

MEMO# 32825

October 9, 2020

LIBOR Update: ISDA Announces Forthcoming Publication of Fallbacks

[32825]

October 9, 2020 TO: ICI Members

ICI Global Members

Derivatives Markets Advisory Committee

LIBOR Transition Working Group SUBJECTS: Compliance

Derivatives

Financial Stability

Operations RE: LIBOR Update: ISDA Announces Forthcoming Publication of Fallbacks

We wanted to alert you to recent developments in the transition from LIBOR.

As you know, ISDA has been developing new fallback language for derivatives that reference LIBOR (or certain other IBORs), which are expected to be discontinued after 2021.

ISDA announced it will launch the IBOR Fallbacks Supplement to the 2006 ISDA Definitions and the 2020 IBOR Fallbacks Protocol, providing the new fallback language, on October 23, 2020.[\[1\]](#)

The protocol and supplement will take effect on January 25, 2021. At that time, existing derivatives contracts will incorporate the new fallback language if counterparties have agreed to the protocol and new derivatives contracts will incorporate the new fallbacks if counterparties have adopted the 2006 ISDA Definitions.

ISDA previously stated that it would facilitate an “escrow” period prior to the launch date for market participants to adhere to the protocol. Adherence during the escrow period will be binding but the adhering entity’s identity would not appear on the ISDA website until the launch date. Adherents would have access through the escrow process to the final text of the protocol before it is published.[\[2\]](#)

The Financial Stability Board (FSB)[\[3\]](#) and Alternative Reference Rate Committee (ARRC)[\[4\]](#) both encouraged market participants to adhere to the protocols early. The FSB noted that widespread adoption of the protocol will be necessary to ensure it is effective in mitigating risks at a system-wide level. The FSB cautioned that any market participants who choose not to do so for some or all of their relevant trades will need to take robust alternative steps, such as closing out these positions or appropriate bilateral amendments, to avoid the risk of disruption.

Bridget Farrell
Assistant General Counsel

endnotes

[1] See ISDA Board Statement on the IBOR Fallbacks Supplement and Protocol (Oct. 9, 2020), *available at* <https://www.isda.org/2020/10/09/isda-board-statement-on-the-ibor-fallbacks-supplement-and-protocol/>.

[2] See Letter of Scott O'Malia Regarding Adherence to the ISDA IBOR Fallback Protocol (July 22, 2020), *available at* <http://assets.isda.org/media/4647387a/76e75f97-pdf/>.

[3] See FSB encourages broad and timely adherence to the ISDA IBOR Fallbacks Protocol (Oct. 2020), *available at* <https://www.fsb.org/2020/10/fsb-encourages-broad-and-timely-adherence-to-the-isda-ibor-fallbacks-protocol/>.

[4] See ARRC Supports Forthcoming ISDA IBOR Fallbacks Protocol and Encourages Adherence (Oct. 9, 2020), *available at* https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Press_Release_ISDA_Protocol.pdf.

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