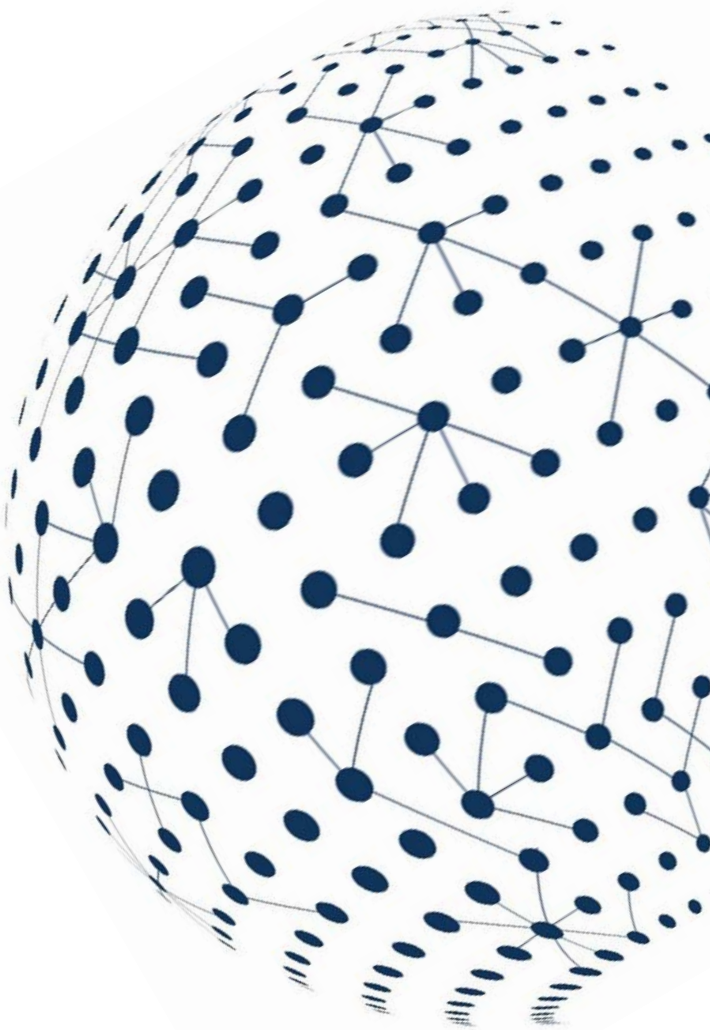
FSB FINANCIAL STABILITY BOARD

Progress Report to the G20 on LIBOR Transition Issues

Recent developments, supervisory issues and next steps



6 July 2021

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Executive summary

With the end of 2021 getting ever nearer, the transition away from LIBOR is a significant priority for the Financial Stability Board (FSB).[1] Continued engagement from the private sector, in conjunction with a significant commitment by the official sector, remains critical in order to support this transformational effort and to support financial stability on a sustainable basis.

On 5 March 2021, ICE Benchmark Administration (IBA) and the UK Financial Conduct Authority (FCA) formally confirmed the dates that panel bank submissions for all LIBOR settings will cease, after which representative LIBOR rates will no longer be available. The majority of LIBOR panels will cease at the end of this year, with a number of key US dollar (USD) settings continuing until end-June 2023 to support rundown of legacy contracts only. This is a major step toward the end of LIBOR, removing any remaining doubts as to the urgency of the need for transition against a demanding timeline.

Given the extent of risks associated with a failure to prepare adequately for the transition, the onus of action is on firms. The tools necessary to complete the transition are currently available, and have been for some time. Over the past several years, market participants have established mechanisms to use compounded risk-free rates (RFRs) not only in derivative markets, where use of RFRs was already common, but also in the cash markets. Firms now have certainty about the cessation timeline and the fixing of spread adjustments by the International Swaps and Derivatives Association (ISDA) creates a clear economic link between LIBOR and selected RFRs, providing clarity for market participants to engage in discussions about active transition of LIBOR referencing contracts that expire after end-2021.

Since its first benchmark transition progress report in 2014, the FSB has continually highlighted the structural post-financial crisis decline in liquidity in the interbank unsecured funding markets underpinning Interbank Offered Rate (IBOR) benchmarks. For example, published data[2] show that LIBOR rates are largely reliant on judgement-based submission rather than on market transactions, demonstrating that interbank unsecured funding markets are an unsustainable reference source.

Market participants are urged to cease new use of LIBOR in all currencies as soon as practicable, respecting national working group (NWG) timelines and supervisory guidance where applicable, and in any case no later than the end of 2021. With only a few months left until end-2021, all financial and non-financial firms across the globe must ensure that they follow the necessary steps to avoid disruption to the performance of their contracts, acting with urgency. A smooth and orderly transition requires, at a minimum, steps to stop issuance of new products linked to LIBOR and efforts to transition away from LIBOR in legacy contracts wherever feasible. Drawing on NWG recommendations, the FSB's recently updated Global Transition Roadmap[3]

[1] LIBOR transition is also a G20 Priority. G20 Finance Ministers and Central Bank Governors reiterated the importance of orderly transition before end-2021 in the communiqué of 7 April 2021.

[2] Historical data on ICE LIBOR is provided by ICE Benchmark Administration on its website

[3] FSB (2021) *Global Transition Roadmap for LIBOR*, 2 June (Updated version)

summarises the high-level steps firms will need to take now and over the course of 2021 to complete their transition.

For transition to occur in time for the imminent cessation, market participants must now be aiming to use robust alternative reference rates to LIBOR in new contracts wherever possible. A particular area of concern continues to be loan markets, with much new lending still linked to LIBOR, increasing the stock of contracts affected by its discontinuation. NWGs across currency areas have set recommended milestones for this activity to move to alternative reference rates, notably including for initiation of new USD, GBP and CHF LIBOR linked loans that expire after end 2021. It is emphasised that the continuation of major USD LIBOR panels through 30 June 2023 is not meant to support new USD LIBOR activity. Rather, the purpose of the mid-2023 end date is to allow the majority of legacy contracts to mature. As at the date of this report, new use of GBP LIBOR in lending beyond end-2021 has stopped per the timelines issued by the GBP NWG.[4] The Swiss roadmap for LIBOR transition has recommended that across all product types since 31 January 2021, there should have been no new transactions based on CHF or EUR LIBOR that mature after end-2021 and do not contain robust fallback clauses. Additionally, where possible, the same objective should also apply for new transactions based on GBP, JPY or USD LIBOR. Developments in USD are being closely watched given the USD NWG's recommendations[5] for new use in business loans to have stopped by end-June 2021.

Transition will only reduce vulnerabilities if it addresses the core weakness of LIBOR – the lack of deep and liquid underlying markets. The FSB has encouraged adoption of overnight RFRs as the most robust available benchmarks. In particular, transition of the majority of global derivative market activity, across both LIBOR and non-LIBOR currencies, to primarily using overnight RFRs will strengthen the resilience of the global financial system and support market functioning. Transition progress in GBP and CHF markets has also demonstrated that in many cases RFRs can also be used widely across cash markets. The FSB has recognised[6] that in some cases there may be a role for RFR-derived term rates. While the transition away from their respective LIBOR in Switzerland and the UK has demonstrated that most or all products can successfully use overnight RFRs, an overnight RFR may not be the optimal rate in all the cases where term Interbank Offered Rates (IBORs) are currently used. If future use of RFR-based term rates is limited compared with current use of IBORs, for example if it is concentrated largely in cash products rather than derivatives markets or used as a fallback for cash products,[7] this more limited use would be compatible with financial stability.

In jurisdictions where the transition is further advanced, focus has turned to managing the transition of the stock of legacy LIBOR products. A critical development to mitigate risks to legacy LIBOR derivatives is widespread adherence to the ISDA fallback protocol, along with any other national and product-specific protocol initiatives that provide a common framework for processes and fallback language. However, in the absence of similar protocol mechanisms, there has so far been less progress in transitioning legacy cash products, including loans and other loan

4 The Working Group on Sterling Risk-Free Reference Rates (2021) *Priorities and roadmap for transition by end-2021*, May

5 ARRC (2020) *Recommended Best Practices for Completing the Transition from LIBOR*

6 FSB (2021) *Interest rate benchmark reform: Overnight risk-free rates and term rates*, 2 June

7 Some NWGs on RFRs have acknowledged that, subject to availability, term rates may be better suited as fallback rates in some IBOR-linked cash products.

products such as undrawn commitments. Whilst legislative safety nets to support tough legacy contracts are being progressed in a number of jurisdictions, market participants should continue to progress their transition efforts and plans proactively.

In November 2020, the FSB and the Basel Committee on Banking Supervision (BCBS) launched a follow-up questionnaire [8] on supervisory issues related to LIBOR transition, which was distributed to members of the FSB and BCBS, and to non-FSB members in Regional Consultative Groups (RCGs) for responses. The questionnaire provides global insights on LIBOR exposures, RFR adoption, implementation of the recommendations set out in the July 2020 report, how jurisdictions are tackling remaining transition and supervisory challenges, and further actions that can help expedite the transition progress. There has been an improvement among respondents across jurisdictions in the awareness of, and preparedness for, LIBOR transition. Compared to the previous questionnaire, a greater portion of respondents, particularly FSB jurisdictions, have shifted from the planning phase to making progress in transition. However, LIBOR transition continues to require authorities' attention and engagement. Authorities in FSB jurisdictions have engaged more in supervisory actions than non-FSB jurisdictions. Emerging markets and developing economies (EMDEs) in general are less aware and less prepared for the transition; some EMDEs reported that engagement with financial institutions (FIs) regarding transition planning has not yet started or started only recently. Commonly identified supervisory challenges include lack of insight into non-regulated clients of FIs, and lack of transparency in IT systems used by FIs and non-FIs.

Given the limited time available until end-2021, the FSB strongly urges market participants to act now to complete the steps set out in its Global Transition Roadmap. Global and national financial regulators are monitoring progress closely, and will continue to do so. Recent FSB Official Sector Steering Group (OSSG) discussions and reports from individual jurisdictions have highlighted a need for continued, active communication among market participants on LIBOR transition. This should include collaboration on implementing cross-industry solutions and active dialogue between FIs and their non-FI clients.

On the international front, collaboration and coordination remain crucial in expediting the transition progress. The FSB encouraged authorities to set globally consistent expectations and milestones that firms will rapidly cease the new use of LIBOR, regardless of where those trades are booked or in which currency they are denominated.[9] .

The publication of a majority of the LIBOR settings will be ceased in less than half a year. The FSB encourages market participants and relevant stakeholders to continue to work towards ceasing the use of these LIBOR settings in new contracts after end-2021.

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8 An initial stocktaking exercise was undertaken by the FSB and BCBS in December 2019 on exposures to LIBOR and supervisory measures to address benchmark transition issues. The findings were set out in FSB's July 2020 *Report to the G20 on supervisory issues associated with benchmark transition*.

9 FSB (2021) *FSB statement on smooth and timely transition away from LIBOR*, 2 June

1. Introduction

In its November 2020 progress report, the FSB made clear that with only one year left until end-2021, all market participants must ensure that they follow the necessary steps to avoid disruption to the performance of their LIBOR-linked contracts, models and infrastructure. With clear cessation dates now confirmed, progress needs to accelerate in order to achieve a timely transition, both in terms of transitioning legacy contracts and discontinuing new use of LIBOR-linked products. This will require the continuation of extensive efforts across markets, entailing significant collaboration, communication, and outreach across various stakeholders.

This progress report to the G20 is structured in four parts as set out below:

- Section 2 sets the scene on issues and risks associated with LIBOR transition
- Section 3 presents observations and key themes from the FSB's OSSG as regards remaining aspects of benchmark transition.
- Section 4 presents findings from the FSB's follow-up questionnaire on supervisory issues related to LIBOR transition.
- Section 5 sets out conclusions and next steps.

2. Issues and risks associated with LIBOR transition

On 5 March 2021, the IBA notified the FCA that following the results of its consultation,[10] it will no longer: i) have the necessary inputs from panel banks to be able to publish representative EUR, JPY, GBP, CHF, and 1-week and 2-month USD LIBOR settings after 31 December 2021; and; ii) be able to publish representative settings of the other USD LIBOR tenors after 30 June 2023. The FCA accordingly announced the future cessation or loss of representativeness of the 35 LIBOR benchmark settings currently published by the IBA.[11] This is a major step toward the end of LIBOR, removing any remaining doubts as to the urgency of the need for transition against a demanding timeline.

Continuation of some key USD LIBOR tenors through to 30 June 2023 was intended to allow legacy contracts to mature, as opposed to supporting new activity. The Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) have released a statement highlighting the safety and soundness risks associated with entering into new USD LIBOR contracts.[12] The statement encouraged banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable, and in any event by 31 December 2021, except in a limited set of circumstances

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10 ICE (2021) *ICE LIBOR® Feedback Statement on Consultation on Potential Cessation*

11 FCA Announcement on future cessation and loss of representativeness of the LIBOR benchmarks, 05 March 2021. This announcement engaged certain contractual triggers for fallbacks that are activated by pre-cessation or cessation announcements made by FCA (howsoever described) in contracts, and is in accordance with the FCA 11 March 2020 statement on LIBOR contractual triggers.

12 FRB, FDIC, OCC (2020) *Statement on LIBOR transition*, 30 November

focusing on risk management of existing positions and other activities intended to support orderly transition.

As set out in its statement on 2 June 2021, the FSB fully supports the position taken by US Banking Supervisors.[13] The FSB has previously identified that continued reliance of global financial markets on LIBOR poses clear risks to global financial stability. In light of the significant use of USD LIBOR globally, the FSB believes it is particularly important to reinforce the message and timeline from US supervisors on a global scale. Accordingly, the FSB encourages all global market participants to discontinue new use of USD LIBOR-linked contracts, as soon as practicable and no later than end-2021, in light of the safety and soundness risks associated with continued use.

FSB members will be reiterating these expectations to regulated firms in their own jurisdictions as appropriate to support this objective and will continue to provide support for action taken by home authorities in all LIBOR currencies to promote a smooth transition. For example:

- The Bank of England (BoE) and the FCA jointly published a Dear CEO letter[14] supporting the GBP NWG's milestones and making the point that regulated firms should ensure they cease new use of USD LIBOR as soon as practicable and no later than the end of 2021.
- The Hong Kong Monetary Authority (HKMA) issued a supervisory circular[15] requiring banks to cease issuing new LIBOR-linked contracts by the end of 2021.
- The CHF NWG recommended transitioning LIBOR exposures prior to the end of 2021 wherever possible and highlighted guidance[16] from the Swiss Financial Market Supervisory Authority (FINMA) to use alternative reference rates for the five LIBOR currencies for new contracts after June 2021.
- The Monetary Authority of Singapore (MAS) issued a supervisory circular requiring regulated financial institutions in Singapore to cease issuing new USD LIBOR-linked contracts by end-2021, and non-USD LIBOR-linked contracts (which mature after end-2021) by mid-2021.
- The European Commission, the European Central Bank (ECB) Banking Supervision, the European Banking Authority and the European Securities and Markets Authority published in June 2021 a joint statement aimed at stopping use of the 35 LIBOR settings, including USD LIBOR and limiting the use of synthetic LIBOR by EU entities.[17]
- The Japan Financial Services Agency (JFSA) published in June 2021 a statement requesting each financial institution to take action in accordance with the timelines and

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[13] FSB (2021) *FSB statement on smooth and timely transition away from LIBOR*

[14] BoE, FCA (2021) Dear CEO Letter: *Transition from LIBOR to Risk Free Rates*, 26 March.

[15] HKMA (2021) Reform of interest rate benchmarks, 25 March.

[16] FINMA (2020) *FINMA Guidance 10/2020: LIBOR transition roadmap*

[17] EC, ECB, EBA, ESMA (2021) *Joint public statement on forthcoming cessation of all LIBOR settings*, 24 June

the guidance set out by home authorities and/or national working groups in the relevant currencies.[18]

A smooth and orderly transition requires, at a minimum, not only steps to stop issuance of new products linked to LIBOR, but also efforts to transition away from LIBOR in legacy contracts wherever feasible. Whilst legislative safety nets to support tough legacy contracts are being progressed in a number of jurisdictions, market participants should continue to progress their transition efforts and plans proactively.

The tools necessary to complete the transition are currently available, and have been for some time. The FSB cautions market participants against waiting for development of additional tools. The transition away from LIBOR will only address vulnerabilities if it addresses the core weakness of the IBORs – the lack of deep and liquid underlying markets. The FSB's June 2021 paper concerning term rates builds on this message. Given the limited time available until the end of 2021, the FSB strongly urges market participants to act now to complete the steps set out in its Global Transition Roadmap.

3. Observations and key themes on LIBOR transition

3.1. Progress in Transitioning Legacy Contracts

The ISDA Fallbacks Supplement and Fallbacks Protocol came into effect on 25 January 2021, linking derivatives referencing key IBORs to RFRs and ensuring a viable safety net is in place in the event that an IBOR becomes permanently unavailable.[19] From this date, the ISDA fallbacks (i.e. the adjusted RFRs plus a fixed spread) became incorporated into: i) all new derivatives contracts that referenced ISDA's standard interest rate derivatives definitions; and; ii) legacy non-cleared derivatives where the counterparties had bilaterally agreed to include them, or where both had adhered to the IBOR Fallbacks Protocol. As of end-May 2021, over 14,000 entities across nearly 90 jurisdictions have adhered to the protocol, which will remain open for adherence (See Graph 1).[20] The fallbacks for a particular currency will apply following a permanent cessation of IBOR in that currency. In each case, the fallbacks will be the adjusted versions of the RFRs identified in each currency.[21]

In response to the FCA announcement, ISDA published a statement indicating that the announcement constituted an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings.[22] As a result, the fallback

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18 JFSA, (2021) *Preparing for the transition away from USD, GBP, CHF, and EUR LIBOR*, 17 June.

19 ISDA published the IBOR Fallbacks Supplement and IBOR Fallbacks Protocol on 23 October 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. The IBOR Fallbacks Supplement is available here. The IBOR Fallbacks Protocol is available here.

20 ISDA (2021) ISDA 2020 IBOR Fallbacks Protocol – Adhering parties

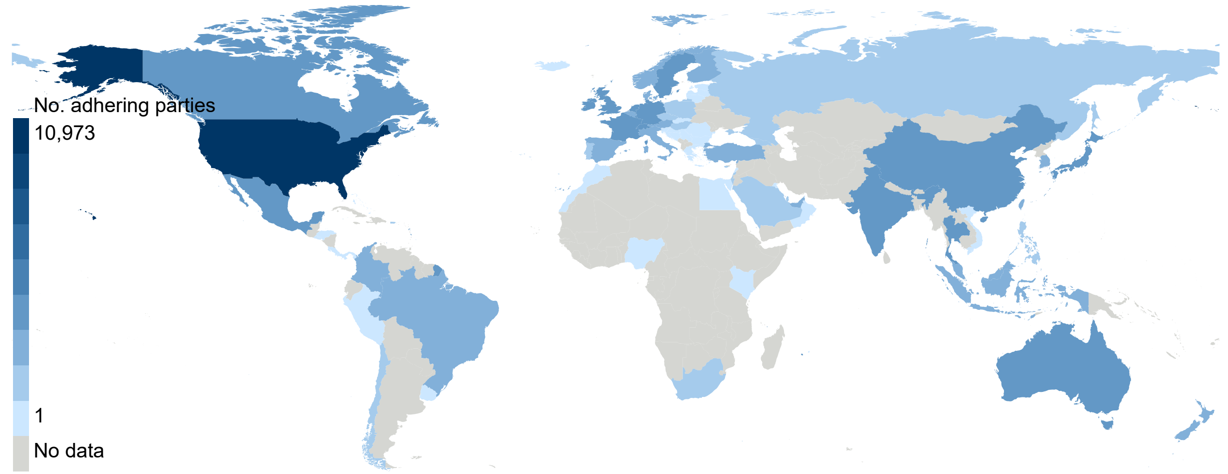
21 More background on fallbacks and the adjustment methodology is available at ISDA *Understanding IBOR Benchmark Fallbacks*.

22 ISDA (2021) *Statement on UK FCA LIBOR Announcement*, 5 March

spread adjustment published by Bloomberg was fixed as of the date of announcement for all LIBOR settings.[23] The fallbacks will automatically occur for outstanding derivatives contracts that incorporate the IBOR Fallbacks Supplement or are subject to adherence of the ISDA 2020 IBOR Fallbacks Protocol on the cessation dates in the FCA announcement.[24] Major central counterparties (CCPs) have incorporated the ISDA fallbacks into their rulebooks.[25]

It has been acknowledged for some time that there will be a narrow pool of tough legacy contracts that prove unable to convert or be amended to include fallbacks ahead of LIBOR cessation. The US,[26] EU and the UK[27] have passed legislation to provide legal clarity for certain contracts. In February 2021, the EU Benchmark Regulation was amended. Hence, the EU Commission is empowered to designate a replacement rate by law. In the second quarter of 2021 the EU Commission undertook a consultation directed to all market participants, particularly consumers and small and medium enterprises including relevant associations, to assess the suitability of designating a statutory replacement rate for CHF LIBOR in mortgages and small business loans.

Adherence to ISDA 2020 IBOR fallbacks protocol **Graph 1**



As of 3 June 2021.
Source: ISDA

In the UK, the Financial Services Act amends the UK Benchmark Regulation (BMR) to grant the FCA new powers to address an orderly cessation of LIBOR. This includes granting the FCA the power to require IBA to amend LIBOR's methodology to a "synthetic" methodology in certain instances. The FCA has published Statements of Policy in relation to some of these proposed

23 Bloomberg (2021) Notice on IBOR Fallbacks, 5 March

24 In the US, the ARRC confirmed that the 5 March 2021 announcements by IBA and the FCA on future cessation and loss of representativeness of the LIBOR benchmarks constitutes a "Benchmark Transition Event" with respect to all USD LIBOR settings pursuant to the ARRC recommendations regarding more robust fallback language for new issuances or originations of LIBOR floating rate notes, securitisations, syndicated business loans, and bilateral business loans.

25 In the case of other IBORs, several national protocol initiatives provide a common framework, processes and fallback language for different kinds of products in case of cessation.

26 In the US, legislation that addresses contracts referencing USD LIBOR under New York law has been passed by the State of New York (see section 4.3.8).

27 UK Government (2021) Financial Services Act

new BMR powers.[28] The FCA also published a consultation on its proposed decision to require the publication of certain GBP and JPY LIBOR settings for a further period after end-2021 on a synthetic basis.[29] Based on this proposal, a synthetic LIBOR would be calculated using a forward-looking term version of the relevant risk-free rate (i.e. SONIA for sterling and TONA for yen) and the fixed ISDA spread adjustment published for the purposes of the ISDA IBOR Fallbacks Supplement and Protocol for the respective LIBOR setting. The FCA has noted that any synthetic LIBOR will no longer be representative for the purposes of the BMR and will be prohibited from use by UK supervised entities except where the FCA makes exemptions for certain legacy contracts. The FCA has consulted separately on its proposed policy for how it would determine this. It aims to consult further in Q3 on a proposed decision on precisely what legacy use to allow for any synthetic GBP and JPY LIBOR.[30]

These legislative solutions can be aligned so that they point to the same economic outcome, thereby minimising market fragmentation. In certain instances, there may be some differentiation in legislative outcomes, but any differentiation is likely to be a conscious choice where there are clear advantages to deviate for a particular product in a particular jurisdiction.[31] In addition, other jurisdictions may wish to consider legislating solutions, particularly to provide contract continuity and minimise litigation risk associated with use of synthetic LIBOR rates, and market participants should consider amending their contracts where possible so that they do not need to rely on legislative solutions.

3.2. Progress in Discontinuing New Use of LIBOR-Linked Products

With the timeline for cessation now confirmed, market participants will need to ensure that they cease new use of LIBOR in contracts before end-2021, in line with relevant NWG timelines and guidance from regulators. The clear expectation is that market participants must act with the tools available now as opposed to waiting for tools that may not emerge for some time.

In the US, issuance of SOFR floating rate notes (FRNs) has overtaken issuance of LIBOR FRNs, and the adjustable rate mortgage market (ARM) is rapidly moving to SOFR since government-sponsored enterprises stopped accepting new LIBOR-referencing ARMs. Use of SOFR in derivatives markets has also grown, with over USD 6 trillion in open interest in SOFR-based derivatives. However, some USD markets need to make substantial progress. Although use of SOFR derivatives has increased, activity in USD LIBOR-based derivatives has grown since 2017 and the share of outstanding SOFR derivatives is still a small percentage of LIBOR. The recent launch of a "SOFR First" initiative[32] in the US, which recommends that interdealer brokers change USD linear swap trading conventions from USD LIBOR to SOFR on 26 July 2021, marks an important development to accelerate the derivatives market's transition from USD LIBOR to SOFR. With a few exceptions, US securitisation issuance remains primarily LIBOR based. The

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28 FCA (2021) *Benchmarks Regulation: our new powers, policy and decision-making*, 5 March

29 In Japan, the Financial Services Agency (FSA) and Bank of Japan (BOJ) sent a joint letter to financial institutions through relevant trade associations which presents the expectations of the FSA and BOJ on transition away from panel-based LIBOR and on synthetic yen LIBOR.

30 UK FCA (2021) *Consultation on use of new powers to support orderly wind down of critical benchmarks*, May

31 For example, the approach the ARRC has taken to its recommended fallbacks for consumer products.

32 CFTC (2021) CFTC's Interest Rate Benchmark Reform Subcommittee Recommends July 26 for Transitioning Interdealer Swap Market Trading Conventions from LIBOR to SOFR, 8 June

business loan market has been especially slow to begin transition. Most banks are continuing to offer LIBOR as the primary or only floating-rate business loan option. Borrowers report that lenders have provided them with limited information about LIBOR alternatives.

In the UK, new use of GBP LIBOR for loans, bonds, securitisations and linear derivatives that expire after the end of 2021 has been heavily curtailed since the beginning of April 2021, following a key milestone recommended by the GBP NWG. Bond market transition has long been a success story in GBP markets where, excluding some CLOs, ABSs and private placements, all new GBP bond issues in the form of FRNs, and most securitisations, have been referencing SONIA rather than LIBOR since June 2018. In addition, new use of GBP LIBOR in lending markets was recommended to have ceased from end-March 2021, with UK regulators monitoring activity in these markets closely and reporting a positive response.[33] In derivative markets, the share of swaps traded using SONIA has been consistently greater than those linked to LIBOR since August 2020.[34] This share has increased further since the beginning of April 2021 with new trading in GBP LIBOR recommended to be limited to risk management of existing positions and inter-dealer trading showing a particularly decisive shift to SONIA.[35] Further product specific milestones to cease new issuance of products expiring after the end of 2021 (except for risk management of existing positions) are by end-Q2 2021 for non-linear derivatives and exchange-traded futures, and by end-Q3 2021 for cross-currency derivatives with a LIBOR-linked sterling leg. In support of this, the BoE and FCA encouraged liquidity providers to adopt new trading conventions based on SONIA instead of LIBOR in respect of GBP non-linear derivatives as of 11 May 2021, and GBP exchange traded derivatives as of 17 June 2021, following a similar successful initiative in GBP swap markets in October 2020.

In the EU, EURIBOR and EONIA interest rate benchmarks, rather than EUR LIBOR, are the most prevalent benchmarks in terms of use and exposure. Therefore, EUR LIBOR plays a minor role in transition processes in the EU. EONIA will cease to be published on 3 January 2022 and the EUR NWG has recommended €STR as the replacement rate. Following reforms to its calculation methodology. EURIBOR is expected to continue alongside €STR beyond 2021 and there is no current indication it will cease in the near future.[36] In May 2021 the working group on euro risk free rates published its recommendations on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates.[37]

In Switzerland, a large and increasing number of banks use SARON for cash products such as retail mortgages and corporate loans. While cash market transition has already advanced strongly, corresponding progress in the derivatives market is less pronounced. As at May 2021, the share of LIBOR-based derivatives continued to be greater than the share of SARON-based derivatives, albeit with encouraging momentum through banks starting to issue SARON-based

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33 The Working Group on Sterling Risk-Free Reference Rates (2021) Minutes of the May 2021 meeting, May

34 See LCH swaps statistics set out in monthly newsletters of the GBP NWG.

35 For example, the share of SONIA in inter-dealer trading on swap execution facilities was over 70% in April (Clarus Financial Technology).

36 The ECB, for the banks under European banking supervision, and other supervisory bodies for the banks under their supervision, also approached banks through Dear CEO letters and data collections covering different IBOR transitions and to support discontinuing new use of LIBOR-referencing products.

37 Working group on Euro risk free rates (2021) *Recommendations on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates*, May

derivatives and market participants beginning to transition remaining LIBOR-based derivatives to SARON.

In Japan, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks released a Roadmap to cease issuance of new loans and bonds referencing JPY LIBOR by the end of June 2021, and significantly reduce the amount of loans and bonds referencing JPY LIBOR by the end of September 2021. In addition, the initiation of new interest rate swaps referencing JPY LIBOR will cease by no later than the end of September 2021.

Loan markets have generally proved slower to adopt RFRs, particularly the markets for multi-currency syndicated loans where there has at times been a tendency to move at the pace of the slowest member of the syndicate. The number and range of RFR-linked multi-currency facilities are growing, [38] demonstrating the accessibility of RFRs and the strong use case for alternatives. Market participants will now need to take action at speed to move to robust alternatives given declining liquidity in LIBOR-linked facilities as cessation dates get closer. In many cases, arranging banks in existing lending facilities will also need to move quickly to replace references to non-USD LIBOR rates in multi-currency contracts by the end of 2021 to avoid disruption. Both financial and non-financial sector firms are reminded to adhere to the loan product specific milestones included in the FSB's Global Transition Roadmap and where available, to relevant recommended milestones released by NWGs in their jurisdictions. Indeed, with a demanding timeline until end-2021, work must accelerate in order to bring a resolution to issues still remaining, to support further growth in RFR-linked products, and to minimise the stock of outstanding LIBOR-linked exposures extending beyond the relevant cessation dates.

3.3. Need for Communication, Outreach and Collaboration

Recent OSSG discussions and reports from individual jurisdictions have highlighted a need for continued, active communication among market participants on LIBOR transition. This should include collaboration on implementing cross-industry solutions and active dialogue between large FIs, other smaller FIs and especially their non-financial clients.

Communication between FIs and their clients is critical. End users of LIBOR-linked contracts need to plan for the management of their existing LIBOR exposure, agree on terms for new non-LIBOR-based products, and work with system providers to accommodate new reference rates. There are signs that communication between product providers and end-users is especially necessary in the business loan market. In some cases, borrowers have reported little to no communication from their lenders on LIBOR transition and lack of availability of robust alternatives to LIBOR-based loans.

It has been apparent that EMDEs are less aware, and less prepared, for the transition. There is also a need for increased outreach to promote awareness and action on LIBOR transition in EMDEs. Given the global prevalence of LIBOR, especially USD LIBOR, as a reference rate, there are various exposures to LIBOR in EMDEs that will need to transition to alternative rates.

[38] The British American Tobacco LIBOR to SONIA/SOFR revolving credit facility was the first 'proof of concept' SONIA and SOFR multi-currency syndicated loan and other multi-currency syndicated loans have since been publicly announced. The Loan Market Association (LMA) maintains a list of RFR referencing syndicated and bilateral loans, which is regularly updated and can be accessed on the LMA's website. The latest version available as at the date of this publication can be accessed here

EMDEs can make reference to the tools used by advanced economies (AEs) when engaging with the industry, such as maintaining close dialogue with FIs' senior management and following up on FIs' action plans. The FSB's RCGs will undertake work to engage and communicate with EMDEs on this issue.

Finally, collaboration and coordination on a global level remains important. Global and national regulators have been monitoring progress on LIBOR transition closely and coordinating on supervisory issues. The Supervisory Cooperation Group of the BCBS supported these efforts with the inaugural expert meeting on benchmark transition that took place on 24 March 2021. Topics discussed included transition timelines, legislative solutions and supervisory approaches to keep track of banks' transition progress. Further expert meetings will take place over 2021.

4. Supervisory issues associated with benchmark transition

In November 2020, the FSB and BCBS launched a follow-up questionnaire[39] on supervisory issues related to LIBOR transition, which was distributed to members of the FSB and BCBS, and to non-FSB members in RCGs for responses. This questionnaire complements other efforts of the FSB and BCBS to facilitate a smooth transition away from LIBOR in 2021 and for benchmark transition more broadly and has the following objectives:

- To update the 2019 stocktake on LIBOR exposure on a jurisdictional basis through a refined and simplified excel template collecting exposures to LIBOR and alternative RFRs on a best effort basis.
- To monitor implementation of the recommendations set out in the July 2020 report and assess further the preparedness of FIs and non-FIs on transition.
- To understand how jurisdictions are tackling the remaining transition and supervisory challenges.
- To collect supervisory actions that have been taken and to identify further actions that can help expedite the transition progress.

4.1. Overview of the responses to the questionnaire

The follow-up questionnaire was sent to 96 FSB and non-FSB jurisdictions.[40] A total of 51 responses were received (25 from FSB members, and 26 from non-FSB members). A list of respondent authorities is provided at Annex 1. Among them, 39 jurisdictions, comprising 25 FSB members and 14 non-FSB members also submitted quantitative information on exposures.

Limitations of the questionnaire should be observed in interpreting the analysis. In terms of coverage, the analysis is based on the 51 qualitative responses that were received, out of about

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[39] An initial stocktaking exercise was undertaken by the FSB and BCBS in December 2019 on exposures to LIBOR and supervisory measures to address benchmark transition issues. The findings were set out in FSB's July 2020 Report to the G20 on supervisory issues associated with benchmark transition

[40] These include the ECB, the Bank of Central Africa (BCEAO) and the Group of International Finance Centre Supervisors (GIFCS).

100 jurisdictions that had been invited to take part in the questionnaire. The completeness and level of detail of the submitted responses also vary, which in part reflects authorities' varying stages and/or abilities to assess and analyse different transition-related issues.[41]

In the analysis, the responses are grouped into LIBOR jurisdictions (the five LIBOR jurisdictions, with the euro area jurisdictions counted as one), Non-LIBOR FSB jurisdictions, and Others (Non-FSB, Non-LIBOR jurisdictions).[42] The breakdown of jurisdictions is as follows (a detailed breakdown is at Annex 1).

	FSB	Non-FSB	Total
LIBOR	5	-	5
Non-LIBOR	15	18	33
Total	**20**	**18**	**38**

The response rate to the follow-up questionnaire was slightly lower than the questionnaire conducted in 2019-2020. For the first questionnaire, 57 responses were received (24 from FSB member countries and 33 from non-FSB members).[43] There was also a change in the composition of responses, with nine additional jurisdictions responding to this round of the questionnaire for the first time.

4.2. Adoption of recommendations in the FSB's 2020 Report to the G20 on supervisory issues associated with benchmark transition

This section reviews the adoption of the recommendations of last year's Supervisory report. The report identified a number of recommendations to address LIBOR transition challenges, facilitate coordinated LIBOR transition globally, reduce reliance on other IBORs where appropriate and make wider use of alternative RFRs. The recommendations were grouped under three areas: (i) identification; (ii) facilitation; and (iii) coordination:

- Identification of transition risks and challenges – authorities and standard-setting bodies (SSBs) to issue public statements to promote awareness and to engage with the industry associations (IAs), and authorities to monitor LIBOR exposure regularly and to request updates from FIs.

- Facilitation of LIBOR transition – authorities to establish a formal transition strategy supported by adequate resources and industry dialogue. Supervisory authorities should consider increasing the intensity of supervisory actions when the preparatory work of individual FIs is unsatisfactory.

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[41] Data on exposures for certain types of counterparts and contracts may not be available for jurisdictions that have submitted quantitative responses. The actual exposures could therefore be larger than the reported amount. Data quality might also reflect the nature of the exercise, which is an ad-hoc assessment with data gathered on a best effort basis.

[42] Of the LIBOR jurisdictions, both Japan and euro area jurisdictions have their equivalent IBORs. Japan has TIBOR, while EUR LIBOR is not widely used since the key EUR benchmark is EURIBOR. Euro area jurisdictions are counted as one and include ECB, EIOPA, Austria, Belgium, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Portugal and Spain.

[43] The jurisdictions who responded to the first questionnaire but not to the follow-up one are: Armenia, BCEAO, Botswana, Brunei Darussalam, Honduras, Macao, Morocco, Nigeria, Paraguay, and the Philippines.

- Coordination – authorities to promote industry-wide coordination, maintain dialogue on the adoption of fallback language, consider identifying legislative solutions where necessary, and exchange information on best practices and challenges. The FSB and SSBs will coordinate at the international level to identify key common metrics for monitoring transition progress.

Table 1: Adoption of recommendations (Share of responses within their respective group)

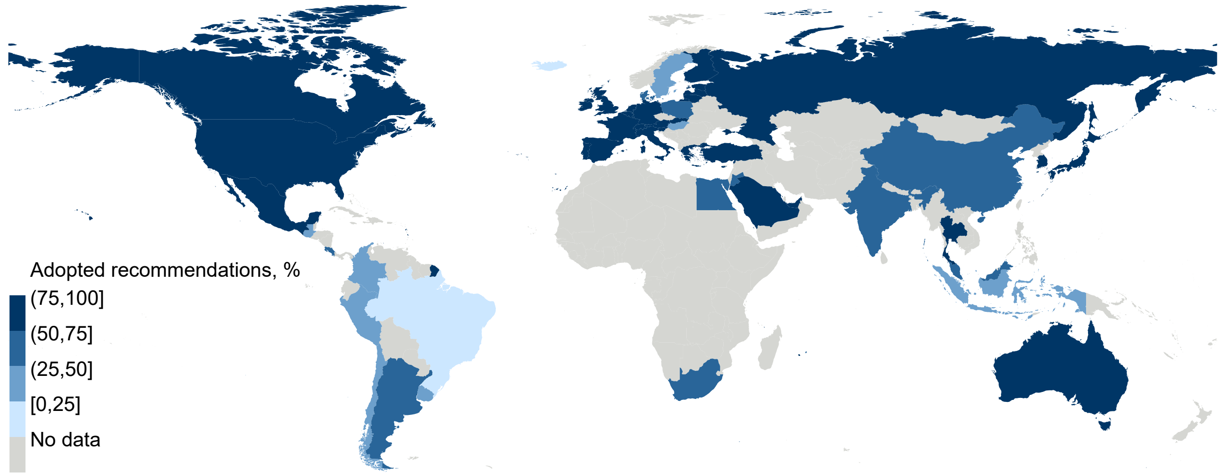
	LIBOR (5)	Non-LIBOR FSB (15)	Others (18)
Identification of transition risks and challenges			
• Ensuring FIs are identifying LIBOR-referencing contracts and assessing the impact on firm infrastructure and operations	100%	100%	94%
• Monitoring FIs' exposure to LIBOR regularly and identifying possible areas of risk concentration	100%	93%	83%
• Issuing public statements and/or letters to CEOs on LIBOR transition	100%	67%	72%
• Identifying FIs' senior management responsible for transition and following up on FIs' action plans	80%	73%	56%
• Engaging with industry associations (IAs) to raise awareness of non-FIs	60%	67%	39%
Facilitation of LIBOR transition			
• Maintaining regular supervisory dialogue and discussing with FIs on readiness of internal and external systems	100%	80%	67%
• Establishing and discussing with NWGs or IAs to formulate a LIBOR transition strategy	100%	80%	50%
• Conducting desktop reviews or on-site examinations	100%	60%	28%
• Providing further clarifications on existing regulatory and/or supervisory requirements	100%	53%	72%
• Communicating to market participants on the applicability of statements and guidance issued by standard-setting bodies (SSBs) and international bodies	80%	80%	39%
• Communicating to FIs and market participants on the timing of proposed change in market conventions or major developments in LIBOR transition	80%	80%	28%
Coordination of LIBOR transition			
• Exchanging information on best practices, challenges and progress through international forums	100%	87%	61%
• Maintaining dialogue with NWGs and IAs on the adoption of fallback language and transition of legacy products	100%	87%	56%
• Encouraging FIs to maintain good understanding of market-wide developments	100%	80%	56%
• Sharing latest developments in the five LIBOR jurisdictions and identifying best practices on transition via NWGs and IAs	100%	67%	44%
• Working with national bodies to identify legislative solutions to mitigate exposure of legacy contracts	60%	53%	28%

[1] One non-LIBOR FSB jurisdiction only provided data related to this section. Therefore, the non-LIBOR FSB group in this table comprises 15 jurisdictions (compared to 14 in other graphs and tables).

Source: Survey responses

Adoption of recommendations

As % of the 16 recommendations listed in Table 1 **Graph 2**



Source: Survey responses.

In general, the recommendations highlighted in the last report have largely been adopted by the LIBOR jurisdictions. Most non-LIBOR FSB jurisdictions has also adopted many of these recommendations (see Table 1 and Graph 2), with the exception of jurisdictions where exposures to LIBOR were immaterial. In cases where the recommendations have not been adopted by non-LIBOR FSB jurisdictions, other measures have been taken to achieve similar purposes. The adoption rate of non-FSB jurisdictions is lower, partly because a greater share of these jurisdictions reported having immaterial exposure to LIBOR.

The recommendation which has seen the most widespread adoption is the identification of transition risks and challenges. On the whole and across all jurisdictions, authorities' engagement with FIs has increased as compared to the last report, while their interaction with non-FIs has remained at a low level. A large portion of respondents has *issued public statements and/or CEO letters on LIBOR transition*. For jurisdictions that have not issued a statement or letter, either senior executives of regulated institutions have been approached by the authorities, or the relevant institutions have joined the NWGs. In addition, almost all respondents across jurisdictions have *engaged FIs in identifying and monitoring their LIBOR exposures*, as well as *assessing the risk areas and their impact on firms' infrastructure and operations*. Some reported engagements have taken the form of data collection, surveys and regular meetings with FIs. Some respondents, particularly from non-FSB jurisdictions, reported having not yet *identified senior management from FIs that are responsible for the transition*. Adoption is lowest in the recommendation to *engage with IAs to raise the awareness of non-FIs on transition*. Some respondents noted the engagements are handled through FIs' interaction with clients or NWGs.

Adoption of the recommendations in facilitating LIBOR transition is generally higher in FSB jurisdictions than in non-FSB jurisdictions. FSB jurisdictions have largely formulated a *transition strategy*, maintained *regular supervisory dialogue with FIs on transition,* and *provided clarifications on regulatory and supervisory requirements* as necessary. About half of non-FSB jurisdictions reported that they have not *engaged or discussed with NWGs or IAs the formulation of a LIBOR transition strategy, although one non-FSB* jurisdiction noted that a transition signpost had been formulated and communicated to the industry after taking into account feedback from banks. In *communication to FIs and market participants on the timing of proposed changes in* *market conventions or major developments in LIBOR transition*, some non-FSB jurisdictions noted that the industry is already well informed of such developments, or is guided by the best practices recommended by relevant NWGs.[44] Others are making progress in this area by formulating a timetable and issuing press releases. Similar comments were also made on *communication with market participants on the applicability of statements and guidance issued by SSBs and international bodies*. In *conducting desktop reviews or on-site examinations*, some non-FSB jurisdictions are considering these options in 2021. One non-LIBOR FSB jurisdiction noted that it has yet to schedule a review as it would like to give time to FIs to take the necessary actions.

On the recommendations that aim to coordinate domestic and international efforts on LIBOR transition, again non-FSB jurisdictions show a lower adoption rate with roughly half having adopted the recommendations, while the majority did not provide insight as to why they have – or have not – taken this decision. Among this set of recommendations, adoption is higher in *exchanging information on best practices, challenges and progress through international forums*. This is in line with the findings of the last report, in which respondents had called for greater information exchange. In addition, a large portion of respondents has also *maintained dialogue with NWGs and IAs on the adoption of fallback language and transition of legacy contracts.*

Certain key LIBOR jurisdictions have made substantial progress in identifying legislative solutions to mitigate legacy exposures. Across all jurisdictions, less than half consider it necessary to work with national authorities to identify legislative solutions to mitigate exposures, written under local laws, of legacy contracts. Jurisdictions not working on legislative solutions might have considered them not to be necessary, and generally reported legacy exposures as immaterial compared to the size of their financial system.[45]

4.3. Progress made on LIBOR transition as reported in the survey responses

4.3.1. Overall awareness and actions to LIBOR transition

In general, there has been an improvement across jurisdictions in the awareness of, and preparedness for, LIBOR transition. Compared to the last survey, a greater portion of respondents, particularly FSB jurisdictions, has shifted from the planning phase to making progress in transition. Across non-LIBOR jurisdictions, only a small number of respondents indicate that their non-bank FIs and non-FIs are unaware of LIBOR transition. A detailed breakdown of the entities in this follow-up survey has revealed that the awareness and preparedness of non-bank FIs and non-FIs are generally less certain.

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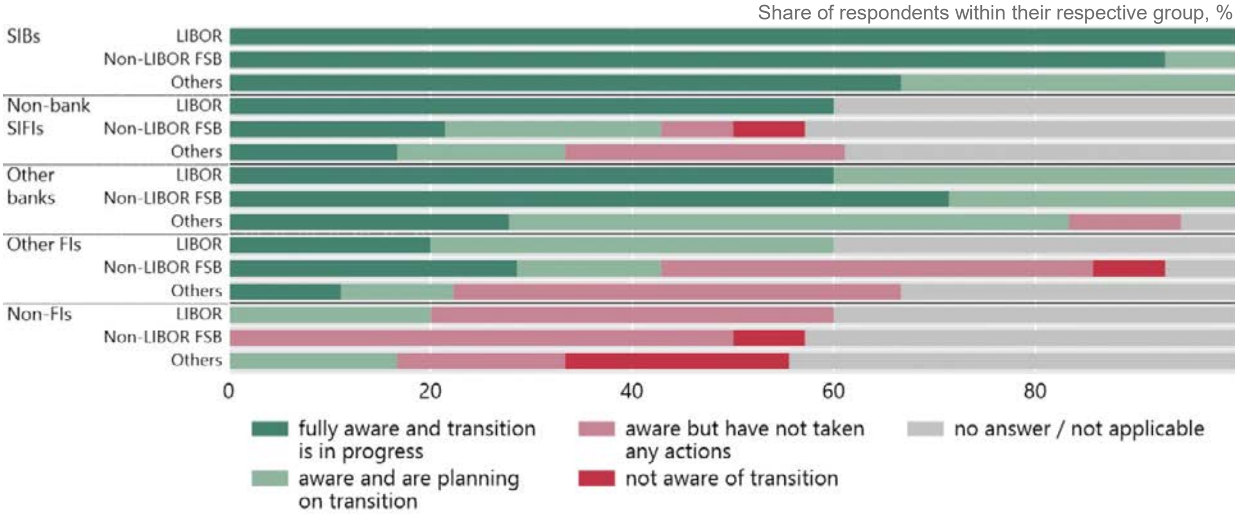
44 For example, the ARRC.

45 The Supervisory report did not recommend legislative solutions in all cases: “Authorities consider working with relevant national bodies to identify legislative solutions, where necessary, to mitigate exposures of legacy contracts that have no or inappropriate fallbacks, and cannot realistically be renegotiated or amended.”

Status of FI's awareness of, and preparedness for, LIBOR transition **Graph 3**



Sample composition: 5 LIBOR jurisdictions; 14 non-LIBOR FSB jurisdictions and 18 other jurisdictions.

Source: Survey responses.

The level of awareness and preparedness varies across entity types. Most *systemically important banks* (SIBs) are fully aware of, and are making progress in, transition (Graph 3). Most *other banks* are either planning or making progress, and the extent of progress will depend on banks' business models, resources, and exposure to LIBOR contracts. There is a wider range of preparedness for *non-bank systemically important financial institutions* (SIFIs), in which a larger portion of respondents reported no answer or not applicable. This could be due to lower LIBOR exposure, lack of information from bank supervisors and the absence of non-bank SIFIs in the responding jurisdictions. Similar patterns were observed in *other non-bank FIs*, albeit at a lower level of readiness.

The level of preparedness is the lowest or perceived to be the lowest among *non-FIs*. Direct monitoring of non-FI progress is generally not undertaken by financial supervisors as it is not in their mandate. Nevertheless, a number of jurisdictions noted that FIs in their jurisdictions are engaging their non-FI clients on the transition.

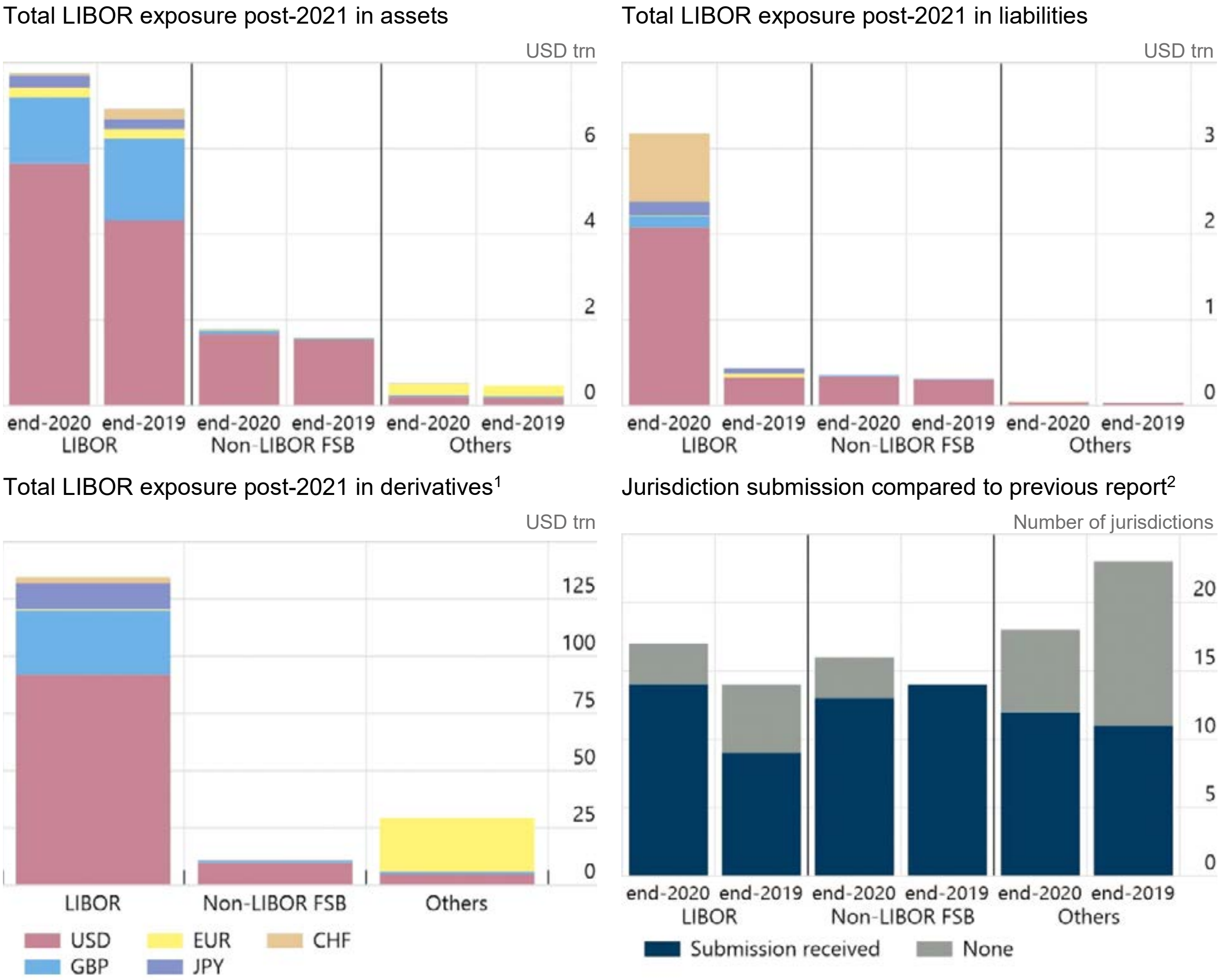
4.3.2. Evidence on LIBOR exposures and key metrics

The follow-up questionnaire asked respondents to provide a refreshed submission of data on FIs' and non-FIs' exposures to LIBOR and RFRs as well as data on LIBOR fallbacks. This time, the questionnaire asked for less detailed product exposures and focussed on total exposure with a breakdown by key product groups. The data was submitted at a group level and on a best-effort basis.[46] The number of submissions to this questionnaire have improved for LIBOR jurisdictions, allowing for more representative analysis of LIBOR exposure and remaining risks. This is shown in the bottom-right panel of Graph 4, where we see LIBOR jurisdictions have submitted 5 more responses than last time. Non-LIBOR FSB and other jurisdictions have submitted a similar number of responses as before.

46 It should be observed that the data reported here reflect in most instances data supervisory authorities have collected from regulated institutions. These may be substantively lower than the overall LIBOR exposure across all jurisdictions, in particular for the most common of the LIBOR currencies.

LIBOR exposures post-2021 by jurisdiction and currency

Compared to previous report **Graph 4**



[1] For derivatives, the total amounts have not been adjusted for double counting exposures due to issues with data completeness and differences in the calculation of total derivatives in the data template. Non-centrally cleared exposure only. [2] Euro area jurisdictions are counted individually, thus there are more than five jurisdictions under the LIBOR category.

Source: Survey responses.

Looking at the current total LIBOR exposure post-end 2021, we find similar patterns to those reflected in the previous questionnaire. As shown in Graph 4 and Table 2, LIBOR jurisdictions continue to have the largest estimated assets, liability and derivatives exposures to LIBOR rates - with USD being the greatest single currency exposure. Exposure to USD LIBOR is still high outside of LIBOR jurisdictions, however, exposures to any LIBOR currency are relatively low for non-FSB jurisdictions. Compared to the previous report, USD LIBOR exposure post-end 2021 in assets has increased for all jurisdiction groups, while exposures to GBP LIBOR decreased significantly in LIBOR jurisdictions. For liabilities post-end 2021 in LIBOR jurisdictions, however, there is a significant increase in USD LIBOR exposure. This could be explained by the greater number of LIBOR jurisdiction reporting post-end 2021 exposure this time.[47]

[47] The significant increase in CHF LIBOR cannot be directly compared to the previous exposure as it is driven by reclassifications and refinements in the data collection during 2020. The largest part of the current exposure in CHF LIBOR liabilities can be unilaterally amended by banks and/or is composed of group internal company exposures.

Table 2: Total LIBOR exposure post-2021 (In trillions of US dollars)

	USD	GBP	EUR	JPY	CHF
Assets	**7.53**	**1.66**	**0.51**	**0.30**	**0.08**
LIBOR	5.65	1.54	0.23	0.29	0.05
Non-LIBOR FSB	1.67	0.08	0.03	0.01	0.00
Others	0.21	0.04	0.25	0.00	0.03
Liabilities	**2.47**	**0.16**	**0.01**	**0.16**	**0.81**
LIBOR	2.08	0.13	0.01	0.16	0.80
Non-LIBOR FSB	0.34	0.02	0.00	0.00	0.00
Others	0.04	0.00	0.00	0.00	0.01
Derivatives	**106.43**	**29.64**	**24.20**	**11.69**	**2.91**
LIBOR	92.06	27.87	0.58	11.32	2.85
Non-LIBOR FSB	9.62	0.73	0.04	0.37	0.04
Others	4.76	1.04	23.58	0.00	0.02

[1] For derivatives the total amounts have not been adjusted for double counting exposures due to issues with data completeness and differences in the calculation of total derivatives in the data template. Non-centrally cleared exposure only.

Source: Survey responses.

The proportion of assets, liabilities and derivatives that mature post-end 2021 are shown in Graph 5. The ratio of maturity varies across currencies and product types, but in general the median values for derivative and assets range between 50-70% for LIBOR and non-LIBOR FSB jurisdictions, a slight increase from the last questionnaire. Liabilities appear to vary more across jurisdiction group and currency than in the previous submission.

As regards the RFR exposure post-end 2021, a similar pattern emerges. LIBOR jurisdictions have the largest exposure, and there is little exposure outside of these jurisdictions. For derivatives and assets, the largest RFR exposure is to GBP followed by EUR. In terms of the ratio of RFR exposure to LIBOR exposure post-end 2021, EUR has the largest RFR ratio in LIBOR jurisdictions. Non-FSB jurisdictions have very small RFR exposure across all currencies and product types.

Distribution of the ratios of post-2021 to total LIBOR exposure by jurisdiction and currency

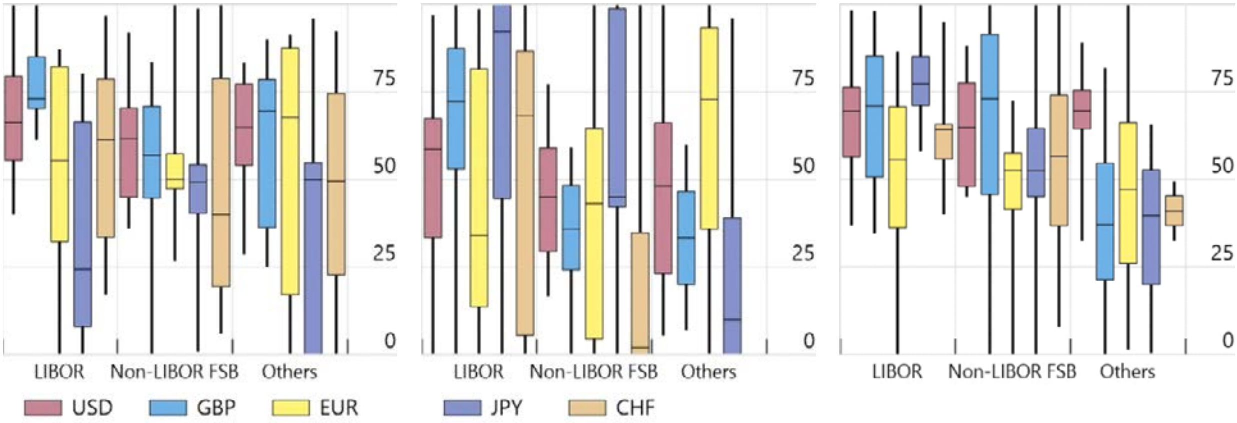
In per cent

Graph 5

Assets - Distribution of the ratios of post-2021 to total LIBOR exposure

Liabilities - Distribution of the ratios of post-2021 to total LIBOR exposure

Derivatives - Distribution of the ratios of post-2021 to total LIBOR exposure



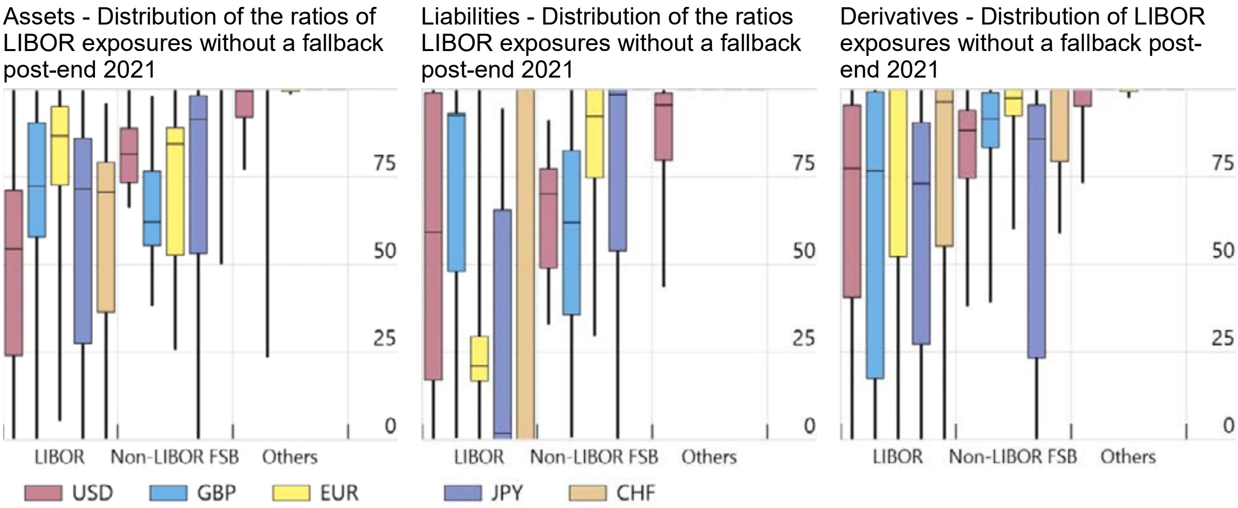
[1] Box plot showing the distribution of the ratios of post-2021 to total LIBOR exposures for each jurisdiction grouping and currency. A box is drawn from the group's first quartile to the third quartile. The horizontal line in the box is the median of the group. The top of the vertical line above the box is the maximum of the group, and the bottom of the vertical line below the box is the minimum. Ratios larger than 100% have been removed.

Source: Survey responses.

Graph 6 shows the distribution of the ratios of LIBOR exposures without a fallback post-end 2021. For non-FSB jurisdictions, and currencies, we see very little exposure with a fallback both across currencies and product types, with some having no fallback exposure at all. Overall, LIBOR jurisdictions have the largest proportion of LIBOR exposures with a fallback, followed by non-LIBOR FSB jurisdictions. Assets in general have lower median ratios, however, all proportions vary significantly, suggesting that some jurisdictions have very little exposure with fallbacks while some have made significant progress in transition.

Distribution of the ratios of LIBOR exposures without a fallback post-end 2021 by jurisdiction and currency

In per cent **Graph 6**



[1] Box plot showing the distribution of the ratios LIBOR exposures without a fallback post-end 2021 for each jurisdiction grouping and currency. A box is drawn from the group's first quartile to the third quartile. The horizontal line in the box is the median of the group. The top of the vertical line above the box is the maximum of the group, and the bottom of the vertical line below the box is the minimum. Ratios larger than 100% have been removed.

Source: Survey responses.

To identify products that may need additional support in transitioning, data on product level distributions of LIBOR exposure without fallbacks for assets and derivatives was collected (Graph A2-1). For derivatives, cross-currency products, and those derivatives which have non-FIs on one side appear less transitioned. The most transitioned are derivatives where both counterparties are FIs. Non-centrally cleared derivatives could incorporate fallbacks if counterparties signed the ISDA protocol. This is consistent across the different jurisdiction groups. Looking at assets, consumer and corporate/business loans have made the furthest progress in transitioning; however, their progress varies by jurisdiction and merits further monitoring. The larger areas of concern are securitisations and bonds where median ratios are higher.

4.3.3. LIBOR exposures post end-June 2023

Following the announcement made by the FCA that key USD LIBOR tenors will cease after 30 June 2023, a supplementary template was circulated to a small group of respondents that are more exposed to USD LIBOR, to collect data on their exposures to USD LIBOR post end-June 2023. Four jurisdictions - Canada, Hong Kong, Japan and the US - have provided the data.

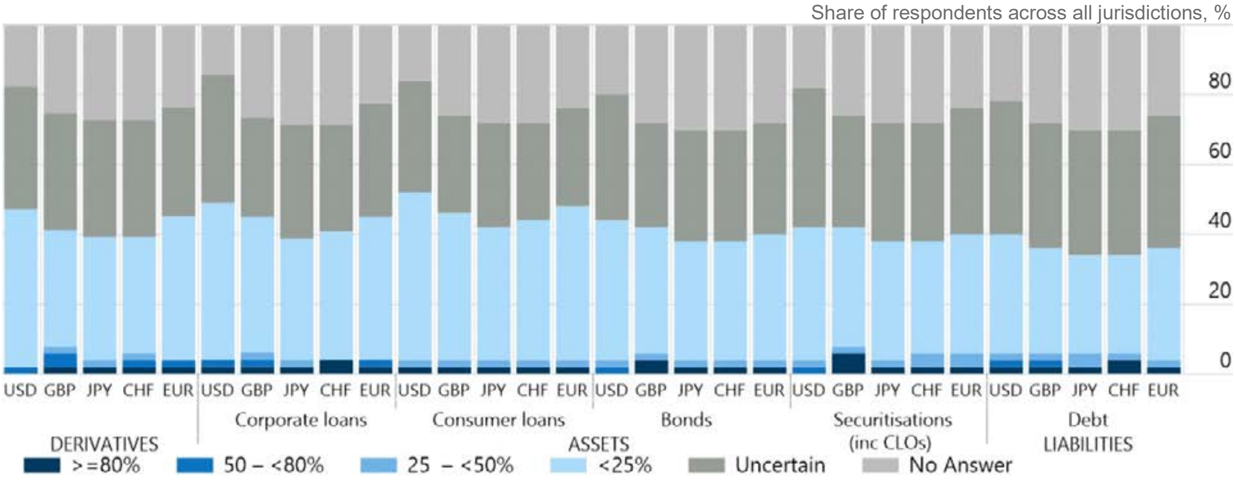
The collected data reveals that the USD LIBOR exposures that mature beyond end-June 2023 is not insignificant. In the US, data from the ARRC suggests that one third of the total USD LIBOR exposures in assets and derivatives will mature after end-June 2023. The submitted data from the other three jurisdictions shows similar result at 36%. However, as FIs across jurisdictions might still be accumulating LIBOR exposures towards end-2021, the post end-June 2023 USD LIBOR exposures could still be rising. In terms of fallback, around one-fourth of the post-2023 USD LIBOR exposures in assets and derivatives in the four jurisdictions have fallback provisions in place. In comparison, liabilities have a slightly lower fallback ratio.

4.3.4. *Adoption of RFRs in new contracts*

The overall adoption of RFRs in new contracts across product categories has been low or uncertain (Graph 7). An important caveat is that the questionnaire was undertaken before the passing of various currency and jurisdictions' own milestones for ceasing new issuance of LIBOR-referencing contracts and therefore the findings do not reflect that the adoption of RFRs has reached a significant tipping point in line with these. Respondents attributed low adoption of RFRs to factors such as the absence of data from LIBOR jurisdictions, immaterial exposures to LIBOR in non-LIBOR jurisdictions, and a number of transition challenges identified by the respondents, such as the thin liquidity of RFR products and preference for term reference rates.

Adoption of RFRs in new contracts across all jurisdictions **Graph 7**

Share of respondents across all jurisdictions, %



Sample composition: Five LIBOR jurisdictions; 14 non-LIBOR FSB jurisdictions and 18 other jurisdictions.
Source: Survey responses.

For non-LIBOR jurisdictions, apart from a few which have immaterial LIBOR exposures, a majority of respondents is uncertain about the adoption of RFRs, or has indicated that only less than 25% of their new contracts has made reference to RFRs. Graph A3-1 in Annex 3 shows the adoption of RFRs by jurisdiction type.

By contrast, while some LIBOR jurisdictions only collect data on total exposures to RFRs rather than on new contracts, the rate of adoption of RFRs has been more advanced in general. For instance, most new sterling bond issues in the form of floating rate notes and securitisations have been referencing SONIA since June 2018.

Across all product categories, some respondents considered the slow adoption of RFRs in new cash products as the cause for subdued customer demand for derivatives products for hedging needs.

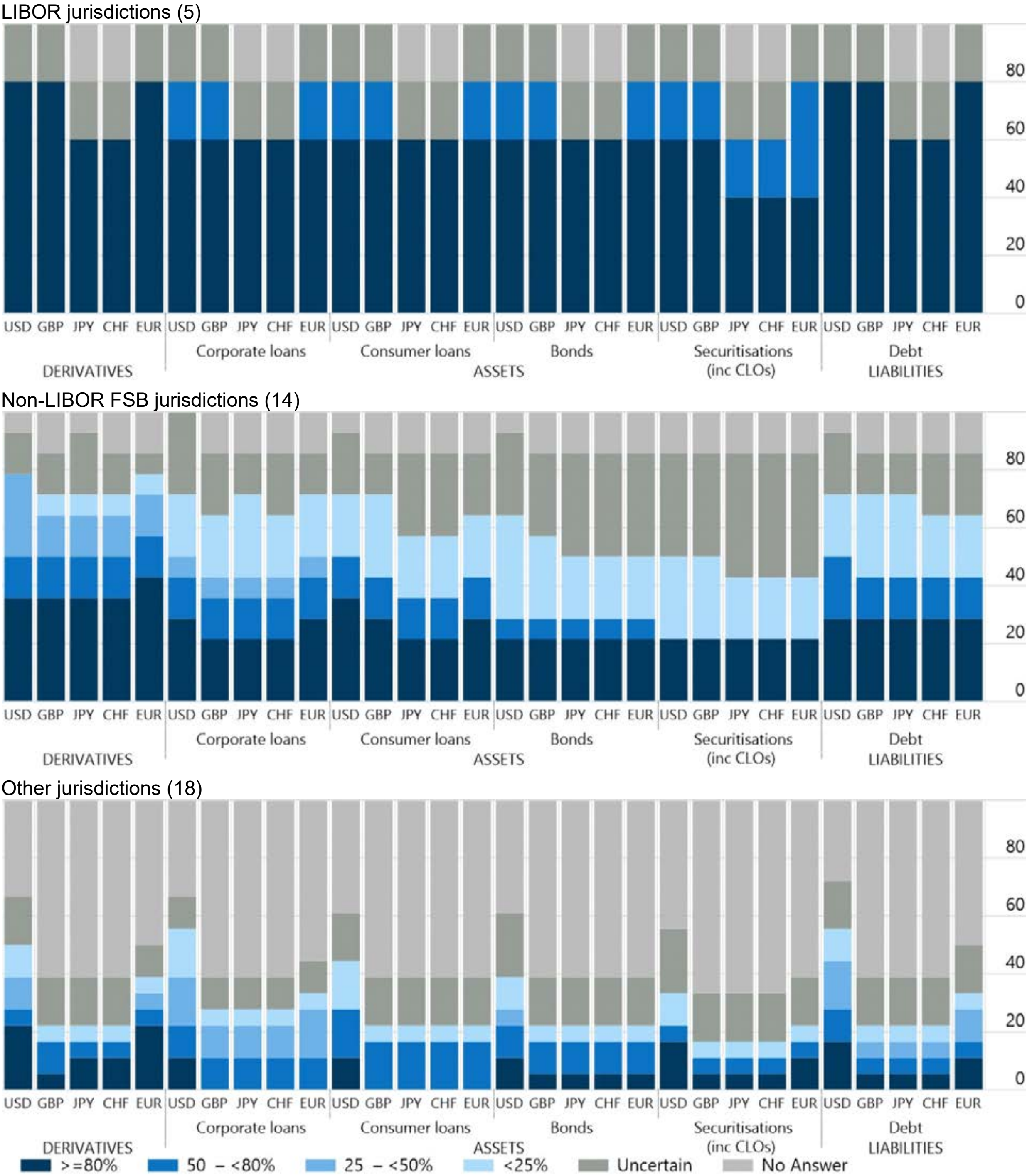
4.3.5. *Review of existing fallback language*

Reviews of existing fallback language in legacy contracts are ongoing and varied greatly across jurisdictions. While FIs in most LIBOR jurisdictions are, on average, about 80% or more through their reviews, only about one third of non-LIBOR FSB jurisdictions, and less than one quarter of non-FSB jurisdictions reported that 50 percent or more of their reviews have been completed (see Graph 8).

Progress made by jurisdictions in reviewing fallback language for products referencing LIBOR that mature after end-2021

Share of respondents within their respective group, in per cent **Graph 8**

LIBOR jurisdictions (5)



Number of jurisdictions in each group are shown in parentheses.
Source: Survey responses.

Reviews were further along for derivatives, loans and liabilities than for bonds and securitisations. More generally, progress on reviews was comparable across LIBORs, although FSB jurisdictions reported slightly better progress on USD LIBOR and EUR LIBOR than other LIBORs. Several FSB jurisdictions noted that they were relying on self-reporting by large FIs for their assessments and several pointed out that smaller institutions do not have significant LIBOR exposures. A couple of FSB jurisdictions cautioned that precise estimates on review status were not available at the time.

Most non-FSB jurisdictions did not report their review status or were uncertain about the review progress of FIs in their jurisdictions. Those non-FSB jurisdictions quantifying the state of their reviews indicated notably more exposure to USD LIBOR than other LIBOR currencies. Similar to FSB jurisdictions, non-FSB jurisdictions reported that their institutions were somewhat further along in fallback reviews for derivatives, loans and liabilities than for bonds and securitisations (see Graph A2-1). For derivatives, several non-FSB members noted that their FIs were adhering, or planned to adhere, to the ISDA protocol.

4.3.6. Adherence to the ISDA Protocol

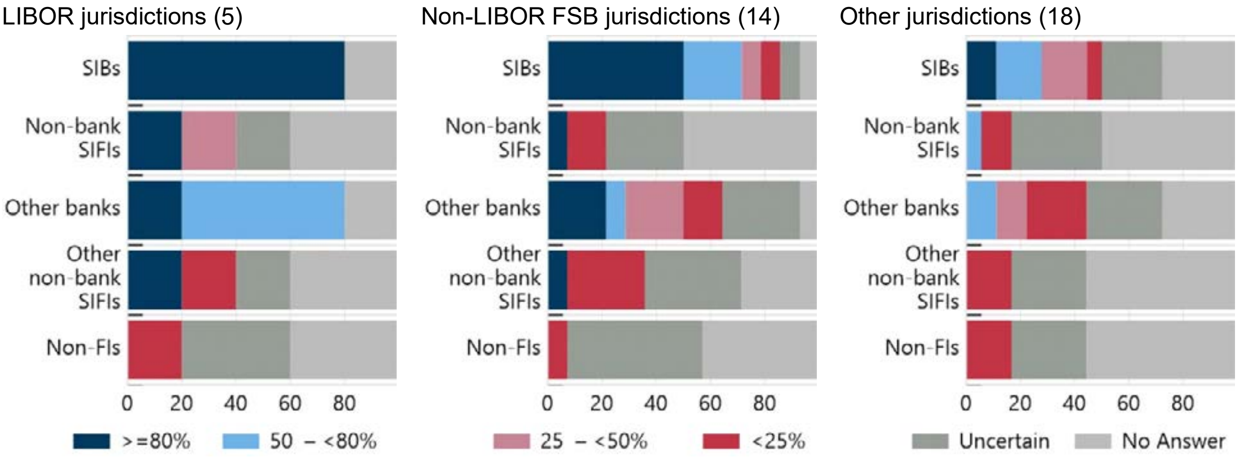
FSB jurisdictions reported that SIBs are well ahead of other institutions in adherence to the ISDA fallbacks supplement and protocol (and nearly half of the respondents reported an adherence rate of 80% or more, see Graph 9). Non-adherence was generally attributed to a lack of exposure or ongoing deliberations, rather than an aversion to the underlying principle. Caution in interpreting the adherence response numbers is, however, warranted as the ISDA protocol adherence window was still open at the time jurisdictions submitted the responses to the questionnaire.

Global adherence has increased significantly since the survey and many respondents noted imminent consideration of adherence across entity types. However, a review of adherence data by the FCA and the CFTC shows that, notwithstanding the smaller exposure, there is a long tail of institutions that have still not adhered to the protocol. Based on the questionnaire responses, less than 40% of respondents reported an adherence rate of 50% or more for non-SIBs. Almost half of FSB jurisdictions either did not report, or were uncertain about, the adherence rate of non-FIs. A couple of jurisdictions reported that less than 25 percent of their non-FIs has adhered to the ISDA fallbacks supplement and protocol. Many FSB jurisdictions noted that FIs that have not yet adhered are either intending to adhere, or still considering the need of adherence. One jurisdiction noted that ISDA has not issued a market-wide protocol for sharia-compliant derivatives.

Non-FSB jurisdictions generally reported similar patterns of adherence, albeit at lower levels. Adherence was highest among SIBs (around 20% of respondents reported an adherence rate of 50% or more) and lowest among non-FIs (only three non-FSB jurisdictions reported adherence of less than 25 percent). The lower reported adherence rate by FIs of non-FSB jurisdictions was attributed to various factors including a lack of awareness, little exposure to derivatives or insufficient data.

Adherence to the ISDA Fallbacks Supplement and Protocol for derivative products

Share of respondents within their respective group, in per cent **Graph 9**



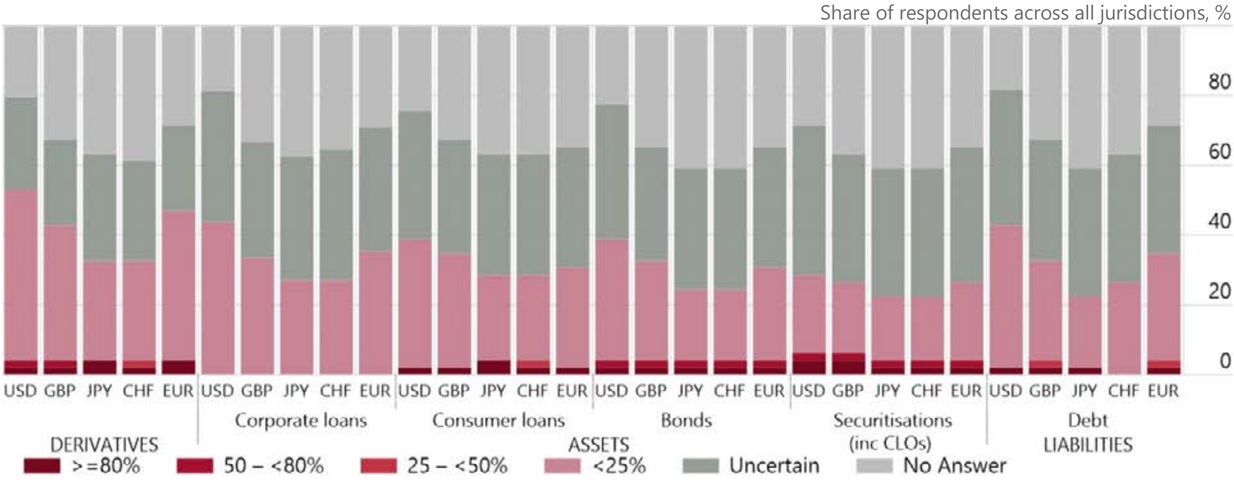
Number of jurisdictions in each group are shown in parentheses.
Source: Survey responses.

4.3.7. *Hurdles for adopting fallback language*

For jurisdictions that have provided data, there exists a small proportion of exposures that required amendments of fallback language that cannot be updated by the end of 2021 (see Graph 10). There are, however, a few notable exceptions in jurisdictions with large financial sectors (Graph A3-2 in Annex 3). Inadequate fallbacks are particularly concentrated in bonds and securitisations in some jurisdictions, with respondents from both LIBOR and non-LIBOR jurisdictions pointing to one of the challenges of renegotiating large numbers of individual contracts. Only one non-FSB jurisdiction noted significant exposure to contracts with inadequate fallback language and, even for that jurisdiction, the exposure was limited to one type of contracts (consumer loans denominated in foreign currency). A quarter of FSB members cautioned that they were uncertain about the materiality of contracts with inadequate fallback language that cannot be updated. Their comments suggested some of the reviews had not finished at the time of the data collection. About a quarter to a third of non-FSB jurisdictions reported similar low materiality or uncertain materiality. However, non-FSB jurisdictions had a higher share of non-respondents.

The few notable exceptions reported ongoing efforts to amend fallback language for derivatives, consumer loans and liabilities, but also noted that at the current pace of contract amendment for bonds and securitisations not all exposures remaining will be amended in 2021. A few jurisdictions mentioned the need of legislation for addressing amendments to “tough legacy” contracts. Few FSB jurisdictions reported differences across currencies for derivatives, assets, or liabilities. Across all asset types and liabilities, non-FSB jurisdictions generally reported little exposure to insufficient fallback language in LIBOR contracts. Exposure, when reported, was slightly greater for USD LIBOR than other LIBORs.

LIBOR exposures that require amendments of fallback language but cannot be updated by end-2021 **Graph 10**



Sample composition: Five LIBOR jurisdictions; 14 non-LIBOR FSB jurisdictions and 18 other jurisdictions.
Source: Survey responses.

4.3.8. Legislative solutions to mitigate exposure to legacy contracts

Certain key LIBOR jurisdictions have made significant progress in identifying legislative solutions to mitigate exposure written under local laws of legacy contracts. Notable progress has been made in the US, UK and EU. In the US, legislation that addresses contracts referencing USD LIBOR under New York law and that do not otherwise have workable fallback language has been passed by the State of New York. In the UK, the Financial Services Act 2021 amends the UK Benchmarks Regulation to enable the FCA to exercise powers to ensure an orderly wind down of LIBOR. The FCA is consulting on how it would use some of these powers, including the possibility of requiring continued publication of certain GBP and JPY LIBOR settings under an amended methodology on a “synthetic” basis. In the EU, the review of the EU Benchmark Regulation in 2020 has introduced new powers that aim to address the cessation of LIBOR and manage risks arising from legacy contracts.[48] In particular, the European Commission would be authorised to mandate the use of an alternative benchmark when a critical benchmark is about to disappear. In February 2021 an amendment of the EU Benchmark Regulation entered into force in order to implement a mechanism to designate a replacement rate for benchmarks in cessation that would significantly disrupt the functioning of financial markets in the Union. Thereby, the EU Commission shall take into account available recommendations on the replacement for a benchmark by the alternative reference rate working group operating under the auspices of the public authorities or the central bank. Another non-FSB jurisdiction mentioned that a working group is coordinating national efforts to amend the legal framework that refers to LIBOR in 2021.

Across all jurisdictions, less than half of the respondents considers it necessary to work with national authorities to identify legislative solutions to mitigate exposures written under local laws of legacy

[48] It should be noted that the predominance of euro exposure is with EURIBOR or EONIA, which are non-LIBOR reference rates.

contracts. Jurisdictions not working on legislative solutions have considered them not necessary, and generally reported legacy exposure as immaterial compared to the size of their financial system.[49] One jurisdiction has identified that legacy contracts are mostly denominated in GBP and USD LIBOR; therefore, it is watching closely legislative developments in those LIBOR jurisdictions. Another jurisdiction said that legislative solutions could be considered later in 2022, ahead of USD LIBOR discontinuation in 2023, as exposures to non-USD LIBOR contracts form only a small share of banks' total LIBOR exposures. A jurisdiction is still exploring the legislative amendments required, and another highlighted that the use of legislative solutions could raise a constitutional issue. Some jurisdictions also considered that legislation is not necessary, given the small volume of tough legacy contracts or exposures to LIBOR governed under their laws.

4.4. Major transition challenges and risks

4.4.1. Market participants' remaining transition challenges

The top three transition challenges identified by market participants are "lack of (forward-looking) term rates for new RFRs", "lack of liquidity in products referencing RFRs", and "lack of engagement from non-FIs" (see Table 3). Compared to the 2020 FSB Supervisory Report, there has been improved engagement from market participants. Fewer jurisdictions reported "lack of action/engagement from market participants" and "market infrastructure readiness" as remaining challenges in the current survey, reflecting progress made. Over half of LIBOR jurisdictions identify "lack of (forward-looking) term rates for new RFRs" and "challenges on agreeing contract amendments" as remaining transition challenges. Similarly, over half of non-LIBOR FSB jurisdictions identify "lack of (forward-looking) term rates for new RFRs" as a key remaining challenge, while "lack of liquidity in products referencing RFRs" was also mentioned. It should be noted however that term rates are not being widely used or not used at all in some jurisdictions as they are transitioning to in-arrears RFRs (for example, Switzerland or the UK), while other jurisdictions note that term rates are under development with progress continuously monitored. In the US, the ARRC has indicated that "once the "SOFR First" initiative convention switch[50] is in place, the ARRC expects that its market indicators for a SOFR term rate will have been met, allowing the ARRC to formally recommend the CME SOFR term rates very shortly thereafter." The FSB has published a paper on the use of term rates to provide guidance on this issue.[51] Some jurisdictions said that FIs are still negotiating fallback language, leading to "challenges on agreeing to contract amendment". Some jurisdictions note that liquidity in products referencing RFRs is gradually improving.

Some jurisdictions listed other transition challenges not anticipated by the survey. One jurisdiction said that RFRs transition was impeded by the lack of credit sensitive benchmarks or spreads necessary for certain financial products. Another jurisdiction said that there is a lack of action or engagement from the issuers of LIBOR-based instruments. A jurisdiction said that COVID-19 affected priorities in all organisations, and therefore efforts should be intensified to keep up with the transition plans by end-2021.

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49 The Supervisory Report did not recommend legislative solutions in all cases: "Authorities consider working with relevant national bodies to identify legislative solutions where necessary, to mitigate exposures of legacy contracts that have no or inappropriate fallbacks, and cannot realistically be renegotiated or amended."

50 See footnote 30

51 FSB (2021) Interest rate benchmark reform: Overnight risk-free rates and term rates, 2 June

Table 3: Remaining transition challenges

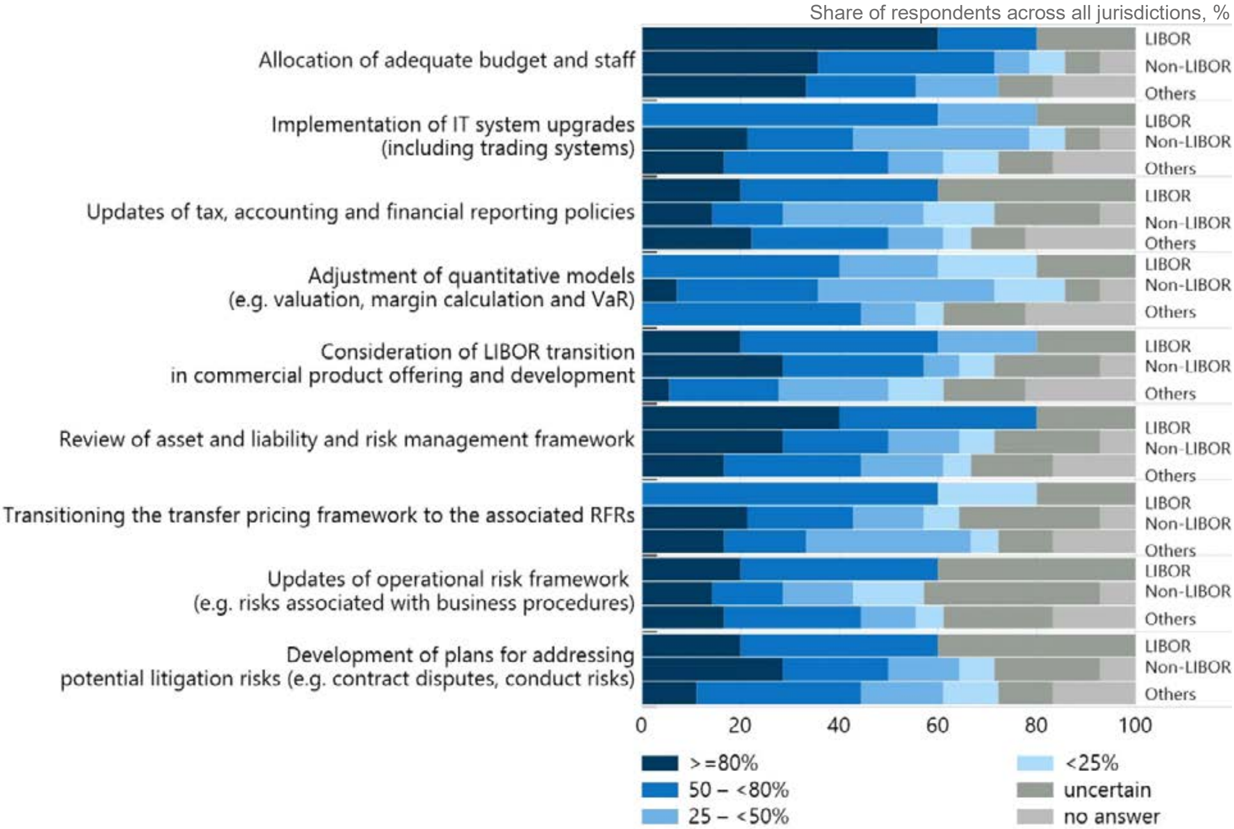
Share of respondents within their respective group that identified the respective challenge as one of the top 3 transition challenges for market participants in their jurisdictions

	LIBOR (5)	Non-LIBOR FSB (14)	Others (18)
Lack of (forward-looking) term rates for new RFRs	60%	71%	72%
Lack of liquidity in products referencing RFRs	60%	71%	17%
Lack of action/engagement from non-FIs	60%	21%	17%
Lack of market consensus conventions for the development of RFR-based instruments and contracts	40%	43%	28%
Challenges on agreeing contract amendments	40%	36%	61%
Market infrastructure readiness	20%	14%	22%
Others	0%	29%	11%
Lack of understanding on the use of RFRs	0%	14%	6%
Inadequacy of fallback provisions for legacy exposures	0%	7%	22%
Cross border issues	0%	7%	6%
Lack of action/engagement from FIs	0%	7%	0%
Challenges related to hedge accounting	0%	0%	6%
Challenges arising from the prudential regulatory framework	0%	0%	0%
Lack of legislative action to deal with tough legacy contracts	0%	0%	0%

Source: Survey responses.

4.4.2. *Transition preparation*

Actions to prepare for transition **Graph 11**



Sample composition: Five LIBOR jurisdictions; 14 non-LIBOR FSB jurisdictions and 18 other jurisdictions.
Source: Survey responses.

Many jurisdictions will still be in the process of transitioning after end of H1 2021, as no more than half reported completion over 80% or between 50 and 80% of transition actions of FIs by end of H1 2021 (see Graph 11). The allocation of adequate budget and staffing is more advanced than other actions among all jurisdictions, while less progress has been achieved in important transition actions such as "Implementation of IT system upgrades", "Adjustment of quantitative models", "Transitioning the transfer pricing framework to the associated RFRs", "Updates of operational risk framework" and "Updates of tax, accounting and financial reporting policies".

Regarding "Implementation of IT system upgrades", one jurisdiction said that some FIs will finalise the system update or implementation process during H2 2021. Another jurisdiction said that actions will be completed by H2 2021. Some jurisdictions report that they do not collect specific information on "Updates of operational risk framework". Regarding "Updates of tax, accounting and financial reporting policies", FIs in non-FSB jurisdictions are more advanced, with some jurisdictions reporting that FIs will complete the necessary policies revision during H2 2021 and that some FIs have estimated finishing the update before end H1 2021 or end H2 2021. Others have not yet specified when they will conclude with the updates.

It is worth noting that for most transition actions, many LIBOR jurisdictions are uncertain about the progress made by their FIs, in particular regarding the "Development of plans for addressing potential litigation risks", "Updates of operational risk framework" and "Updates of tax, accounting and financial reporting policies”. This could be attributed to a lack of data or to litigation risks. One jurisdiction said LIBOR is not a material concern.

4.5. Supervisory challenges and actions

4.5.1. Supervisory challenges

Six FSB jurisdictions noted that engagement with FIs regarding LIBOR transition planning had not yet started or had only just started (see Table 4). Four of these responses came from EMDEs, where the overall transition process had just started (non-FSB member EMDEs also viewed this as a key issue). The remainder of the responses were from AEs, where broader efforts related to transition had been underway for some time, but efforts to engage some entity types (e.g. non-systemically important insurance companies in one jurisdiction) had just begun.

The most common supervisory challenge in both FSB and non-FSB jurisdictions was a lack of insight into non-regulated clients of FIs. FSB jurisdictions, as well as some non-FSB jurisdictions, noted ongoing efforts to educate clients of FIs (either indirectly through banks or directly through public sector discussions with industry bodies). Client readiness was still seen as a challenge, as noted by one jurisdiction, because of the limited information available on their exposures.

Both FSB and non-FSB jurisdictions noted a lack of transparency related to the systems used by both FIs and non-FIs. In FSB jurisdictions, system issues largely pertain to the ability to execute contractual fallbacks and system readiness for the development of new financial products. Non-FSB jurisdictions noted similar issues, with a few jurisdictions noting new or increased efforts to assess external systems.

Another concern among FSB jurisdictions was the difference in transition timeline across financial products (both within a currency and across currencies). Jurisdictions noted that differences in these timelines could result in basis risk and decrease the effectiveness of hedging. Firms will need to assess and manage any such risks carefully.

Several FSB members noted constraints in supervisory capacity and resources as a key limitation. FSB members also raised a variety of concerns that limited their activity including the impact of COVID-19 on the ability to engage with banks, a lack of budget or internal prioritisation, and a lack of supervisory tools to remedy issues.

Several non-FSB jurisdictions noted, as a key concern, the ability to identify and measure indirect exposures arising from clients of regulated FIs. To address the concern, authorities were performing surveys and otherwise engaging in discussions with relevant market participants.

Finally, while several non-FSB jurisdictions noted “other” idiosyncratic concerns (such as a lack of knowledge about RFRs or COVID-19 constraints on engagement), most non-FSB jurisdictions indicated that LIBOR cessation would likely have little impact on their jurisdictions.

Table 4: Remaining supervisory challenges

Share of respondents within their respective group that identified the respective challenge as one of the top 3 supervisory challenges in their jurisdictions

	LIBOR (5)	Non-LIBOR FSB (14)	Others (18)
Lack of clarity on the readiness of external systems used by FIs and non-FIs	60%	29%	33%
Lack of insight into and communication with non-regulated clients of regulated FIs	40%	64%	28%
Others	40%	36%	33%
Differing transition timeline across products	40%	21%	28%
Constraints in supervisory capacity and resources	20%	21%	17%
Identifying and measuring indirect exposures arising from clients of regulated FIs	20%	14%	39%
Differing supervisory expectations on transition across jurisdictions	0%	36%	17%
Engagement with FIs regarding LIBOR transition planning has not yet / just started	0%	29%	17%
Reliance on home supervisors	0%	29%	11%

Source: Survey responses.

4.5.2. Supervisory Actions

FSB jurisdictions were far more likely to have engaged in supervisory actions to date than non-FSB jurisdictions (see Table 5). This lack of supervisory action in non-FSB jurisdictions was largely explained by the minimal LIBOR exposure in these jurisdictions. Nonetheless, some non-FSB jurisdictions noted that they were monitoring progress. Among FSB jurisdictions, those who reported not having undertaken any supervisory actions either saw satisfactory progress or noted ongoing discussions and efforts to prepare the industry for transition.

The most common supervisory action reported by both FSB and non-FSB jurisdictions was the request to provide updates on transition progress. These updates were typically described as ongoing efforts to frequently engage with FIs on transition issues.

Many FSB (and some non-FSB) jurisdictions also reported ongoing meetings with FIs' senior management and board of directors. In some cases, these meetings took place with less-senior levels of management, but nonetheless included a broad array of FIs. Several FSB and non-FSB jurisdictions noted that these meetings were occurring on an ongoing basis. Some FSB jurisdictions indicated that new issuance of financial products linked to LIBOR would fade out in the course of 2021.

Finally, several FSB jurisdictions noted the issuance of non-binding best practices. One jurisdiction, for example, noted publishing a Q&A about conduct issues, while others noted that local regulators had published guidance or best practices.

Table 5: Frequency of supervisory actions upon unsatisfactory transition progress of FIs

Share of respondents within their respective group that have taken supervisory actions

	LIBOR (5)	Non-LIBOR FSB (14)	Others (18)
Request to provide reports/ updates on transition progress	80%	64%	39%
Issuance of non-binding best practices	80%	14%	0%
Meeting with FIs' senior management and board of directors	40%	43%	22%
Request to improve operation capabilities	40%	21%	0%
Restrictions on specific product offering	40%	7%	6%
No supervisory actions have been undertaken to date	20%	29%	56%
On-site inspections	0%	14%	0%
Capital add-ons	0%	0%	6%
Administrative sanctions or other legal actions	0%	0%	0%
Others	0%	0%	0%

Source: Survey responses.

4.5.3. Other actions to expedite transition progress

The most common theme emerging from the survey responses was that information sharing and coordination through international fora such as the FSB and BCBS should continue. A LIBOR jurisdiction called for better bilateral and multilateral coordination on legislative approach to avoid unintended consequences. Two jurisdictions noted that it would be helpful for home authorities of headquartered international banking groups to update the relevant host authorities on their group-wide transition plans. This would facilitate understanding of transition risks and supervisory responses. One jurisdiction suggested international organisations such as the FSB may be able to help by developing a financial education strategy to promote understanding of benchmark transition to a global audience. With timelines for the end of LIBOR now made clear, more granular transition milestones, for instance on ceasing issuance of LIBOR-referencing products that mature after 2021, could be better coordinated across jurisdictions. Such coordination efforts would also facilitate the transition of multi- or cross-currency products, which was a finding identified in the last report as well.

Several jurisdictions mentioned that continued development of market conventions for cash products could expedite transition progress by some FIs, and that the availability of forward-looking term RFRs would help encourage adoption of RFRs. One jurisdiction noted that there have been calls for the development of a dynamic credit adjustment spread for loans referencing RFRs.

Two jurisdictions mentioned that clear statements on the cessation timeline for the various LIBOR currencies and tenors would be a major boost to the transition. It should be noted that the timeline for cessation has now been confirmed through the FCA announcement. Finally, two jurisdictions commented on the importance of national and multilateral development banks taking action to facilitate a smooth and orderly transition for their borrowers.

5. Conclusion and next steps

The key takeaway is that given the limited time available until end-2021, the FSB strongly urges market participants to act now to complete the steps set out in its global transition roadmap – global and national financial regulators should maintain the momentum of transition and continue to monitor the progress closely.

The observations and key themes from the OSSG, and findings of the follow-up questionnaire on supervisory issues related to LIBOR transition further highlighted the following messages:

- With cessation timelines now confirmed, there should be no remaining doubts as to the urgency of the need to transition away from LIBOR by the end of 2021. It is emphasised that the continuation of some key USD LIBOR tenors through to 30 June 2023 is intended only to allow legacy contracts to mature, as opposed to supporting new USD LIBOR activity.

- Supervisory authorities should step up their efforts for active and adequate communication to increase awareness of the scope and urgency of relevant IBOR transitions for all clients and other market participants. FIs and non-FIs need to accelerate adoption of RFRs in new contracts, acceptance of newly developed products, as well as active conversion of legacy LIBOR-referencing contracts to directly reference RFRs and/or insertion of robust fallback language. EMDEs lagging engagement with FIs should step up efforts to increase their outreach to promote awareness and actions.

- Market participants must not wait for development of additional tools to transition away from LIBOR and need to be transitioning to reference rates that are compatible with financial stability and do not reintroduce the vulnerabilities seen with LIBOR in order to support sustained financial stability. The continuing view of a number of market participants that the lack of forward-looking term rates for new RFRs is a major transition challenge has revealed the importance of education and awareness-raising. The FSB continues to encourage the adoption of overnight RFRs where appropriate. It has also recognised[52] that in some cases there may be a role for RFR-derived term rates. While the transition away from their respective LIBOR in Switzerland and the UK has demonstrated that most or all products can successfully use overnight RFRs, an overnight RFR may not be the optimal rate in all the cases where term IBORs are currently used. If future use of RFR-based term rates is limited compared with current use of IBORs, for example if it is concentrated largely in cash products rather than derivatives markets or used as a fallback for cash products,[53] this more limited use would be compatible with financial stability. Given the many examples of successful use

[52] FSB (2021) Interest rate benchmark reform: Overnight risk-free rates and term rates, 2 June

[53] Some NWGs on RFRs have acknowledged that, subject to availability, term rates may be better suited as fallback rates in some IBOR-linked cash products.

of overnight RFRs across a wide range of cash products, in many cases, a RFR-derived term rate will not be needed for new cash products. The FSB has encouraged market participants to seek to use overnight RFRs directly in these products.

- On the international front, collaboration and coordination remain crucial in expediting the transition progress. The FSB encourages authorities to set globally consistent expectations and milestones that firms will rapidly cease the new use of LIBOR regardless of where those trades are booked or in which currency they are denominated. As set out in the FSB statement on smooth and timely transition away from LIBOR.[54] FSB members will be reiterating the expectation that regulated firms within their remit cease new use of LIBOR as soon as practicable, with reference to relevant milestones in each currency, and no later than the end of 2021.

- With only a few months remaining until the end of 2021, jurisdictions should ensure the "identification" recommendations from the FSB's July 2020 report are now complete, and that work is well underway in adopting the recommendation listed under "facilitation" and "coordination". The follow up questionnaire findings show that recommendations grouped under the area of "identification", which are foundational actions necessary to lay the ground for further work on "facilitation" and "coordination" have seen the greatest level of completion across all jurisdictions, with work on "facilitation" and "coordination" lagging behind. It is of particular concern that some EMDEs have reported that engagement with FIs regarding transition planning had not yet started or had started only recently. The FSB, through its RCGs, will undertake work to support transition in EMDEs.

- The follow up questionnaire findings show that progress of reviews of existing fallback language in legacy contracts varied greatly across jurisdictions. Legacy derivatives have since then benefitted greatly from widespread adherence to the ISDA Fallback Protocol and incorporation of the ISDA fallbacks into the rulebooks of major CCPs. The Protocol remains open for adherence and the FSB strongly encourages adherence by all affected financial and non-financial firms in order to avoid disruptions in covered derivatives contracts. In the absence of similar protocol mechanisms, there continues to be less progress in transitioning legacy cash products. As indicated in its June 2021 statement,[55] the FSB supports the potential benefits of using the ISDA spread adjustments for cash products that are to fall back or move from an IBOR to overnight RFRs, or to RFR-based term rates.

- As some of the most widely used USD LIBOR settings will only cease after end-June 2023, the focus of the FSB's next steps on further monitoring will be remaining issues associated with LIBOR transition after end-2021. This will include monitoring new issuance of USD LIBOR contracts post end-2021, as well as the size and resolution of tough legacy contracts referencing USD LIBOR that are due to mature after end-June 2023. The FSB will review these issues in mid-2022 and assess the implications for supervisory and regulatory cooperation.

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[54] FSB (2021) *FSB statement on smooth and timely transition away from LIBOR*, 2 June

[55] FSB (2021) *FSB OSSG Supports Use of the ISDA Spread Adjustments in Cash Products*, 2 June

Annex 1 – List of respondents to the LIBOR transition survey

	FSB	Non-FSB	Total
LIBOR	• Euro area jurisdictions[56] • Japan • Switzerland • United Kingdom • United States 5	-	5
Non-LIBOR	• Argentina • Australia • Brazil • Canada • China • Hong Kong • India • Indonesia • Korea • Mexico • Russia • Saudi Arabia • Singapore • South Africa • Turkey 15	• Bahrain • Chile • Colombia • Costa Rica • Denmark • Egypt • Guatemala • Hungary • Iceland • Jordan • Malaysia • Mauritius • Peru • Poland • Sweden • Thailand • UAE • Uruguay 18	33
Total	**20**	**18**	**38**

56 Euro area jurisdictions are counted as one and include responses by ECB, EIOPA, Austria, Belgium, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Portugal and Spain.

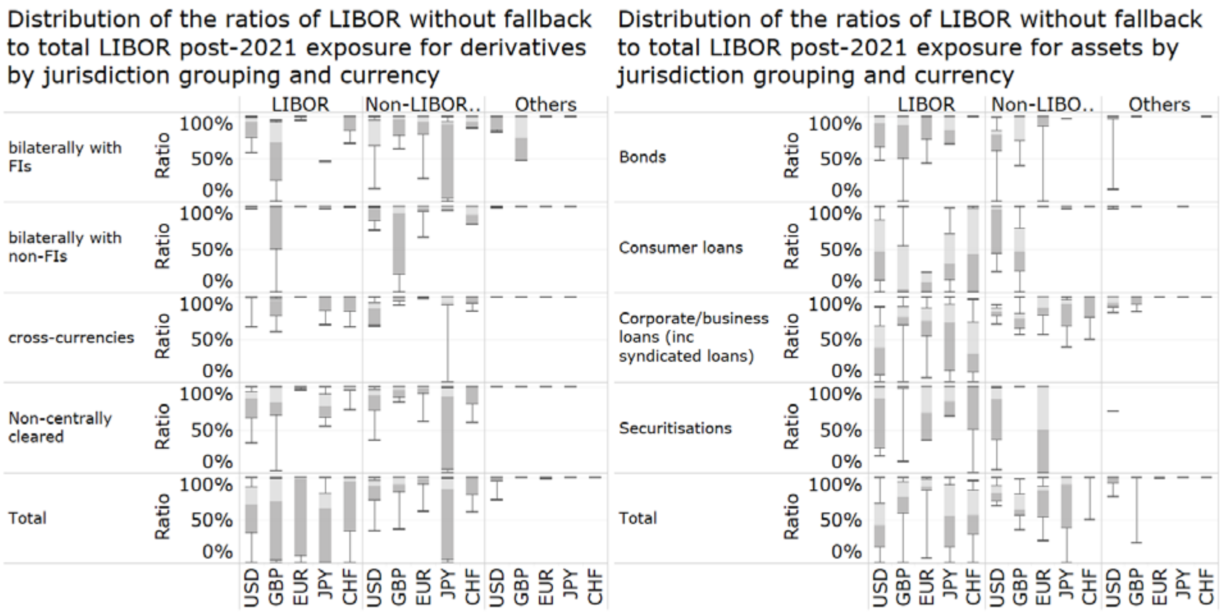
Annex 2 – Quantitative analysis

Assumptions and data quality points:

- Where the total currency has not been filled in, or is lower than the 5 currencies combined, the total has been replaced with the sum of the 5 currencies.
- Values have been converted using exchange rates to USD as of Q3 2020.
- Where jurisdictions put “0” in the data template, it is assumed that they know there is no exposure to that product. Unknown or blank responses have been treated the same and excluded from this analysis.
- Where jurisdictions mention that data is submitted under USD but they are unsure which currencies are included in that, it has been put in the “unidentified” category and not presented in the graphs.
- Some exposure to EUR LIBOR may be EURIBOR, and so EUR exposure may be overestimated.
- Total derivatives have been assumed to be the non-centrally cleared exposure only. Where the submission included both centrally cleared exposure and non-centrally cleared exposure in the total, this has been amended to just the non-centrally cleared exposure. (This does have the impact of making some of the derivative total subset exposure being larger than they are for the non-centrally cleared total)
- Where total asset exposure is blank or is less than the combined total of Bonds, Securitisations, Corporate/business loans and Consumer loans, the total has been assumed to the total of those 4 products.
- When looking at exposure in a ratio form, the analysis is completed on submissions that included data on both parts of the ratio. For example, for the ratio between LIBOR post-end 2021 and total LIBOR exposure, the submission must have submitted data for both before and after end-2021 to be included.
- For derivatives the total amounts have not been adjusted for double counting exposures due to issues with data completeness and differences in the calculation of total derivatives in the data template.

Distribution of the ratios of LIBOR exposures without fallback post-end 2021 by product

Graph A2-1



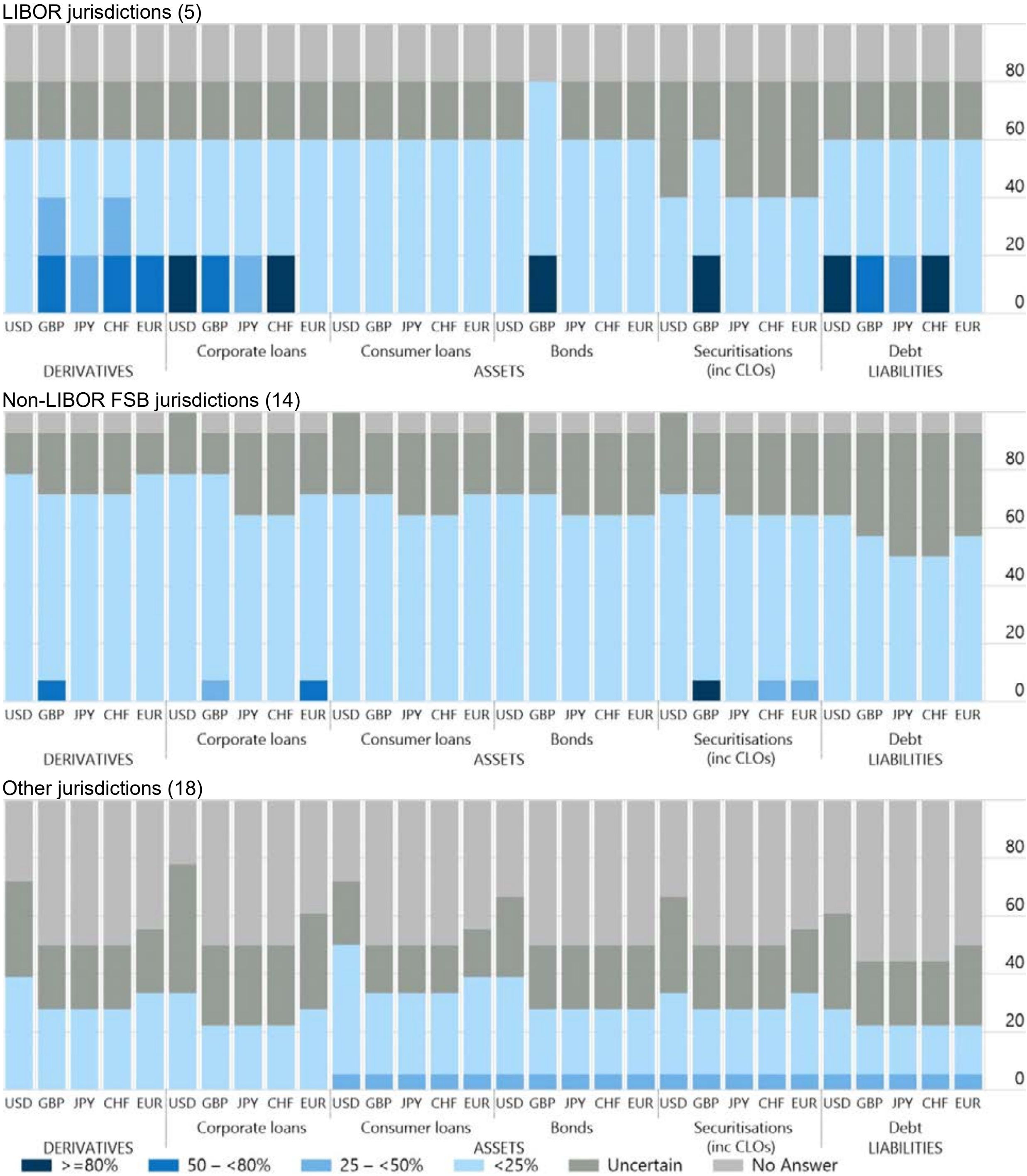
[1] Box plot showing the distribution of the ratios of post-2021 to total LIBOR exposures for each jurisdiction grouping and currency. A box is drawn from the group's first quartile to the third quartile. The horizontal line in the box is the median of the group. The top of the vertical line above the box is the maximum of the group, and the bottom of the vertical line below the box is the minimum. Ratios larger than 100% have been removed.

Source: Survey responses.

Annex 3 – Additional graphs

Adoption of RFRs

Share of respondents within their respective group, in percent **Graph A3-1**



Number of jurisdictions in each group are shown in parentheses.

Source: Survey responses.

LIBOR exposures that require amendments of fallback language and cannot be updated by end-2021 by jurisdiction type

Share of respondents within their respective group, in per cent **Graph A3-2**

Number of jurisdictions in each group are shown in parentheses.

Source: Survey responses.