Primary questions relating to the historical mean/median approach to the spread adjustment

After reviewing the feedback from respondents to the 2018 consultation and the 2019 supplemental consultation in the aggregate and considering issues related to calculation and implementation, the following options are primarily under consideration.

I. ***Median*** over ***five year*** lookback period from date of announcement/publication of information regarding cessation.

II. ***Trimmed mean*** over ***ten year*** lookback period from date of announcement/publication of information regarding cessation.

Option I received the most support in response to the 2018 consultation and received considerable support in response to the 2019 consultation. Option II received considerable support in response to both consultations and reflects feedback from market participants who indicated support for a mean calculation provided that the lookback period was relatively longer. However, as noted below, respondents are welcome to express different views.

We encourage you to fully explain and provide support for your answers below. In the event that neither of the options under consideration receive strong consensus support, ISDA will consult with its professional advisors and use the qualitative feedback and rationale, including information about whether any option would materially disadvantage a segment of market participants or prevent trading, to determine which option to implement. In making such a determination, ISDA may also consider cost, transparency and accessibility implications of the options under consideration.

1. Which option do you support? Please differentiate between different IBORs if views differ. We strongly encourage you to limit your response to the options listed in I and II above. However, if you strongly prefer a different option, please explain that and explain why you prefer it over the options above.

2. Would you oppose and/or be harmed by using an option other than the option you supported in response to question 1? If so, which option and why?

3. Is consistency across IBORs important? Is it critical, very important, somewhat important or not important at all? Please explain.

4. Which is more important to you – your top preference or consistency across IBORs (assuming you could not have both)? Please explain.

Other technical questions relating to the historical mean/median approach to the spread adjustment:

5. Should the transitional period described above be included in the spread adjustment?

6. Should outliers be excluded? Please explain the rationale for your answer.

7. If outliers were to be excluded, to what extent should the data be trimmed? For example:

   - the top one percent and bottom one percent of the observations could be removed for the calculation;
   - a winsorized mean could be used, pursuant to which observations that are in the top one percent could be set to the 99th percentile value and observations that are in the bottom one percent could be set to the 1st percentile value for the calculation;
   - the maximum and minimum could be removed for the calculation; or
   - only observations within +/- three standard deviations could be used for the calculation.

   Should trimming be symmetric (i.e., trimming the same proportion of observations from both tails of the distribution) or asymmetric (i.e., one tail of the distribution should be trimmed more than the other)?

   Please explain the rationale for your answers.

8. If negative spreads have been historically observed for an IBOR/RFR pair, are there compelling reasons to exclude such observations from the calculation of the spread adjustment? If so, what are they?

9. Negative spreads can be prevalent for some IBORs. If negative spreads have occurred frequently enough that the spread adjustment is itself negative, are there compelling reasons to not implement a negative spread adjustment?

Potential approaches for implementing the compounded setting in arrears rate approach

Instead of using delayed payment, the period over which the RFR is observed could be adjusted. One way in which this can be done is by **"backward-shifting"** the observation period (which would include a shift of the rate and the weight) by a number of Banking Days. If, for example, two Banking Days were used, this would mean that the last observation of the RFR for each Calculation Period would be two Banking Days before the relevant Payment Date (assuming, as noted above, that the Period End Date is the Payment Date) resulting in the fallback rate for the Calculation Period being known in advance of the Payment Date, thus allowing sufficient time for the payment to be calculated, processed and paid on the scheduled Payment Date.

Alternatively, a **"lockout"** mechanism could be used where the RFR published a number of days before the end of the Calculation Period is deemed to be the RFR for the last few days of the relevant Calculation Period. This will also result in the fallback rate for the Calculation Period being known a few days in advance of the Payment Date and allow sufficient time for the payment to be calculated, processed and paid on the scheduled Payment Date.

Primary questions relating to the compounded setting in arrears rate approach:

10. Is it necessary to apply a backward-shift, lockout or similar adjustment to avoid making payments on the same date as the date on which the fallback rate is known? Please note in particular if you would not be able to transact without an adjustment.

11. If an adjustment is necessary, do you support using a two-Banking Day backward-shift, a two-Banking Day lockout or a different adjustment? Please explain your answer.

12. Which cities should apply for the purposes of the two-Banking Day backward-shift or lockout?

13. Would either option be problematic or would you be able to transact if either option were implemented for derivatives fallbacks? Please explain.

Technical questions relating to the compounded setting in arrears rate approach:

14. For what products would a two-Banking Day backward shift or lockout not work? Is there any way to address the problems using the “compounded in arrears rate”?

15. Is it problematic to use the Calculation Period instead of the IBOR period?

16. Is two Banking Days the correct length of time for a backward shift or lockout? If not, what is the correct length of time?