



ALERT

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ISDA Forges Ahead With Market Consultations on Critical IBOR Transition Issues

Two new consultations seek market input on USD and other currencies and on inclusion of "non-representativeness" trigger

The International Swaps and Derivatives Association, Inc. ("ISDA") launched two additional IBOR transition market consultations on May 16, 2019. Both consultations set a July 12 response deadline, "which will not be extended," and are open to participants in all markets, not merely derivatives markets.

The first (the "[Supplemental Rates Consultation](#)") is "supplemental" to ISDA's consultation from July 2018 (the "[July 2018 Consultation](#)") and seeks market input on deriving "[synthetic term rates or adjusted RFRs](#)" from overnight risk-free rates as replacements for IBORs related to the United States ("USD LIBOR"), Canadian ("CDOR"), Hong Kong ("HIBOR"), and Singapore ("SOR") dollar, as well as "credit spread" adjustments thereto. The second (the "[Pre-Cessation Trigger Consultation](#)") seeks market input on the potential inclusion of an additional "pre-cessation" trigger in derivative transactions.

The Supplemental Rates Consultation presents the same choices for "synthetic term" rates and credit spread adjustments as the July 2018 Consultation. Notably, the July 2018 Consultation requested feedback on whether respondents expected their responses on other currencies, including the U.S. dollar and the euro, to differ from their responses for the currencies addressed in the July 2018 Consultation. ISDA noted that the responses to the July 2018 Consultation indicated that similar approaches "[may be appropriate](#)" for such other currencies (ISDA plans to fold the euro into its consultations after the European Central Bank commences publication of ESTR in October).

The July 2018 Consultation and the Supplemental Rates Consultation contemplate that the selected fallbacks will apply strictly upon the relevant IBOR's permanent cessation. This appears to be at odds with the consensus forming in [cash markets](#) for the inclusion of a "pre-cessation" fallback trigger based on a statement by the benchmark administrator's regulator that the benchmark has become "non-representative." ISDA has launched the Pre-Cessation Trigger Consultation at the [urging](#) of the Financial Stability Board in order to mitigate "trigger basis risk" between cash products and associated derivatives hedges. The Pre-Cessation Trigger Consultation specifically requests feedback as to whether the "non-representativeness" trigger should be an optional, modular component to account for the possibility that associated cash market positions may or may not have such a trigger.



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