

ISDA Announces Preliminary Results of Consultation on Pre-cessation Fallbacks for LIBOR

NEW YORK, April 15, 2020 – The International Swaps and Derivatives Association, Inc. (ISDA) has today announced preliminary results of its consultation on the implementation of pre-cessation fallbacks for derivatives referenced to LIBOR.

The initial results indicate a significant majority of respondents are in favor of including both pre-cessation and permanent cessation fallbacks as standard language in the amended 2006 ISDA Definitions for LIBOR and in a single protocol for including the updated definitions in legacy trades.

While the results are subject to further analysis, ISDA currently expects to move forward on the basis that pre-cessation fallbacks based on a ‘non-representativeness’ determination and permanent cessation fallbacks would apply to all new and legacy derivatives referencing LIBOR that incorporate the amended 2006 ISDA Definitions. The updated definitions for other covered interbank offered rates (IBORs) will continue to include permanent cessation fallbacks only.

A final report analyzing the consultation results and information on next steps will be available in the coming weeks.

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 2019 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 LIBOR, 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 Financial Conduct Authority (FCA) determines that LIBOR is non-representative.
- On January 24, [ISDA published letters](#) from the UK FCA and ICE Benchmark Administration that provided additional information on the length of time a non-representative LIBOR would be published. A [consultation by LCH](#) on proposed rule book changes to implement pre-cessation fallbacks also provided further information to the market on pre-cessation issues.
- Following that additional information, ISDA [published its second consultation](#) on pre-cessation fallbacks on February 25, 2020. The consultation closed on April 1.

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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 73 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. Follow us on Twitter @ISDA.