

## Introduction

This Newsletter is a follow-up of the LIBOR - \$OFR Transition webinar hosted by DEG, FMO and Proparco on 13 October 2020. While we will organize a second webinar later this year, with this Newsletter we would like to already inform you on the most recent market developments regarding the replacement rate for LIBOR. Finally, we share an update on our institutional preparations and response to these developments.

## Market updates

### **USD LIBOR availability deadlines shifted for LIBOR loans contracted prior to 31-Dec-2021**

On 5 March, the UK [Financial Conduct Authority](#) ("FCA") announced new dates for the cessation or loss of representativeness of 35 LIBOR benchmark settings currently published by ICE Benchmark Administration (IBA). Publication of all LIBOR settings will cease after 31 December 2021 **except for 1-month, 3-month and 6-month USD LIBOR** which will continue to be published until 30 June 2023 **for legacy LIBOR loans**. The extended publication period is to support a smooth transition of existing LIBOR contracts. The FCA encourages banks to stop originating new LIBOR loans as soon as possible, but not later than **31 December 2021**. This decision has been commended by the Alternative Reference Rate Committee ("ARRC").

### **Term SOFR timelines remain unclear**

Contrary to earlier expectations and communication by ARRC, there will not be a SOFR term rate available by mid-2021 and the ARRC cannot guarantee that it will be in a position to recommend an administrator that can produce a robust forward-looking term rate by the end of 2021. Therefore, market participants are recommended not to rely on a SOFR term rate to be available in 2021.

### **Adjustment spread has been fixed as per 5-Mar-2021**

A small refresher on the rationale for having an adjustment spread: LIBOR includes a credit element to reflect the cost and risk for banks, to borrow for a certain tenor. As SOFR is an overnight rate, the risk of lending is lower; therefore, SOFR is lower than LIBOR. To ensure a fair conversion of existing contracts, an adjustment spread is needed to compensate for these differences.

Even though the adjustment spread was daily published by Bloomberg until recently, it is fixed per 5 March 2021. Both the International Swaps and Derivatives Association ("ISDA") and the ARRC have announced that they will use this static spread adjustments going forward and the Loan Market Association ("LMA") is aligned with this approach. For further information we refer to the following publication by ARRC [adjustment spread methodology](#).

### **Prevailing replacement rate remains for now: SOFR compounding in arrears (observation shift)**

While there is no clear market consensus yet, SOFR compounding in arrears (observation shift) (compatible with SOFR Index and the derivatives market) remains the most likely alternative interest methodology for USD LIBOR now.

## DEG, FMO, Proparco - Next Steps

### Follow-up Webinar

In view of the postponed cessation of USD LIBOR until 30 June 2023, the second LIBOR - \$OFR transition webinar for our customers will follow later this year. Registration details will be made available in due course.

### Transition of existing loan contracts from USD LIBOR to SOFR

The shifted deadlines for USD LIBOR are considered when preparing to transition away from USD LIBOR for the existing loan contracts. Based on the current available information, the transition will have to be completed by mid-2023. The exact start of the transition process may slightly differ per institution and customer – we will share more information later this year.

### Offering of SOFR loan contracts

Timing may differ per institution to provide SOFR loans and depends amongst others on market consensus and system availability. We do however strive to comply with ARRC recommendations not to provide new USD LIBOR contracts after 31 December 2021.

### Communication and further information

For additional information, please reach out to your relationship manager at DEG, FMO or Proparco or consult the following websites:

- DEG-FMO-Proparco “LIBOR-SOFR Transition” Webinar: <https://libortransition.fmocomms.nl/>
- [www.deginvest.de](http://www.deginvest.de)
- [BMR & LIBOR Reform | Interest Rate | Dutch Development Bank - FMO](#)
- [www.proparco.fr](http://www.proparco.fr)
- Alternative Reference Rate Committee (ARRC): <https://www.newyorkfed.org/arrc>
- Loan Market Association (LMA): <https://www.lma.eu.com/libor>
- International Swaps and Derivatives Association (ISDA):  
<https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/>

### Disclaimer

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