BMO Global Asset Management

The London Interbank Offered Rate (LIBOR) benchmark will start being phased out at the end of 2021. This allows time for alternative benchmarks to be put in place.

On 5 March the United Kingdom Financial Conduct Authority (FCA), LIBOR's regulator, announced that LIBOR rates, under their current methodology, will end based on the following schedule:

Final publication on 31 December 2021:

- GBP LIBOR - Overnight, 1 Week, 1, 2, 3, 6 and 12 Months,
- JPY LIBOR - Spot next, 1 Week, 1, 2, 3, 6 and 12 Months,
- CHF LIBOR - Spot next, 1 Week, 1, 2, 3, 6 and 12 Months,
- EUR LIBOR - Overnight, 1 Week, 1, 2, 3, 6 and 12 Months,
- USD LIBOR - 1 Week and 2 Months.

Final publication on 30 June 2023:

- USD LIBOR - Overnight and 1, 3, 6 and 12 Months.

What does this mean?

LIBOR rates will still be published until their termination dates. Until then, trading contracts and securities can continue to refer to LIBOR.

From January 2022, any financial instruments that still reference a LIBOR rate that has stopped will fall back to the rate referred to in the documents governing each security or trading contract.

Debt issuers have been seeking investor consent to convert the terms of their LIBOR issuance to other benchmarks. We expect this process to accelerate through the rest of this year. New LIBOR issuance should decline and cease toward the end of 2021. We expect this to happen with issuance in US dollars as well, given regulator statements that new use of the LIBOR benchmark should broadly end in 2021.

In over-the counter interest-rate derivatives, the International Swaps and Derivatives Association (ISDA) has enacted new LIBOR fallbacks that become effective as each LIBOR rate ceases. The fallbacks are based on each currency's alternative reference rate (ARR): for example, Secured Overnight Financing Rate (SOFR) in USD or Sterling Overnight Index Average (SONIA) in GBP.

How does this affect my investments?

To date, the transition has been orderly. LIBOR-linked instruments have not experienced value deterioration or unusual price volatility. However, LIBOR's usefulness could diminish before the end of 2021. This may cause the value of LIBOR investments to decline or additional costs in exiting positions.

BMO Global Asset Management is well-prepared for the end of the transition period this year and in mid-2023, when the most-used US dollar LIBOR settings are set to terminate.

Our LIBOR derivatives' net exposures are limited. For our bilateral swap contracts, we have signed up to the ISDA 2020 IBOR Fallbacks Protocol, which incorporates fallback to ARRs in legacy uncleared derivatives.

In debt instruments, apart from in US dollar, our exposures are limited. We are closely monitoring our holdings to ensure a complete transition.

Finally, we aim to complete the transition of our remaining funds with LIBOR benchmarks well in advance of December 2021.

Background to IBOR Reform

The global financial crisis uncovered limitations in Interbank Offered Rates (IBORs) as measures of risk. This led regulators around the world to launch an initiative to reform benchmarks. The reform programs included strengthening the IBOR rate-setting process, by tying rate calculation to actual transactions, and developing alternative risk-free rates (RFRs).

Following on from the global-reform initiative, the FCA announced in July 2017 that at the end of 2021 it would no longer compel panel banks to submit rate information for LIBOR to be produced. The Euro Overnight Index Average (EONIA) will also stop being published at the end of 2021. In Canada, the 6- and 12-month tenors of the Canadian Dollar Offered Rate (CDOR) will not be published after 14 May 2021. 1-, 2- and 3-month CDOR will not be affected.

Other key reference rates, such as Euro Interbank Offered Rate (EURIBOR) and the most-used CDOR tenors, will continue to operate. In many instances, legacy IBORs will operate alongside the new risk-free rates.