Last Call on LIBOR: Final Steps to Transition
Preparing for Cessation Part II: Client Communications Panel Discussion

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July 11, 2022
USD LIBOR Cessation: Developments in LCH-cleared Swaps

Philip Whitehurst
Head of Service Development, SwapClear and Listed Rates
July 2022
USD LIBOR Cessation: Cleared Swap Market Liquidity

USD RELATIVE REGISTRATION NOTIONAL VOLUMES

USD RELATIVE REGISTRATION DV01 VOLUMES
USD LIBOR Cessation: LCH’s Treatment of Cleared Swaps following Consultation*

“LCH plan to convert **Outstanding USD LIBOR Contracts** into **Market-Standard SOFR OIS** equivalents on a cash-compensated basis in mandatory events conducted shortly before USD LIBOR cessation”

<table>
<thead>
<tr>
<th>Outstanding USD LIBOR Contracts</th>
<th>All LCH-cleared USD LIBOR swap contracts which are outstanding on the Conversion Dates and which rely on at least one LIBOR setting beyond 30th June 2023 will be subject to conversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market-standard SOFR OIS</td>
<td>The contracts generated by the conversion process will carry a market-standard SOFR floating leg in which LIBOR will be replaced by standardised backward-looking compounded SOFR and to which the relevant IBOR Fallbacks Spread Adjustment will be added (see table below). The terms of any non-LIBOR leg on the original contract will be unchanged</td>
</tr>
<tr>
<td>Conversion Dates</td>
<td>Tranche 1 Date: 22nd / 23rd April 2023</td>
</tr>
<tr>
<td>Products in scope</td>
<td>Tranche 1 Products: LIBOR/FEDFUNDS Basis, VNS, ZCS</td>
</tr>
<tr>
<td>Representative LIBOR Continuity</td>
<td>To minimise disruption, LCH aim to preserve the cashflows associated with representative USD LIBOR settings via overlay bookings</td>
</tr>
<tr>
<td>Cash Compensation</td>
<td>LCH will cash compensate for any valuation difference between the original LIBOR trade and the SOFR contract (including overlays)</td>
</tr>
<tr>
<td>Process Mechanics</td>
<td>LCH expect to characterise the process legally as a trade amendment; operationally, trades will be terminated and rebooked</td>
</tr>
<tr>
<td>Back-stop</td>
<td>LCH’s conversion process should be treated as a back-stop. Market participants are strongly encouraged to convert pro-actively</td>
</tr>
</tbody>
</table>

* Subject to regulatory review

<table>
<thead>
<tr>
<th>USD LIBOR Tenor in original contract</th>
<th>1M</th>
<th>3M</th>
<th>6M</th>
<th>12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBOR Fallback Spread Adjustment (BISL)</td>
<td>0.11448</td>
<td>0.26161</td>
<td>0.42826</td>
<td>0.71513</td>
</tr>
</tbody>
</table>
Last Call on LIBOR:
Final Steps to Transition
July 11, 2022

ARRC Operations & Infrastructure Working Group

Oliver Bader, Ann-Marie Bria, Scott Longo
How are Bondholders informed in different jurisdictions today about rate replacement decisions?

<table>
<thead>
<tr>
<th>Rate Change Event</th>
<th>Announcement of the Change</th>
<th>Details of the Change</th>
<th>Informed Parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Is treated as a Corporate Action</td>
<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>• Broad range of investors, infrastructure providers and data providers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Notifications are comingled with redemption and default notices and are therefore difficult to identify</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Are included on the LENS messaging board</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Limited reach due to subscription model and difficult data extraction process</td>
<td></td>
</tr>
</tbody>
</table>

ARRC O&I Working Group does not believe that the current US process will be fit for purpose to deal with transition event in June 2023
ARRC Operations & Infrastructure Working Group Efforts so far

Activities to date

- We developed a process to improve how interest rate changes about how changes at transition will be communicated in the market
- We have engaged with numerous market participants (buy & sell side, agents, custodians) to understand their perspectives also to include their feedback into our proposals
- Developed a template “Term Sheets” of all data elements needed to transition off LIBOR – one for Term SOFR and one for O/N Rates
- We have had regular meeting with DTCC to discuss our proposal and to develop a recommended approach

Progress since last meeting

- We have spent the last 30 days seeking a commitment from “determining parties” and “their agents” that they would communicate decisions leveraging the “terms sheets” and proposed DTCC solution.
- Based on the feedback received from Issuers, Agents and ARRC Committee firms and the engagement of the ABA, DTCC is comfortable supporting the roadmap on slide 5 for development and testing of the solution
Proposed Solution – Detailed Design to take place in July/August

1. Agent, Issuer or any other party responsible for disseminating the information will leverage existing LENs service to submit new Lens Event type through a UI to populate information on the UI or upload through a standardized template.

2. Document available through traditional Lens interface and subscription model.

3. Fielded data available through API enabled subscription service which includes detailed content of the data mapping template from step 1.
   - Market Data providers would use data to populate their own static data masterfiles.
LIBOR Transition Timeline

- **JULY 2022**
  - DTCC Industry Proposal
    - Public domain web input / upload
    - API
    - LENS

- **JULY-SEPT 2022**
  - Industry Working Groups

- **AUGUST 2022**
  - DTCC Specs Available

- **NOVEMBER 2022**
  - DTCC Testing
    - PSE-U test environment
    - Web input / upload
    - API

- **JUNE 2023**
  - LIBOR Retirement

- **JUNE-SEPT 2022**
  - Term Sheet Field Agreement

- **JULY-NOV 2022**
  - DTCC Build / Outreach

- **SEPTEMBER 2022**
  - DTCC Demo

- **LATE JAN - MARCH 2023**

*Production Go-Live dependent on PSE testing results*