessation fallbacks for all derivatives,” said Scott O’Malia, ISDA’s Chief Executive.

## Background

- ISDA has been working on an initiative at the request of the Financial Stability Board’s Official Sector Steering Group (FSB OSSG) since 2016 to identify robust fallbacks for derivatives contracts that reference certain key IBORs. That request covered fallbacks that would take effect if an IBOR is permanently discontinued.
- ISDA conducted several industry consultations in 2018 and 2019 to finalize the methodology for fallbacks that take effect following the permanent cessation of a key IBOR, in line with the FSB OSSG’s request.
- [In March 2019](#), the FSB OSSG subsequently asked ISDA to conduct a further consultation on pre-cessation issues.
- ISDA issued a [consultation on pre-cessation fallbacks](#) in May 2019. [That consultation found](#) market participants would generally not want to continue referencing LIBOR in existing or new derivatives contracts following a statement from a supervisor that it is no longer representative of the underlying market. However, there was no consensus on how to implement pre-cessation fallbacks, including whether the permanent cessation fallback rates should apply following a non-representativeness determination.
- In November 2019, the [FSB OSSG sent a letter to ISDA](#) expressing its view that pre-cessation triggers should be included alongside permanent cessation triggers as standard language in the amended 2006 ISDA Definitions and in a single protocol.
- In [response to the FSB OSSG letter](#), ISDA stated in December that it will continue its work to finalize fallbacks that take effect following a permanent cessation of an IBOR. Simultaneously, ISDA will work with regulators and the industry to increase market understanding of the implications of a non-representative IBOR, and attempt to build a consensus on how to implement pre-cessation fallbacks.
- In that letter, ISDA noted that further clarity on two points would help to increase market understanding of a non-representative LIBOR scenario – the ‘reasonable period’ during which a non-representative LIBOR would be published, and the specific action central counterparties would take if the UK FCA determines that LIBOR is non-representative.
- On January 24, [ISDA published letters](#) from the UK FCA and IBA that provided additional information on the length of time a non-representative LIBOR would be published.

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**About ISDA**

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 900 member institutions from 72 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: [www.isda.org](http://www.isda.org). Follow us on Twitter @ISDA.

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