Operations/Infrastructure:
Briefing on LIBOR Replacement Index
Communication Tool

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## Topics for Today's Meeting

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ARRC O&I identified in 2021 that the communication process of security rate replacements differed between the EU and US

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<th>Rate Change Event</th>
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<td>• Is treated as a Corporate Action</td>
<td>• Is currently <strong>not treated as a Corporate Action</strong></td>
<td>• Rates Changes are a <strong>non-serviceable event</strong></td>
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<th>Announcement of the Change</th>
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<td>• International Central Securities Depositories (ICSDs) will send corporate action notification via SWIFT when received from issuer or agents</td>
<td>• Change notifications received from Issuers or Agents are published on DTCC LENS message board (subscription service)</td>
<td>• Notifications are comingled with redemption and default notices and are therefore difficult to identify</td>
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<th>Details of the Change</th>
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<td>• ICSDs distribute detailed term sheet via other channels to their network</td>
<td>• Are included on the LENS messaging board</td>
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<th>Informed Parties</th>
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<td>• Broad range of investors, infrastructure providers and data providers</td>
<td>• Limited reach due to subscription model and difficult data extraction process</td>
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ARRC O&I Working Group concluded in 2021 that the existing US process was not fit for purpose to deal with the transition event in 2023
Development Journey for the DTCC’s LIBOR Replacement Index Communication Tool

- Create standardized data term sheets (one for TERM SOFR and one for ARRs) which can be used to communicate the transition decision in a harmonized fashion
- DTCC to develop
  - an API and Web Interface which will be used to ingest the information from Agents / Issuers
  - develop a sub event type used for a Corporate Actions notifications
  - develop a database and API to make the combined data term sheets available for market participants and market data providers (prerequisite to populate Security Master file products)
- The process aims to reduce the risk of
  - Valuation inconsistencies
  - Reconciliation breaks, which could overwhelm back-office functions.
LIBOR Tool Metrics

- LIBOR Tool has been operational since February for submitters to upload their securities information for market data service providers to disseminate the information to end users.
- Since the start of the tool in February, 91,302 securities have been submitted as of May 16th via the LIBOR tool.
- There has been significant progress in securities submissions in May, accounting to more than 90% of the total submissions.
- Even though major spike of submissions occurred, there is still an outstanding population of USD LIBOR securities to be submitted to the tool.

Data as of May 16th; Submissions from unique 19 institutions
There has been significant progress in submissions in May with a large spike of 83,540 compared to 2,107 in April.

Largest number of submissions have been from issuers where Fannie Mae and Freddie Mac accounted for 56.6% and 42.7% of the total issuer submissions, respectively.

In terms of the benchmarks submitted to the tool, majority was Term SOFR with 63%, followed by other SOFR Based ARRs (e.g., SOFR 30,90,180) with 37%.

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**Submitter Type** | **Term SOFR** | **SOFR Based ARRs** | **Other ARR** | **Total** | **% of Total**
---|---|---|---|---|---
Issuer | 48,415 | 33,140 | 350 | 81,905 | 89.71%
Calculation Agent | 5,563 | 29 | 234 | 5,826 | 6.38%
Trustee | 3,253 | 81 | - | 3,334 | 3.65%
Other | 94 | 100 | - | 194 | 0.21%
Paying Agent | 30 | - | - | 30 | 0.03%
Determining Person | - | 13 | - | 13 | 0.01%
Grand Total | 57,355 | 33,363 | 584 | 91,302 | 100%

*SOFR Based ARRs include SOFR 30, SOFR 90, SOFR 180, SOFR Spread-Adjusted ISR 5Y, SOFR Spread-Adjusted ISR 10Y, and SOFR Spread-Adjusted ISR 30Y
**Other ARR also includes submissions where Fallback Rate Index value is blank
LIBOR Tool Metrics

- Within the Term SOFR submissions, 84% were Refinitiv Cash Fallback Rates and CME Term SOFR accounted for 16% of the submitted benchmarks.
- In terms of the SOFR Based ARR submissions, SOFR 30-day average benchmark was the highest used benchmark with 98%.
- Remaining 2% of the population for the SOFR Based ARRs included SOFR 90 and 180-day average and SOFR Spread Adjusted ISRs (USD LIBOR ICE Swap Rate).

**Data as of May 16th; Submissions from unique 19 institutions**
How data flows through the LIBOR Replacement Index Comms Tool

There are different paths by which end-users receive post-LIBOR reference rates:

- **Issuer**
- **Corporate Trustee**
- **Calculation Agent**
- **Other**

**DTCC LIBOR Tool**
- GUI or file upload of ARR for LIBOR CUSIP
- LENS notice*

**Custodian**
- LENS notice*
- ARR detail
- * & data file for data file subscriber

**Other**
- LENS notice & data file

**Mkt Data Provider**

**Asset Manager**

**Hedge Fund**

**Broker Dealer**

**Bank**
How to upload data to the DTCC’s LIBOR Replacement Index Communication Tool

The Tool is used by determining persons or their agents entering post-LIBOR rate information into a DTCC webpage at https://libor.dtcc.com. The webpage allows entry of single securities via GUI as well as multiple securities via file uploads.

Data submitted to the LIBOR Tool flows onward to two destinations on an intraday basis. The first destination is LENS, a DTCC service predating the LIBOR Tool. The second destination is an Autoroute file, part of a service subscribed to by market data providers. Market data providers then supply the data to their own subscribers.
Use Cases for the Tool

The Tool can be used for securities:

- referencing USD LIBOR and is identified with a CUSIP
- falling back to a specific non-LIBOR benchmark (such as SOFR, Prime, or Fed Funds)
- falling back to a benchmark that is based upon a contractual “waterfall” (such as the ARRC’s recommended fallback language)
- where the replacement benchmark is applied by operation of law under the Federal LIBOR Act
- where the replacement benchmark for a security is selected by a “determining person” under the Federal LIBOR Act
- governed by non-U.S. law if they have a CUSIP
Further information and background can be found ....

1. Learn more about DTCC’s LIBOR Tool at https://www.dtcc.com/libor, especially:

2. For questions not answered by the site above, ask them at https://www.dtcc.com/forms/libor-contact-client-support-form.

3. Use https://libor.dtcc.com to notify the market of post-LIBOR rates for securities of which you are a determining person or their agent.
Appendix
ARRC Best Practices and Final Rules

On July 11, 2022, the NYFRB ARRC published best practices (a.k.a. playbook) for the LIBOR transition

The best practice document speaks to “an enhanced” LENS system
     The enhanced system would include the Replacement Index Rate upload web app

It is therefore recommended that determining parties (e.g. agents, trustees, etc.) should use the enhanced LENS process to decrease operational risk

Fed rules for LIBOR Transition: