The London Interbank Offered Rate (LIBOR) benchmark will be phased out over the next two years. This allows time for alternative benchmarks to be put in place.

On March 5, 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 June 30, 2023:

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

Final publication on December 31, 2021:

- USD LIBOR - 1 Week and 2 Months,
- 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.

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.

As USD LIBOR's most popular tenors will continue operating until mid-2023, a significant amount of existing LIBOR exposures will naturally mature. However, according to regulators' supervisory guidance, market participants should not use LIBOR in new transactions after 2021.

From July 2023, any financial instruments that still reference a key USD LIBOR rate will fall back to the rate referred to in the documents governing each security or trading contract.

In the debt market, particularly in short maturities, issuance in the Secured Overnight Financing Rate (SOFR), the US dollar alternative rate, is steadily rising. New US dollar issuance in LIBOR should materially decline, if not completely cease, by December.

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, SOFR in US dollar.

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 decrease during the transition period. 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 other currencies' transition period this year and in mid-2023, when the most-used US dollar LIBOR settings are set to terminate.

In debt instruments, our exposures are limited outside of US dollar, and we do not hold any debt linked to 1-week or 2-month USD LIBOR.

Across BMO GAM interest-rate derivatives exposures in LIBOR 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.

We are closely monitoring our holdings to ensure a complete transition.

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.