

## ISDA and Related Workstreams – Interest Rate Reform

The following table identifies various key ISDA workstreams relating to the reform of interbank offered rates ("IBORs") and other interest rate benchmarks and the development of alternative "risk-free rates" ("RFRs"). This table does not, however, purport to be an exhaustive list of all work being undertaken by ISDA in this area.

#	Initiative / Topic	ISDA Work
<b>Use of RFRs</b>		
1.	Use of RFRs in new derivative transactions – documentation	<p>ISDA has published/will publish Rate Options in the 2006 ISDA Definitions for compounded RFRs.<sup>i</sup> ISDA has included fallback provisions in the above definitions for SOFR, €STR and EONIA that would be triggered by permanent cessation of the benchmark.</p> <p>ISDA also intends to publish overnight (i.e. non-compounded) versions of €STR, SOFR and SONIA (which could, for example, be used in a simple average calculation) and potentially other RFRs based on market demand. A Rate Option for overnight CORRA already exists (CAD-REPO-CORRA).</p> <p><b>Other relevant information:</b> See information provided by relevant central counterparty ("CCP") for specifications for cleared swaps.</p>
2.	Use of RFRs in new derivative transactions – education and guidance	<p>ISDA will publish a series of white papers in 2020 focusing on issues related to trading, hedging, basis risk and other topics relevant to the use of RFRs in new derivative transactions.</p> <p>ISDA has published on its website a database of information on LIBOR in the five currencies in which it is currently published (USD, GBP, CHF, JPY and EUR), EURIBOR, TIBOR, Euroyen TIBOR, BBSW, HIBOR and CDOR and their current administrators, as well as information about the RFR for each IBOR, the administrators for the RFRs, and the designated public-/private-sector working group for each relevant jurisdiction.<sup>ii</sup></p> <p>ISDA publishes quarterly data on volumes of interest rate derivatives referencing IBORs and RFRs, based on data submitted to US swap data repositories and additional information from certain CCPs.<sup>iii</sup> ISDA is looking into expanding its data scope.</p> <p><b>Other relevant information:</b> See also work of the RFR working groups ("RFR WGs").</p>
3.	Use of RFRs in new cash products	<p><b>Under development outside of ISDA.</b></p> <p>ISDA is monitoring the approach taken in cash markets and discussing with RFR WGs and other trade associations.</p>
4.	Hedging of cash products that reference RFRs	<p>ISDA is monitoring the approach taken in the market and determining whether it is appropriate to publish any guidance (including, for example, with respect to specifications for bespoke RFR swaps).</p>

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5.	Specifications and potential amendments for cross-currency swaps	ISDA has agreed to publish templates to effect changes that counterparties want to make as a result of the final guidance from the ARRC Cross-Currency Group (which includes representatives from other RFR WGs). <sup>iv</sup>
<b>Fallbacks</b>		
6.	Permanent cessation fallbacks for new derivatives referencing IBORs	ISDA will publish one or more Supplements to the 2006 ISDA Definitions, which will apply to transactions incorporating those definitions entered into on or after the effective date of the relevant Supplement. Each Supplement will update relevant IBOR <sup>v</sup> Rate Options to include permanent cessation triggers and fallbacks. The initial fallback will be to an adjusted version of the RFR plus a static spread based on the results of consultations conducted in 2018-2020. <sup>vi</sup>  ISDA also intends to implement fallbacks for SOR in the event of a permanent cessation of USD LIBOR, which is used to calculate SOR.
7.	Permanent cessation fallbacks for legacy derivatives referencing IBORs	ISDA will launch one or more protocols (together, the “ <b>IBOR Fallback Protocol</b> ”) pursuant to which adherents will agree to amend transactions entered into before the effective date of the relevant Supplement in row 6 above so that such transactions reference the relevant new IBOR Rate Options. The IBOR Fallback Protocol will cover ISDA Master Agreements, ISDA credit support documentation, local law master agreements and collateral agreements which incorporate the 1991 (and related documents)/2000/2006 ISDA Definitions and confirmations that reference a relevant IBOR “as defined in the 1991 (and related documents)/2000/2006 ISDA Definitions” (regardless of whether that confirmation also incorporates the full ISDA definitional booklet). ISDA is considering whether also to cover local law master agreements/collateral agreements that do not incorporate the 1991 (and related documents)/2000/2006 ISDA Definitions.
8.	Bilateral (i.e., non-protocol) agreement to fallbacks for legacy derivatives referencing IBORs	ISDA will publish a form of the amendments made by the IBOR Fallback Protocol that parties could negotiate and agree to bilaterally. ISDA will also publish language that counterparties could use to incorporate by reference the terms of the IBOR Fallback Protocol in new or existing agreements.
9.	Fungibility of fallback rates that could take effect and OIS	ISDA will consider the amendments that counterparties could make to swaps after fallbacks take effect so that swaps referencing the fallback rates trade as an Overnight Index Swap (“ <b>OIS</b> ”). If appropriate, ISDA will publish guidance on these issues.
10.	Pre-cessation fallbacks for LIBOR	ISDA published a consultation in May 2019 <sup>vii</sup> asking market participants to provide feedback on whether “pre-cessation” fallback triggers should be included in derivatives documentation to address a regulatory announcement that LIBOR or certain other IBORs categorized as “critical benchmarks” under Regulation (EU) 2016/2011 (the “ <b>BMR</b> ”) are no longer representative of the underlying market and, if so, how such triggers should be incorporated. Respondents did not reach a consensus on how to

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		<p>implement pre-cessation fallbacks, as explained in the report that ISDA published in October 2019.<sup>viii</sup> ISDA subsequently exchanged letters with the FSB OSSG on this point and ultimately indicated that it would re-consult on pre-cessation fallbacks if and when the market received further clarification on certain aspects of a “non-representative” LIBOR scenario.<sup>ix</sup> <b>As a result of additional information from the UK Financial Conduct Authority (“FCA”), ICE Benchmark Administration (“IBA”) and LCH, ISDA expects to re-consult in late February 2020 or early March 2020 on whether to combine pre-cessation fallbacks with the permanent cessation fallbacks described above.</b></p> <p>See row 11 below regarding templates to implement pre-cessation fallbacks.</p>
11.	Template language to complement or supplement amendments made by the IBOR Fallback Protocol	ISDA will publish template language that counterparties who adhere to the IBOR Fallback Protocol can use to agree to certain supplemental or complementary terms in connection with adherence, including: (i) language to confirm whether existing bespoke fallbacks will or will not be “overridden” by the fallbacks implemented via the IBOR Fallback Protocol; (ii) language to agree that the amendments made by the IBOR Fallback Protocol will apply to additional agreements and/or transactions between the counterparties; (iii) language to exclude certain transactions from the amendments to include the new fallbacks; (iv) language to agree that the fallbacks will apply upon a “pre-cessation” event; (v) language providing that the fallbacks under a derivative are the same as those in the cash product that it hedges; (vi) Calculation Agent dispute resolution language; and (vii) other template language based on feedback from market participants.
12.	Template language to include in new transactions to either apply or disapply the amendments made by the IBOR Fallback Protocol once published or effective	ISDA will publish template language that enables counterparties who are entering into transactions prior to the IBOR Fallback Protocol being published or effective to agree that the terms of the IBOR Fallback Protocol will either apply or not apply to the transaction once that protocol is either published or becomes effective between two adhering parties.
13.	Fallbacks for CMS derivatives	ISDA is aware that fallbacks may need to be developed for CMS derivatives. This will be discussed with members once IBA announces its plans for ICE swap rates. We note that ICE recently issued a consultation on possible enhancements to the ICE swap rates and potential publication of a new ICE swap rate for SONIA. <sup>x</sup> ISDA is also aware that fallbacks for other swap rates may need to be considered (e.g. the Tokyo Swap Reference Rate).
14.	Fallbacks for other non-linear derivatives	ISDA is aware that arrangements other than or in addition to the standard fallbacks described in rows 6 and 7 above may be required for swaptions, caps, floors, forward rate agreements (“FRAs”) and in-arrears swaps. ISDA is currently maintaining a list of these products and, to the extent appropriate, expects to convene discussions among market participants. <b>It is important to note that current ‘polling’ fallbacks do not work for these products and, therefore, amending them via the IBOR Fallback Protocol is an advisable first step.</b>

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15.	Template fallback language for cash products	<b>Under development outside of ISDA.</b> ISDA is monitoring the approach taken in cash markets and discussing with RFR WGs and other trade associations. The ARRC has recommended template fallback language for various cash products <sup>xi</sup> . The EUR RFR WG has recommended template language for EUR cash products in its legal action plan.
<b>EONIA</b>		
16.	Implementation of fallbacks for EONIA	The working group on euro risk-free rates (" <b>EUR RFR WG</b> ") has recommended that the fallback for EONIA be to €STR plus a fixed spread <sup>xii</sup> (calculated by the ECB, based on the methodology recommended by the EUR RFR WG, as 8.5 basis points <sup>xiii</sup> ). ISDA has updated the 2006 ISDA Definitions to include this fallback in respect of EONIA <sup>xiv</sup> . ISDA intends to publish a template to facilitate inclusion of fallbacks in legacy EONIA contracts that are not otherwise voluntarily amended prior to or at cessation. This is addressed in the EONIA to €STR legal action plan. <sup>xv</sup>
17.	Conversion of legacy EONIA contracts to reference €STR	ISDA is discussing with its members and members of the EUR RFR WG. ISDA will publish templates to facilitate the transition. This is addressed in the EONIA to €STR legal action plan.
<b>Collateral and Discounting</b>		
18.	Use of RFRs in Credit Support Annexes for non-cleared swaps	ISDA will publish a standalone definitions booklet for use in new Credit Support Annexes. The initial version of the ISDA Collateral Agreement Interest Rate Definitions is expected to be published in Q1 2020 and will include definitions of EONIA and €STR (including fallbacks). Subsequent versions will be published to include SOFR and other RFRs.
19.	Change from daily effective federal funds rate (" <b>EFFR</b> ") to SOFR for price alignment interest (" <b>PAI</b> ") and discounting in USD OTC cleared swaps <sup>xi</sup>	ISDA is monitoring the approach taken by CCPs. <b>Other relevant information:</b> See information provided by relevant CCP for approach to this change.
20.	Change from EONIA to €STR for PAI and discounting in EUR OTC cleared swaps	ISDA is monitoring the approach taken by CCPs. <b>Other relevant information:</b> See information provided by relevant CCP for approach to this change.

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21.	Change from EFFR to SOFR for USD Interest Rate in ISDA Credit Support Annex/Deed	ISDA is discussing with its members. ISDA intends to publish templates to facilitate the transition as a minimum. Change from EFFR to SOFR also under discussion in the ARRC Market Structures Group. <b>ISDA will not set or discuss the calculation of any resulting compensation payments.</b>
22.	Change from EONIA to €STR for EUR Interest Rate in ISDA Credit Support Annex/Deed	ISDA is discussing with its members. ISDA intends to publish templates to facilitate the transition. This is addressed in the EONIA to €STR legal action plan. <b>ISDA will not set or discuss the calculation of any resulting compensation payments.</b>
<b>Swaptions</b>		
23.	USD swaptions that will remain exercisable once CCPs switch from EFFR to SOFR PAI and discounting	ISDA intends to update the ISDA Settlement Matrix and publish a Supplement that allows for optional selection of the discounting rate that will apply (which will also be available as a new field on MarkitWire) to facilitate RFR swaption trading on a going forward basis. ISDA to discuss with members once CCPs announce final plans. <b>ISDA will not set or discuss calculation of any resulting compensation payments.</b>
24.	EUR swaptions that will remain exercisable once CCPs switch from EONIA to €STR PAI and discounting	ISDA intends to update the ISDA Settlement Matrix and publish a Supplement that allows for optional selection of the discounting rate that will apply (which will also be available as a new field on MarkitWire) to facilitate RFR swaption trading on a going forward basis. ISDA to discuss with members once CCPs announce final plans. <b>ISDA will not set or discuss calculation of any resulting compensation payments.</b>
<b>Other</b>		
25.	Legislative “safe harbors” that allow counterparties to reference RFRs in contracts that are difficult to amend	Legislative “safe harbors” are under New York law are under consideration by ARRC. Other RFR WGs may also consider legislative solutions.
26.	Voluntary conversion and/or close out of LIBOR and other IBOR contracts prior to cessation	ISDA to discuss with members. ISDA is considering whether it could produce guidance for replacing an IBOR swap with an OIS. Outside ISDA, work is currently ongoing to consider potential compression exercises. <sup>xvi</sup>

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27.	Ensuring no regulatory, accounting or tax impediments to amending IBOR contracts to either (i) include more robust fallbacks or (ii) reference different rates	<p>ISDA has been monitoring the output of regulators with respect to whether amending legacy contracts would trigger the clearing and margining obligations for legacy transactions in relevant jurisdictions, including under Regulation (EU) No 648/2012 (“<b>EMIR</b>”) and the Dodd-Frank Wall Street Reform and Consumer Protection Act. In the U.S., the ARRC Regulatory Working Group has sent several letters to relevant regulators in the U.S. and continues to meet with them.<sup>xviii</sup> In the EU, the EUR RFR WG has sent a letter to the relevant EU authorities<sup>xx</sup> and ISDA recently sent a letter of support to the relevant EU authorities.</p> <p>On 25 July 2019, ISDA passed on a communication from the FCA stating that: <i>“The UK regulatory authorities are happy to speak to firms seeking comfort that amending legacy derivative transactions in order to incorporate fallbacks or change the primary benchmark pursuant to global or regional benchmark reform initiatives will not, on their own, have the effect of imposing margining obligations where they do not currently apply.”</i> At the November 2019 meeting of the working group on sterling risk-free rates (“<b>Sterling RFR WG</b>”), the FCA confirmed its position in relation to margining and also extended it to the clearing obligation.<sup>1</sup></p> <p>ISDA has been working with the IASB to ensure that amending legacy contracts does not result in a loss of hedge accounting or other negative accounting implications. The ARRC Accounting and Tax Working Group is working with FASB and the SEC on these issues in the U.S. and ISDA is involved in this work.</p> <p>The ARRC Accounting and Tax Working Group is working with the IRS in the U.S. to ensure that amending legacy contracts does not have negative tax implications.</p> <p>The Sterling RFR WG and EU RFR WG have also been working with the relevant tax and accounting bodies on these issues.</p>
28.	“Plain English” Disclosures for Derivative Transactions that continue to reference an IBOR	Published on the CFTC MRAC page <sup>xx</sup> , with the supplemental database referred to in row 2 above published on the ISDA website.
29.	Updated Full Interest Rate Disclosures	To be published prior to publication of the IBOR Fallback Protocol. <sup>xxi</sup>
30.	Other Relevant Initiatives	<p>ISDA is in the process of preparing a new set of ISDA Interest Rate Derivatives Definitions. This will include the same fallbacks to IBORs as are to be implemented in the amended 2006 ISDA Definitions.</p> <p>ISDA has published the Benchmarks Supplement as a response to the requirements of Article 28(2) of the BMR.<sup>xxii</sup></p>

<sup>1</sup> <https://www.bankofengland.co.uk/-/media/boe/files/minutes/2019/rfr-november-2019.pdf?la=en&hash=69418FFD6A88763B029F8C0AA50CCDEB173BB885>.

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- <sup>i</sup> New Rate Options for GBP-SONIA-COMPOUND (Supplement 55), CHF-SARON-OIS-COMPOUND (Supplement 51) and USD-SOFR-COMPOUND (Supplement 52) have been published. JPY-TONA-OIS-COMPOUND, AUD-AONIA-OIS-COMPOUND, CAD-CORRA-OIS-COMPOUND and HKD-HONIX-OIS-COMPOUND were included in the original 2006 ISDA Definitions. EUR-EuroSTR-COMPOUND is being drafted and a pre-publication version will be available soon on ISDA's website; the final version will be published on 2 October 2019 when €STR begins publication.
- <sup>ii</sup> The database is available here: <https://www.isda.org/2019/09/10/supplement-to-the-plain-english-disclosures-for-derivatives-referencing-libor-and-other-ibors/>
- <sup>iii</sup> The most recent publication can be found here: <https://www.isda.org/2020/01/21/interest-rate-benchmarks-review-full-year-2019-and-the-fourth-quarter-of-2019/>.
- <sup>iv</sup> The ARRC press release can be found here: [https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Interdealer\\_Cross-Currency\\_Swaps\\_Press\\_Release.pdf](https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Interdealer_Cross-Currency_Swaps_Press_Release.pdf).
- <sup>v</sup> The Supplement(s) will cover the following IBORs: GBP LIBOR, CHF LIBOR, JPY LIBOR, EUR LIBOR, USD LIBOR, EURIBOR, JPY TIBOR, Euroyen TIBOR, BBSW, CDOR, HIBOR.
- <sup>vi</sup> The consultations and results can be found here: <https://www.isda.org/2020/01/10/benchmark-fallback-consultations/>.
- <sup>vii</sup> This consultation can be found here: <https://www.isda.org/a/md6ME/FINAL-Pre-cessation-issues-Consultation.pdf>.
- <sup>viii</sup> <https://www.isda.org/a/kkaTE/2019.10.21-Anonymized-Pre-Cessation-Consultation-Report.pdf>
- <sup>ix</sup> The FSB OSSG letter can be found here: <https://www.fsb.org/wp-content/uploads/P191119.pdf>. ISDA's response can be found here: <https://www.isda.org/a/lwcTE/December-2019-Letter-to-the-FSB-OSSG-FINAL.pdf>. The FCA's and ICE Benchmark Administration's responses to ISDA's letter can be found here: <https://www.isda.org/a/E1LTE/FCA-letter-to-ISDA-on-Non-representative-LIBOR-January-2020.pdf>, <https://www.isda.org/a/M1LTE/IBA-Letter-to-ISDA.pdf>.
- <sup>x</sup> The ICE consultation can be found here: [https://www.theice.com/publicdocs/ISR\\_Feedback\\_Request\\_\\_9\\_August\\_2019.pdf](https://www.theice.com/publicdocs/ISR_Feedback_Request__9_August_2019.pdf).
- <sup>xi</sup> The ARRC recommended fallback language and consultation materials for mortgages, bilateral business loans, floating rate notes, securitisations and syndicated loans can be found here: <https://www.newyorkfed.org/arrc/fallbacks-contract-language>.
- <sup>xii</sup> The recommendations of the EUR RFR WG can be found here: [https://www.ecb.europa.eu/pub/pdf/annex/ecb.sp190314\\_annex\\_recommendation.en.pdf](https://www.ecb.europa.eu/pub/pdf/annex/ecb.sp190314_annex_recommendation.en.pdf).
- <sup>xiii</sup> The ECB press release announcing the spread can be found here: <https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.pr190531~a3788de8f8.en.html>.
- <sup>xiv</sup> This is contained in Supplement 60, which can be found here: <https://www.isda.org/a/fzPTE/Supplement-60-EUR-EONIA-Compound-FRO-Amendments-2006-ISDA-Defs.pdf>
- <sup>xv</sup> The third public consultation by the EUR RFR WG on the EONIA to €STR legal action plan can be found here: [https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.consultation\\_details\\_201905.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.consultation_details_201905.en.pdf). The summary of responses to the consultation can be found here: [https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.summaryofresponses01\\_201906.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.summaryofresponses01_201906.en.pdf). The recommendations of the EUR RFR WG following the consultation can be found here: [https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.eurostr\\_eonia\\_legal\\_action\\_plan\\_20190716.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.eurostr_eonia_legal_action_plan_20190716.en.pdf).
- <sup>xvi</sup> Note that the changes to PAI and discounting, and to Interest Amount, described in rows 18-22 of the table are not applicable for GBP, JPY, CHF, AUD, CAD, HKD and SGD swaps because the preferred approach for these currencies is the overnight rate that is currently used.
- <sup>xvii</sup> For example, Darrell Duffie published a paper on compression auctions, which can be found here: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3259338](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3259338).
- <sup>xviii</sup> The ARRC's July 2018 letter can be found here: <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2018/ARRC-July-16-2018-titleviiletter>
- <sup>xix</sup> The letter from the EUR RFR WG can be found here: [https://www.ecb.europa.eu/paym/initiatives/interest\\_rate\\_benchmarks/WG\\_euro\\_risk-free\\_rates/shared/pdf/20190704/2019\\_07-04\\_Item\\_2\\_Letter\\_to\\_European\\_authorities\\_on\\_EMIR\\_margin\\_requirements.pdf](https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/20190704/2019_07-04_Item_2_Letter_to_European_authorities_on_EMIR_margin_requirements.pdf).
- <sup>xx</sup> The CFTC "plain English" disclosures can be found here: [https://www.cftc.gov/About/CFTCCommittees/MarketRiskAdvisoryCommittee/mrac\\_meetings.html](https://www.cftc.gov/About/CFTCCommittees/MarketRiskAdvisoryCommittee/mrac_meetings.html) (see September 9, 2019 meeting).
- <sup>xxi</sup> The current, non-updated disclosures are available here: <https://www.isda.org/a/tE8EE/ISDA-interest-rate-derivatives-disclosure-annex-March-2018.pdf>.
- <sup>xxii</sup> The ISDA Benchmarks Supplement can be found here: <https://www.isda.org/book/isda-benchmarks-supplement/>.