

Hot topics:

The FCA may come after UK-supervised firms that are not well prepared for the USD LIBOR transition. Does that mean divesting their entire USD LIBOR book? Or the milder stipulation not to add more USD LIBOR positions? Or maybe just not issuing new USD LIBOR instruments?

[FCA could get legal with USD Libor laggards - Risk.net](#)



A preview of the House hearing referenced below suggested that, if federal legislation were to be enacted, synthetic LIBOR would be unnecessary:

[US federal legislation 'eliminates' need for synthetic Libor - Risk.net](#)

New issuance and trading:

The transition to SARON is expected to be easy.

[Traders see easy switch off Libor in Swiss market at year-end - Risk.net](#)



The ICE is promoting the clunkily named “Options on Three Month SONIA Index Future.” The “I” in “SONIA” of course stands for “index.” It is the Sterling Over Night Index Average. Want to buy a call on the Three Month Sterling Over Night Index Average Index Future?

[Options on Three Month SONIA Index Future | ICE \(theice.com\)](#)

Central banks and regulators:

The US House Subcommittee on Investor Protection, Entrepreneurship and Capital Markets held a hearing on federal safe harbor laws. I believe that Chair Brad Sherman (D.- CA) is serious about this legislation as and when you can search for the word “LIBOR” on his website and no longer get “Your search yielded no results”

[Congressman Brad Sherman | Representing the 30th District of CALIFORNIA \(house.gov\)](#)



The working group on sterling Risk Free Rates issue a paper on transitioning structured products.

[Transition from LIBOR in Sterling Structured Products \(bankofengland.co.uk\)](#)

Local area talks, webinars, podcasts etc.:

NYU held an informative seminar on RFR curve construction:

[NYU Yield Curve Seminar - An Overview of Yield Curve Calibration & LIBOR Reform \(ssrn.com\)](#)

The ARRC continues its office hours after a two-week hiatus. Info: 844-878-9932 (U.S.) or +1 469-913-0002 (International). Code: 82492274

Academic and Trade literature:

☆☆☆ Thorough discussion of Swiss syndicated loans in the transition:

[attachment_dw.action \(bakermckenzie.com\)](#)

☆☆ Botched analysis of federal and NY state laws aimed to safe harbor LIBOR. There was no discussion in the Sherman hearing about a dynamic credit spread, and such a spread would be antithetical to concerns in the House about imposing a federal solution onto state contracts.

[Federal Legislation Would Save 'Tough Legacy' Contracts from LIBOR Limbo - Bank Policy Institute \(bpi.com\)](https://www.bankpolicyinstitute.com/federal-legislation-would-save-tough-legacy-contracts-from-libor-limbo)

☆ An article in the vein of Chicken Little that the sky is falling and hence SOFR will be negative. Instead, SOFR is a median of a distribution. Only the 1st (lowest) percentile of its distribution has gone below zero.

(The link on LinkedIn worked yesterday, but is now broken. A syndication of the article is shown below.)

<https://economictimes.indiatimes.com/markets/stocks/news/us-repo-market-flirts-with-negative-rates-as-fed-seeks-to-absorb-excess-cash/articleshow/82115023.cms>

☆ Unclear how a LIBOR swap would be magically transformed to a SOFR swap. Existing swaps of these rates have substantially different terms and conditions, since SOFR uses money market conventions. I see lots of pain here.

[Global Derivatives Market Embraces Pact to Preempt Libor Pain \(bloomberglaw.com\)](https://www.bloomberglaw.com/global-derivatives-market-embraces-pact-to-preempt-libor-pain)

☆ If LIBOR derivatives truly are simply falling back to SOFR derivatives, there will be a rude awakening. It's true that holders of these instruments will be compensated for the difference in rate based on fallback spread. So, for example, they can be thought about a restruck. But, and it's a big but, the implied vols of SOFR options are not the same as the implied vols of LIBOR options. And there won't be any compensation for that difference. N.B. Link available only for Bloomberg users, and in this case that's a good thing!

[Bloomberg Link](#)

☆ While term SONIA may be useful for some things, how can it possibly help tough legacy contracts? These almost certainly would fall back to compounded in-arrears SONIA.

[Industry group backs wider use of term Sonia in derivatives - Risk.net](https://www.risk.net/industry-group-backs-wider-use-of-term-sonia-in-derivatives)

☆ Let's forbid the word "discontinuation" when discussing the death of LIBOR. Think of that parrot in the Monty Python sketch. Is it discontinued? No, it's dead. When something is

discontinued, like the Ford Mustang, it can come back in the future. LIBOR is sunsetting, dying, ceasing, dead.

[UKF Discontinuation of LIBOR - Guide for banks and lenders FINAL.pdf \(ukfinance.org.uk\)](#)

✧ The semantic problems with the phrase “SONIA Index” were given above. However, the indexes themselves are problematic. Because of fear of negative rates, any subzero daily value will be floored at zero. This process occurs before compounding. Surely it’s better to compound the raw values, be they negative or positive, and then impose a floor on the compounded value.

[IBA | SONIA Indexes \(theice.com\)](#)

ABC Rates (Ameribor, Bank Yield Index, and Constant Maturity Treasury) etc.:

✧✧ Zions bank has decided to use Ameribor for new issuances of nonsyndicated commercial loans. This was mistakenly cast as Zions’ “shunning SOFR,” when in fact its syndicated book will certainly use SOFR. Likewise, all of its legacy instruments will fallback to SOFR.

[Why Zions is shunning SOFR, embracing Ameribor | American Banker](#)

✧ Richard Sandor argues for a Tower of Babel of benchmarks, rather than a common language such as English – the equivalent of the RFRs (SOFR, SONIA etc.). Ameribor etc. come across as the new Esperanto.

[Opinion: the case for multiple post-Libor benchmarks wins the day | Compliance | Practice Insight \(iflrinsight.com\)](#)

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