

June 29, 2022

Future Cessation Guidance – 2021 ISDA Interest Rate Derivatives Definitions and 2006 ISDA Definitions

The Banks Association of Türkiye announcement of the Turkish Lira Interbank Offer Rate (TRLIBOR)

The International Swaps and Derivatives Association, Inc. (“**ISDA**”) provides the following guidance for parties to over-the-counter derivative transactions that are affected by the announcement made on May 26, 2022 by the Banks Association of Türkiye (“**BAT**”) relating to the future cessation of the Turkish Lira Interbank Offer Rate (the “**TRLIBOR Cessation Announcement**”).

On May 26, 2022, BAT announced that the IBOR transition process and Turkish Lira Overnight Reference Rate (“**TLREF**”) work conducted by the TLREF National Working Committee in coordination with international institutions as part of the benchmark reform initiative has been completed and, pursuant to that work, the calculation and publication of the Turkish Lira Interbank Offer Rate (“**TRLIBOR**”) will cease immediately following final publication on June 30, 2022. The announcement can be found [here](#).

ISDA is issuing this guidance in the interest of mitigating market risk and the promotion of orderly and consistent application of triggers and fallbacks by market participants. This guidance is not legal advice and market participants should consult their legal advisors as appropriate. Market participants should not rely on this guidance for any purpose but should review the contractual terms of each affected transaction in order to understand the effects of the events described above. ISDA does not assume any responsibility for this guidance and it is not intended to set a precedent. Parties are not obliged to follow this guidance. For cleared transactions and transactions executed on electronic confirmation platforms, market participants should refer to the contractual terms of the applicable clearing house or confirmation platform, as applicable.

Guidance

The purpose of this Guidance is:

- (1) **2021 ISDA Interest Rate Derivatives Definitions:** to describe how the terms of the 2021 ISDA Interest Rate Derivatives Definitions published by ISDA on its 'MyLibrary' platform as at the date of this Guidance (the "**2021 Definitions**") apply to the TRLIBOR Cessation Announcement;
- (2) **2006 ISDA Definitions:** to describe how the terms of the 2006 ISDA Definitions published by ISDA (the "**2006 Definitions**") apply to the TRLIBOR Cessation Announcement; and
- (3) **2018 ISDA Benchmarks Supplement:** to describe how the terms of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement (the "**ISDA Benchmarks Supplement**") apply to the TRLIBOR Cessation Announcement.

Terms used but not defined in this Guidance have the meanings given to them in the 2021 Definitions, the 2006 Definitions or the ISDA Benchmarks Supplement, as applicable.

The TRLIBOR Cessation Announcement

On May 26, 2022, BAT announced in the **TRLIBOR Cessation Announcement**:

"Last publishing date for TRLIBOR: 30 June, 2022".

[Footnote] "Publication of TRLIBOR will be halted on July 1, 2022. TRLIBOR indexes in active agreements will be replaced with TLREF. This replacement can be expressed with the formula $TRLIBOR=TLREF+Basis$ ". The quantification of this basis adjustment was calculated as a result of the analyses conducted by the National Working Committee established under the coordination of our Association. The calculated basis adjustment is a recommendation and indicator, and the final specification will be made between the parties of active agreements as of July 1, 2022."

On the same day, BAT published a further announcement setting out the 'calculated basis adjustment' referred to above (the "**BAT Spread Adjustment Announcement**"). This announcement can be found [here](#).

Application of the 2021 Definitions to the TRLIBOR Cessation Announcement

An Index Cessation Event under the 2021 Definitions¹ will occur in respect of TRLIBOR upon:

"a public statement or publication of information by or on behalf of the Administrator of the Applicable Benchmark announcing that it has ceased or will cease to provide the Applicable Benchmark permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator or provider, as applicable, that will continue to provide the Applicable Benchmark."

Based on this provision, an Index Cessation Effective Date will occur on the first date on which TRLIBOR would ordinarily have been published or provided and is no longer published or provided.

In light of the above, an Index Cessation Event with respect to TRLIBOR occurred on May 26, 2022 by virtue of the announcement by BAT that TRLIBOR will permanently cease. The related Index Cessation Effective Date will occur on the first Istanbul business day immediately following June 30,

¹ The analysis set out in this section applies equally to each version of the 2021 ISDA Interest Rate Derivatives Definitions published by ISDA as at the date of this Guidance as no amendments have been made to the provisions relating to TRLIBOR following the publication of version 1.0 of the 2021 ISDA Interest Rate Derivatives Definitions.

2022², being the first date on which TRLIBOR would ordinarily have been published or provided and will no longer be published or provided and the first date on which the Generic Fallback Provisions apply³.

Under the Generic Fallback Provisions, the parties are obliged to seek to apply the Alternative Continuation Fallbacks and will apply the first Alternative Continuation Fallback pursuant to which a Continuation Amendment can be made.

For the purposes of applying the Alternative Continuation Fallback ‘Alternative Post-nominated Index’, an alternative index must be “*formally designated, nominated or recommended*” by, *inter alia*, a Relevant Nominating Body to replace the Applicable Benchmark (in this case, TRLIBOR). The definition of “Relevant Nominating Body” includes “*any working group or committee officially endorsed or convened by [...] the central bank for the currency in which the Applicable Benchmark is denominated*”.

Although the TRLIBOR Cessation Announcement and BAT Spread Adjustment Announcement are made by BAT, they make clear that the analysis has been conducted by the National Working Committee with BAT performing a coordination role. The Central Bank of Türkiye is represented on the National Working Committee. Although the Central Bank of Türkiye has not formally and explicitly endorsed the conclusions, its participation would seem to demonstrate that the National Working Committee is a “Relevant Nominating Body”.

The statement in the TRLIBOR Cessation Announcement that “*TRLIBOR [...] will be replaced with TLREF*” demonstrates that, for the purposes of the definition of “Alternative Post-nominated Index”, TLREF has been designated or recommended as a replacement index.

The TRLIBOR Cessation Announcement goes on to provide that this replacement rate is expressed as “*TLREF+Basis*”, where the reference to “*Basis*” is a reference to the spread adjustment set out in the BAT Spread Adjustment Announcement. The BAT Spread Adjustment Announcement, which sets out a recommended method for calculating the spread adjustment for use with TLREF (as the replacement for TRLIBOR) and sets out the spread resulting from that calculation, will constitute, for the purposes of Section 8.6.5 (*Adjustment Spread Determination*) of the 2021 Definitions and the Generic Fallback Provisions, a Relevant Nominating Body recommending a spread and/or methodology for calculating a spread.

Consequently, parties may agree to apply the Alternative Continuation Fallback, ‘Alternative Post-nominated Index’, as set out in Section 8.6.3(iii) (*Application of Alternative Post-nominated Index*) of the 2021 Definitions, in which case the Calculation Agent will also apply the Adjustment Spread determined pursuant to the recommended spread adjustment methodology set out in the BAT Spread Adjustment Announcement. If parties agree an alternative outcome pursuant to the Alternative Continuation Fallback, ‘Agreement between the parties’ or if the parties have provided for an ‘Alternative Pre-nominated Index’ in respect of the Transaction, that Alternative Continuation Fallback would instead apply.

Events may arise in the future which may affect the timing of the Index Cessation Effective Date. These include if a subsequent Index Cessation Event occurs with respect to TRLIBOR. For example, if BAT were to make a later announcement that TRLIBOR will cease to be provided from a different date, the Index Cessation Effective Date would change accordingly.

² It is expected that the first Istanbul business day immediately following Thursday June 30, 2022 will be Friday July 1, 2022, unless Friday July 1, 2022 is an unscheduled holiday.

³ Please refer to the Rate Option “TRY-TRLIBOR” in the 2021 Definitions for further information.

The 2021 Definitions also include the Rate Options “TRY-TLREF” and “TRY-TLREF-OIS Compound”⁴. Parties entering into new transactions may wish to consider referencing “TRY-TLREF” or “TRY-TLREF-OIS Compound”, as applicable, in any relevant Confirmations.

Application of the 2006 ISDA Definitions to the TRLIBOR Cessation Announcement

Supplement number 70 to the 2006 Definitions, finalized on October 23, 2020 and published by ISDA and effective on January 25, 2021, amends and restates certain IBOR Rate Options and related terms to introduce fallbacks on a permanent cessation of those IBOR Rate Options. The ISDA 2020 IBOR Fallbacks Protocol (published on October 23, 2020) applies those fallbacks to, *inter alia*, legacy transactions incorporating the 2006 Definitions that were entered into prior to the effective date of Supplement number 70. Neither the 2020 IBOR Fallback Protocol nor Supplement number 70 to the 2006 Definitions included permanent cessation fallbacks for TRLIBOR. Accordingly, neither Supplement number 70 nor the ISDA 2020 IBOR Fallbacks Protocol apply to the TRLIBOR Cessation Announcement.

Supplement number 90 to the 2006 Definitions, published by ISDA and effective on December 16, 2021, amends and restates certain additional IBOR Rate Options and related terms not previously included in Supplement number 70 in order to introduce fallbacks on a permanent cessation of those IBOR Rate Options. The December 2021 Benchmark Module and related ISDA 2021 Fallbacks Protocol (published on December 16, 2021) apply those fallbacks to certain legacy transactions incorporating the 2006 Definitions that were entered into prior to the effective date of Supplement number 90. Neither the December 2021 Benchmark Module nor Supplement number 90 to the 2006 Definitions included permanent cessation fallbacks for TRLIBOR. Accordingly, neither Supplement number 90 nor the December 2021 Benchmark Module apply to the TRLIBOR Cessation Announcement.

Instead, the terms of the relevant Rate Option will apply. Section 7.1(dd)(i) of the 2006 Definitions includes a Rate Option for TRLIBOR: “TRY-TRYIBOR-Reuters”. Pursuant to the terms of this Rate Option, if the relevant rate does not appear on the relevant screen, then the rate for the Reset Date will be determined by reference to the Rate Option, “TRY-TRYIBOR-Reference Banks”, which sets out a dealer poll process requiring, in the first instance, quotations from Reference Banks. If quotations are not available, there is no express further fallback to the Calculation Agent determining the relevant rate and parties should consult their legal advisers as to the outcome in those circumstances.

As TRLIBOR will not appear on the relevant screen after June 30, 2022, for the purposes of the Rate Option detailed above⁵, the fallback to Reference Bank quotations will apply from the first Istanbul business day immediately following June 20, 2022,⁶ being the first day on which TRLIBOR will no longer be provided.

The 2006 Definitions also contain two Rate Options that reference the swap rate for swap transactions where TRLIBOR is the floating leg: “TRY-Annual Swap Rate-11:15-BGCANTOR”, and “TRY Annual Swap Rate-11:00-TRADITION”. It is expected that these swap rates will no longer be available after the permanent cessation of TRLIBOR. These Rate Options also apply a fallback to Reference Bank quotations for the relevant swap rate to the extent the rate does not appear on the

⁴ “TRY-TLREF-OIS Compound” was included in version 1.0 of the 2021 ISDA Interest Rate Derivatives Definitions. It was subsequently updated in version 6.0 of the 2021 ISDA Interest Rate Derivatives Definitions to ensure consistency with the “TRY-TLREF” Rate Option which was included in version 6.0 of the 2021 ISDA Interest Rate Derivatives Definitions.

⁵ Please refer to the Annex for extracts of the TRY Rate Options set out in the 2006 Definitions.

⁶ It is expected that the first Istanbul business day immediately following Thursday June 30, 2022 will be Friday July 1, 2022, unless Friday July 1, 2022 is an unscheduled holiday.

designated screen. If quotations for the relevant TRLIBOR swap rate are not provided, there is a further fallback to determination of the relevant rate by the Calculation Agent.

Application of the ISDA Benchmarks Supplement to the TRLIBOR Cessation Announcement

For the purposes of applying the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement, at the time of the TRLIBOR Cessation Announcement regarding the permanent discontinuation of TRLIBOR, the relevant TRY Rate Options, as referenced in transactions incorporating the 2006 Definitions, do not include a reference to a concept defined or otherwise described as an “index cessation event”. This means that a “Priority Fallback” as defined in Section 1.1 (*Specific provisions for certain Relevant Benchmarks*) of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement will not apply to the relevant transactions.

Accordingly, the provisions of Section 1.2 (*Consequences of a Benchmark Trigger Event*) of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement will apply following the TRLIBOR Cessation Announcement (which constitutes a “Benchmark Trigger Event” under the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement) and each party must seek to apply one or more “Alternative Continuation Fallbacks” prior to the “Cut-off Date” of the first Istanbul business day immediately following June 30, 2022.⁷

The 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement includes equivalent Alternative Continuation Fallbacks to those set out in the 2021 Definitions. As such, the operation of the Alternative Continuation Fallbacks in the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement is the same as the operation of the Generic Fallback Provisions in the 2021 Definitions. See the section above entitled, ‘*Application of the 2021 Definitions to the TRLIBOR Cessation Announcement*’, for further details.

⁷ It is expected that the first Istanbul business day immediately following Thursday June 30, 2022 will be Friday July 1, 2022, unless Friday July 1, 2022 is an unscheduled holiday.

Annex

2006 ISDA Definitions – TRY Rate Options

“TRY-TRYIBOR-Reuters” means that the rate for a Reset Date will be the rate for deposits in Turkish Lira for a period of the Designated Maturity which appears on the Reuters Screen TRYIBOR01 Page as of 11:15 a.m., Istanbul time, on the day that is two Istanbul Banking Days preceding that Reset Date. If such rate does not appear on the Reuters Screen TRYIBOR01 Page, the rate for that Reset Date will be determined as if the parties had specified “TRY-TRYIBOR-Reference Banks” as the applicable Floating Rate Option.

“TRY-TRYIBOR-Reference Banks” means that the rate for a Reset Date will be determined on that basis of the rates at which deposits in Turkish Lira are offered by the Reference Banks at approximately 11:15 a.m., Istanbul time, on the day that is two Istanbul Banking Days preceding that Reset Date to prime banks in the Istanbul interbank market for a period of the Designated Maturity commencing on that Reset Date and in a Representative Amount. The Calculation Agent will request the principal Istanbul office of each of the Reference Banks to provide a quotation of its rate. If at least two quotations are provided, the rate for that Reset Date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Reset Date will be the arithmetic mean of the rates quoted by major banks in Istanbul, selected by the Calculation Agent, at approximately 11:15 a.m., Istanbul time, on that Reset Date for loans in Turkish Lira to leading European banks for a period of the Designated Maturity commencing on that Reset Date and in a Representative Amount

“TRY-Annual Swap Rate-11:15-BGCANTOR” means that the rate for a Reset Date will be the annual swap rate for fixed-for-floating Turkish Lira swap transactions with a maturity of the Designated Maturity, expressed as a percentage, which appears on the Reuters Screen BGCANTOR64 Page as of 11:15 a.m., Istanbul time, on the day that is two Istanbul Banking Days preceding that Reset Date. If such rate does not appear on the Reuters Screen BGCANTOR64 Page, the rate for that Reset Date will be determined as if the parties had specified “TRY-Annual Swap Rate-Reference Banks” as the applicable Floating Rate Option.

“TRY-Annual Swap Rate-Reference Banks” means that the Reset Date will be determined by the Reference Banks on the basis of the mid-market annual swap rate quotations provided by the Reference Banks at approximately 11:15 a.m., Istanbul time, on the day that is two Istanbul Banking Days preceding that Reset Date. For this purpose, the mid-market annual swap rate means the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on an Actual/360 (Fixed) day count basis, of a fixed-for-floating Turkish Lira swap transaction with a term equal to the Designated Maturity commencing on that Reset Date and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 (Fixed) day count basis, is equivalent to TRY-TRYIBOR-Reuters with a Designated Maturity of three months. The Calculation Agent will request the principal trading offices of each of the Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the rate for that Reset Date will be the arithmetic mean of the quotations. If fewer than three quotations are provided, the rate for that Reset Date will be determined by the Calculation Agent, using a representative rate.

“TRY Annual Swap Rate-11:00-TRADITION” means that the rate for a Reset Date will be the annual swap rate for Turkish Lira swap transactions with a maturity of the Designated Maturity, expressed as a percentage, which appears on the Tradition Screen TRADTRY Page (on Reuters) under the

caption “IRS Ann/360 vs 3M” as of 11:00 a.m., Istanbul time, on that Reset Date. If such rate does not appear on the Tradition screen TRADTRY Page (on Reuters), the rate for that Reset Date will be determined as if the parties had specified “TRY-Semi-Annual Swap Rate-TRADITION-Reference Banks” as the applicable Floating Rate Option.

“TRY-Semi-Annual Swap Rate-TRADITION-Reference Banks” means that the Reset Date will be determined by the Reference Banks on the basis of the mid-market semi annual swap rate quotations provided by the Reference Banks at approximately 11:00 a.m., Istanbul time, on that Reset Date. For this purpose, the mid-market semi annual swap rate means the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on an Actual/360 (Fixed) day count basis, of a fixed-for-floating Turkish Lira swap transaction with a term equal to the Designated Maturity commencing on that Reset Date and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 (Fixed) day count basis, is equivalent to TRY-TRYIBOR-Reuters with a Designated Maturity of three months. The Calculation Agent will request the principal trading offices of each of the Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the rate for that Reset Date will be the arithmetic mean of the quotations. If fewer than three quotations are provided, the rate for that Reset Date will be determined by the Calculation Agent, using a representative rate.