ISDA Safe, Efficient Markets

New IBOR Fallbacks Take Effect for Derivatives

NEW YORK, January 25, 2021 – New fallbacks for derivatives linked to key interbank offered rates (IBORs) have come into effect today, ensuring a viable safety net is in place in the event an IBOR becomes permanently unavailable while firms continue to have exposure to that rate.

The fallbacks, published by the International Swaps and Derivatives Association, Inc. (ISDA), will be incorporated into all new derivatives contracts that reference ISDA's standard interest rate derivatives definitions from today. They will also be included in legacy non-cleared derivatives if the counterparties have bilaterally agreed to include them or both have adhered to the IBOR Fallbacks Protocol. More than 12,000 entities across nearly 80 jurisdictions have so far adhered to the protocol, which will remain open for adherence.

"Today, the fallbacks take effect for new and legacy derivatives contracts, following a successful protocol adherence process in which thousands of buy- and sell-side firms across the globe adhered to the protocol. Having a fallback based on a clear, consistent and transparent methodology will significantly reduce the risk of market disruption if a key IBOR ceases to exist or LIBOR is deemed to be non-representative before transition efforts are complete. We would like to thank regulators for all their leadership and support in getting to this point," said Scott O'Malia, ISDA's Chief Executive.

ISDA published the IBOR Fallbacks Supplement and IBOR Fallbacks Protocol on October 23, 2020. The supplement incorporates the fallbacks into new covered IBOR derivatives referencing the 2006 ISDA Definitions (unless the parties specifically agree to exclude them). The IBOR Fallbacks Protocol includes the fallbacks into legacy non-cleared derivatives trades with other counterparties that choose to adhere to the protocol. The fallbacks cover Australia's Bank Bill Swap Rate, the Canadian Dollar Offered Rate, euro LIBOR, EURIBOR, HIBOR, the Singapore dollar Swap Offer Rate, sterling LIBOR, Swiss franc LIBOR, the Thai baht Interest Rate Fixing, TIBOR, euroyen TIBOR, yen LIBOR and US dollar LIBOR.

As of today's effective date, the fallbacks for a particular currency will apply following a permanent cessation of the IBOR in that currency. For derivatives that reference LIBOR, the fallbacks in the relevant currency would also apply following a determination by the UK Financial Conduct Authority that LIBOR in that currency is no longer representative of its underlying market. In each case, the fallbacks will be adjusted versions of the risk-free rates identified in each currency. Click here for more background on fallbacks and the adjustment methodology.

The IBOR Fallbacks Supplement is available here. The IBOR Fallbacks Protocol is available here.

Watch a short introductory animation on benchmark fallbacks, plus a video on the issues firms should consider when implementing fallbacks.

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For additional information on benchmark reform, visit ISDA's benchmark reform and transition from LIBOR page on the ISDA website.

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About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 925 member institutions from 74 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.