

LIBOR Transition

Transition of LIBOR-linked Cleared Derivatives

Background

One of the reforms mandated by regulators following the financial crisis was to push for Interbank Offered Rates (IBORs), such as the London Interbank Offered Rate (LIBOR), to be replaced by new 'official' benchmark rates, known as alternative Risk Free Rates (RFRs), a process hereinafter referred to as 'Benchmark Reform'.

As part of industry-wide Benchmark Reform efforts, CCPs will transition all LIBOR-linked Japanese Yen (JPY), British Sterling (GBP), Swiss Franc (CHF) and Euro (EUR) LIBOR cleared trades before the end of 2021. This follows the transition events which took place for the Euro Overnight Index Average (EONIA) to Euro Short Term Rate (€STR) in October, and the splitting of London Clearing House (LCH) and Chicago Mercantile Exchange (CME) basis swaps which took place in September and October.

JPY, EUR and CHF transition events will take place on the weekend of 03 & 04 December, 2021, with GBP events occurring on 10 December and the weekend of 17 & 18 December, 2021.

Key CCP LIBOR Transition 'Go-Live Events', December 2021

The following CCPs are discussed in this document:

- Chicago Mercantile Exchange (CME)
- Eurex Clearing AG (Eurex)
- ICE (Intercontinental Exchange)
- JSCC (Japan Securities Clearing Corporation)
- London Clearing House (LCH) CurveGlobal
- London Clearing House (LCH) Limited.

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| Transition events | Central counterparty clearing houses | | | | | |
|--------------------------------|--------------------------------------|-------------|--------|--------|--------|-----------------|
| | CME | LCH Limited | Eurex | JSCC | ICE | LCH CurveGlobal |
| LIBOR Transition Go-Live (JPY) | 03 Dec | 04 Dec | 03 Dec | 04 Dec | N/A | N/A |
| LIBOR Transition Go-Live (EUR) | N/A | 04 Dec | 03 Dec | N/A | N/A | N/A |
| LIBOR Transition Go-Live (CHF) | 03 Dec | 04 Dec | 03 Dec | N/A | 17 Dec | N/A |
| LIBOR Transition Go-Live (GBP) | 17 Dec | 18 Dec | 17 Dec | N/A | 17 Dec | 10 Dec |

What is LIBOR transition?

As part of the industry-wide move away from certain benchmarks to RFRs, and with announcements made by ICE Benchmark Administration (IBA), the United Kingdom Financial Conduct Authority (FCA) and other global regulators, CCPs have announced that

- (i) from the end of 2021, the CHF/EUR/GBP/JPY LIBOR benchmarks; and
- (ii) from the end June 2023, the USD LIBOR benchmark;

will not be available to use in their cleared LIBOR interest rate swap contracts.

The transition events in December involve CCPs converting their LIBOR-linked trades to RFRs approved by industry regulators.

| Currency | New Risk Free Rate (RFR) |
|----------|--|
| JPY | TONA (Tokyo Overnight Average) |
| CHF | SARON (Swiss Average Overnight) |
| EUR | €STR (Euro Short Term Rate) |
| GBP | SONIA (Sterling Overnight Index Average) |

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What are the differences in approach between CCPs?

CME, LCH, Eurex and JSCC have published their methodologies for converting from LIBOR to the new RFR as part of the December transition. These approaches are broadly similar, but differences are shown in the tables below. Please note, these changes are driven by the CCPs and not by Barclays.

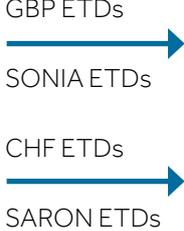
03/04 December Transitions – JPY, CHF & EUR

| | Central Counterparty Clearing Houses | | | |
|---------------------------------|--|---|---|---------------------------------|
| | LCH | Eurex | JSCC | CME |
| LIBOR trade identification date | 03 Dec | 03 Dec | 03 Dec | 03 Dec |
| Rate to be used | JPY - TONA CHF - SARON EUR - €STR | JPY - TONA CHF - SARON EUR - €STR | JPY - TONA | JPY – TONA CHF - SARON |
| Conversion that applies | LIBOR swap → RFR SWAPS | LIBOR trades FRO → RFR TRADES | LIBOR trades RFR → TONA OIS with spread | IBOR swap → RFR OIS |
| Spread that applies | ISDA fallback spread adjustment | ISDA fallback spread adjustment | ISDA fallback spread adjustment converted from a 360-day basis to a 365-day basis (as JPY only) | ISDA fallback spread adjustment |
| Date compensation to be settled | 06 Dec | 07 Dec | 07 Dec | 07 Dec |
| Method of compensation | Upfront Fees | Upfront Fees | If there is a fee payable on maturity, fee will be transferred to converted trade | Upfront Fees |
| Monthly maintenance fee | 5 GBP per open trade at month end | N/A | 500 JPY per cleared contract referencing JPY-LIBOR NB: Only to be applied to Clearing Members and Affiliates | N/A |
| Conversion fees | 30 GBP per trade converted. Will appear as Clearing House Fees | N/A | 3000 JPY per cleared contract subject to OIS conversion | N/A |

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17/18 December Transitions – GBP

| | Central Counterparty Clearing Houses | | | | |
|---------------------------------|---|---|---|---|---|
| | LCH | Eurex | ICE | LCH Curve Global | CME |
| LIBOR trade identification date | 17 Dec | 17 Dec | 17 Dec | 10 Dec | 17 Dec |
| Rate to be used | GBP - SONIA | GBP - SONIA | GBP - SONIA CHF - SARON | GBP - SONIA | GBP - SONIA |
| Conversion that applies |  |  |  |  |  |
| Spread that applies | ISDA fallback spread adjustment | ISDA fallback spread adjustment |
| Date compensation to be settled | 20 Dec | 20 Dec | tbc | N/A | 20 Dec |
| Method of compensation | Upfront Fees | Upfront Fees | tbc | N/A | Upfront Fees |
| Monthly maintenance fee | 5 GBP per open trade at month end | N/A | N/A | N/A | N/A |
| Conversion fees | 30 GBP per trade converted. Will appear as Clearing House Fees | N/A | N/A | N/A | N/A |

The key difference between CCP approaches is their method of dealing with overlay swaps.

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What are Overlay Swaps?

An overlay swap is a mechanism through which coupons defined using the LIBOR rate before 31 December, 2021 are preserved. This ensures that these coupons, which will be paid at some point in 2022, depending on their tenor, retain the LIBOR-referenced value.

Where overlay bookings, or swaps, are required, the target amended contract has, on its floating leg, LIBOR as its Floating Rate Option (FRO) while such LIBOR is representative and has the RFR as its FRO thereafter. With trade capture systems that handle only one FRO per floating leg, the overlay bookings will offset the early, duplicative element of the RFR leg while reinstating LIBOR for all of the periods on the original trade for which it remains representative and has not been settled.

When transition commences, the original swap is amended to include two hypothetical bookings which are operationally known as overlay swaps or overlay bookings.

- i.e. a GBP LIBOR GBP swap will be replaced with a SONIA swap.
- The overlay swap then puts the LIBOR swap back into place to ensure the original coupon is retained in the system.

The overlay swap will be a LIBOR vs RFR basis swap where the RFR leg offsets the new RFR conversion swap, and the LIBOR leg represents all of the periods for the original trade until the cessation date.

Note that CME have elected NOT to use overlay swaps, but will be holding a separate, related event in January, outlined below.

What is the LCH approach?

LCH intends to enter into basis swaps and overlay swaps:

- To convert LIBOR basis swaps in a secure manner and to mitigate any technical risks, LCH plans to split each basis swap into two interest rate swaps prior to the date of the main conversion process. All in-scope basis swaps were split on 2 October, 2021. The split would convert each basis swap contract that would otherwise result in an RFR/RFR contract into a pair of fixed/floating contracts, each against its original benchmark. These individual fixed/floating swaps will be configured to maximise netting, blending and compression efficiency against existing populations. LCH recognises that there will be an increase in gross notional as a result, but we believe that the subsequent compression opportunities should be powerful and that there is sufficient time to achieve strong compression between the splitting event and the conversion process.
- Where possible, LCH plans to preserve LIBOR fixings before the ICE through a LIBOR-RFR basis swap. Over the conversion weekend all in-scope LIBOR trades will be converted to RFR equivalents and overlay swaps will be used as a mechanism to observe any LIBOR fixings until cessation date, one for each LIBOR trade that has a coupon to be preserved. The overlay swap will be a LIBOR vs RFR basis swap where the RFR leg offsets the new RFR conversion swap, and the LIBOR leg represents all of the periods for the original trade until cessation date. As an operational matter, this will be booked as two tickets, one LIBOR vs Fixed (0%) and RFR vs Fixed (0%). This basis swap will typically have a short maturity of less than or equal to one year.

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Please refer to the LCH consultations which have been released for further information:

[LCH LTD Risk Notices](#)

[Consultation on Solution of Outstanding Cleared EONIA Contracts](#)

What is the Eurex approach?

The conversion will operationally be executed as a termination of each original (LIBOR-based) trade and a novation of one or more replacement trades for each original (LIBOR-based) trade (such replacement trades corresponding to a LIBOR-based trade are herein referred to as the "Amended Trade(s)"). The Amended Trade(s) will preserve LIBOR-based coupons that have a fixing but have not settled yet as well as LIBOR-based coupons that have a fixing after the respective operational conversion but before the relevant LIBOR cessation date. Legally, Eurex will reflect the conversion as an amendment of the relevant trades. The conversion will legally convert the Floating Rate Option (as defined in the Eurex Clearing Conditions) of the LIBOR-based trade to the respective RFR index underlying the respective fallbacks.

Please refer to the [Eurex OTC Clear: Transition plan](#) for more information.

What is the JSCC approach?

All cleared contracts, whose Floating Rate Option is JPY-LIBOR will be subject to the conversion. However, LIBOR referencing trades for which LIBOR-referencing leg in the last Calculation Period (as defined by JSCC rulebook) is to be fixed with LIBOR on or before 31 December, 2021 will be out of scope of conversion.

Operationally, cleared contracts containing LIBOR referencing leg will be terminated and new cleared contracts replacing LIBOR with standard Overnight Indexed Swap Rates (OIS) will come into existence. For the interest calculation period of the LIBOR referencing leg that is fixed by LIBOR on or before 31 December, 2021, in order to effectively retain the result of the LIBOR Fixing, an additional short-term LIBOR-OIS basis swap with a maturity date at the end of the calculation period will be generated, which offsets the OIS interest payment of the converted OIS transaction. Capitalised terms used in this communication but not defined herein shall bear the meaning as ascribed to them in the JSCC [rulebook](#)

Please refer to the JSCC [consultation](#) which has been released for further information.

What is CME doing in January?

CME are not utilising overlay swaps as part of their LIBOR transition. Instead, they will hold a separate transition event in January 2022.

CME will convert a subset of IBOR trades, that reference fixing between Conversion Date and Index Cessation Effective Date, on 3 January, 2022 (CHF) and 4 January, 2022 (GBP, JPY). This will respect the LIBR fixings that occur between conversion date and Index Cessation effective date.

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Capitalised terms used in this communication but not defined herein shall bear the meaning as ascribed to them in the CME [rulebook](#).

Please refer to the CME [consultation](#) which has been released for further information.

ICE Exchange Traded Derivatives

ICE plans to convert open interest (OI) held in 3 Month Sterling (Short Sterling) Futures and Options and 3 Month Euro Swiss Franc (EuroSwiss) Futures into 3 Month SONIA Index Futures and Options and 3 Month SARON Index Futures respectively on 17 December, 2021.

CurveGlobal Markets

CurveGlobal Markets is the derivatives segment of London Stock Exchange. CurveGlobal Markets confirmed that following a permanent cessation event, the following would occur:

- For Libor Exchange Traded Derivatives (ETD) contracts with open interest at the close of business on the business day prior to the permanent cessation date, in collaboration with LCH:
 - LIBOR ETD contracts would be converted into the corresponding SONIA ETD contracts, using an appropriate credit spread adjustment upon conversion; and
 - the credit spread adjustment would be the value calculated and published by Bloomberg Index Services Limited, which has been selected by ISDA for the calculation and publication of fallback related adjustment, and would be applied uniformly across each contract conversion.
- For LIBOR contracts with no open interest, CurveGlobal Markets intends to suspend and delist LIBOR ETD contracts without open interest beyond the last contract with open interest remaining. We would seek to do this as soon as possible following the permanent cessation announcement date, and ahead of the permanent cessation date.

The LIBOR transition through CurveGlobal Markets will be converted to equivalent SONIA Futures products after market close on 10 December, 2021, and with effect from 13 December, 2021, as follows:

- Three Month Sterling Futures (STL) will migrate to Three Month SONIA Futures (SON) contracts;
- 1 Million Three Month Sterling Futures (STG) will migrate to 1 Million Three Month SONIA Futures (SNA).

Capitalised terms used in this communication but not defined herein shall bear the meaning as ascribed to them in the CurveGlobal Markets [rulebook](#).

Please refer to the CurveGlobal [consultation](#) which has been released for further information.

Please note that this transition is driven by the CCPs and not by Barclays. This communication is for information only.

Barclays is not able to provide advice to you in respect of these changes and for that reason you may want to seek independent legal, financial and tax advice.

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Useful links

<https://www.cmegroup.com/>

<https://www.lch.com/>

<https://www.eurex.com/ex-en/>

<https://www.jpx.co.jp/jscce/en/>

<https://www.theice.com/index>

Glossary

CurveGlobal Markets is the derivatives segment of London Stock Exchange. CurveGlobal Markets confirmed that following a permanent cessation event, the following would occur:

| | |
|-------|--------------------------------------|
| CCP | Central Counterparty Clearing Houses |
| CME | Chicago Mercantile Exchange |
| CHF | Swiss Francs |
| COB | Close of Business |
| EMMI | European Money Markets Institute |
| EONIA | Euro Overnight Index Average |
| EUR | Euro |
| €STR | Euro Short Term Rate |
| ETD | Exchange Traded Derivatives |
| Eurex | Eurex Clearing AG |
| FRO | Floating Rate Option |
| GBP | British Sterling |

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Glossary

| | |
|-------|---------------------------------------|
| IBOR | Inter Bank Offered Rate |
| JPY | Japanese Yen |
| JSCC | Japan Securities Clearing Corporation |
| LCH | London Clearing House |
| LIBOR | London InterBank Offered Rate |
| OIS | Overnight Indexed Swap Rate |
| OTC | Over The Counter |
| SARON | Swiss Average Overnight Rate |
| SONIA | Sterling Overnight Index Average |
| TONA | Tokyo Overnight Average Rate |

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