21 October 2020

Futures
ICE Europe®

Circular 20/150
Transition plans for LIBOR based futures contracts

Category
General

Attachments
None

The purpose of this Circular is to invite feedback from Members of ICE Futures Europe (the "Exchange") regarding the treatment of open contracts in LIBOR based futures contracts upon the transition away from LIBOR. The Exchange will continue to monitor ongoing regulatory and market developments alongside feedback from Members and refine its proposed approach accordingly.

The Exchange invites feedback and suggestions on the topic of LIBOR transition. Please submit your responses to **rates@theice.com** no later than **Friday 13 November 2020**. All responses will be reviewed and considered and treated as confidential unless otherwise advised.

Background

The Financial Conduct Authority (the "FCA") has reaffirmed its LIBOR transition deadline as the end of 2021. Further information can be found here **https://www.fca.org.uk/markets/libor**

Consistent with the recommendations of the Working Group on Sterling Risk-Free Reference Rates ("RFRWG"), the Alternative Reference Rates Committee ("ARRC") and the National Working Group on Swiss Franc Reference Rates ("NWG"), the Exchange has launched three month futures contracts referencing SONIA, SOFR and SARON respectively (together the "RFR futures contracts") as the preferred alternative risk free rates for pound Sterling, US Dollar and Swiss Franc.

Members and their customers wishing to transition their LIBOR referenced positions to the futures contracts referencing the new alternative risk free rate benchmark on a voluntary basis are already able to do so. Exchange facilities including inter-contract spreads are available for this purpose (IFEU Circulars - **18/132**, **18/202**).

At a date yet to be determined but expected to be shortly in advance of the cessation of LIBOR or a pre-cessation event ("the Transition Date"), any contracts that remain in LIBOR-linked derivatives will need to be addressed.

LIBOR Transition

Cessation Events

The FCA have set out two possible scenarios with regards to the trigger point for a transition from LIBOR to SONIA and the other RFRs ($ and CHF). They are (i) a pre-cessation in which the LIBOR rate is no longer representative of the underlying economic reality and (ii) a cessation event in which the FCA or the Benchmark Administrator sets a date for the discontinuation of LIBOR. The Exchange has prepared for these two possible variations as to how LIBOR will end which are set out below.

Fallbacks

Fallbacks are contractual provisions that specify the trigger events for a transition to a replacement rate, the replacement rate, and the spread adjustment to align the replacement rate with the benchmark being replaced. As the deadline for the transition away from LIBOR approaches and more information on the mechanics of the fallback methodologies are agreed further detail will be provided by the Exchange.

Based upon the current information available, the Exchange's proposals for transition at cessation or in the case of a pre-cessation event, as the case may be are set out below:

- On the Transition Date, the Exchange will convert outstanding contracts in LIBOR referencing futures contracts into the notional equivalent number of contracts in the RFR futures contract of the same currency. For example, two Three Month Sterling (Short Sterling) Futures will be converted into one Three Month SONIA Index Futures contract with the same delivery month.
- The transition will involve a value adjustment to be applied in accordance with industry agreed conventions consistent with the OTC markets for LIBOR swaps and other derivatives. The expectation is that the ISDA 2020 IBOR Fallbacks Protocol will be adopted by market participants.
- Once the transition is concluded, the legacy product codes will be removed from admission to trading.

We invite Members to comment on the above proposed outline for transition. Feedback will be incorporated into the final transition plan to be communicated in due course. Specifically, the Exchange wishes to solicit responses to the following questions:

1. Is the notional equivalent conversion the best method for dealing with outstanding LIBOR referencing futures contracts? What would be an alternative the Exchange should consider?
2. What is the ideal timing for transition?
3. At what account level should the transition be affected - Clearing Member position account level or Clearing Member client account level (i.e. as reported to ICE Clear Europe)?
4. How do Clearing Members plan to affect the client level allocations in their systems?
5. Should efforts be made to ensure legacy product codes persist as the product codes for STIR futures?
6. Regarding the treatment of CHF LIBOR and USD LIBOR, are there any special considerations we should incorporate into the plan?
7. In the event of a pre-cessation event are there any other considerations or should the same general methodology be employed?
8. Does your firm expect to trade from IFEU LIBOR referencing futures contracts and into the respective IFEU RFR futures contracts prior to the Transition Date or rely on the Exchange's conversion mechanism and what are the factors influencing that decision?

The Exchange plans to launch Options on Three Month SONIA Futures subject to the successful completion of relevant regulatory processes. Once launched, the Exchange will engage with Members regarding proposals for the transition of residual contracts in Options on Three Month Sterling (Short Sterling) Futures held on the Transition Date to Options on Three Month Sonia Futures.

Please ensure that the appropriate members of staff within your organisation and customers are advised of the content of this Circular.

Signed:

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