



**22° Congreso
de Tesorería**

Transformación, retos y oportunidades de los mercados

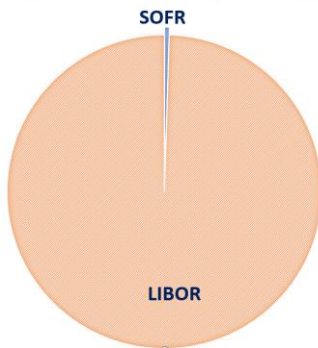
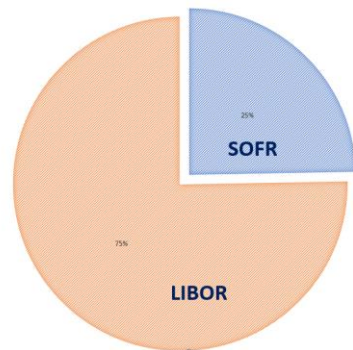
Eric Donovan

LIBOR Transition: The U.S. Perspective

◆ USD LIBOR Transition: *Current State*

The Good News:

- ▶ SOFR rose to 25% of the floating rate note market in 2019
- ▶ CME SOFR futures ADV and OI grew considerably in 2019 (though still a tiny fraction of the Eurodollar 3M LIBOR futures and options)



The Not-So-Good News:

- ▶ Private SOFR debt issuance = 0
- ▶ SOFR OTC Derivatives = close to zero (\$300T)
- ▶ ***Long Term Yield Curve Does Not Transact***

◆ **USD LIBOR Fallbacks:** *The Key to Transition*

- ▶ **Derivatives:** ISDA & CME
- ▶ **Regulated Bank Debt:** OCC / FRB / FDIC
- ▶ **Securities (Floating Rate Notes):** SEC
- ▶ **Unregulated Contracts**
 - * Equitable Legal Precedent (at least in NY State)
 - * ICE Benchmark Administration

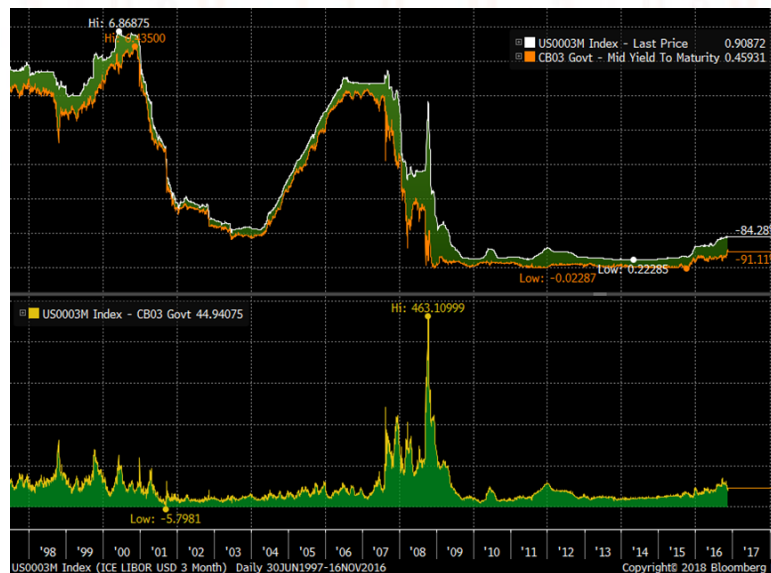
There is a high likelihood of LIBOR settlements continuing well after 2022 in some variation of a pegged settlement process.

◆ **USD SOFR: *The Future Benchmark***

- **SOFR has deep liquidity**
- **SOFR doesn't “blow out”**
- **It is superior in every way**

HOWEVER, there is no long term yield curve and it doesn't seem to be any progress there

Also, banking systems are “sticky”, many banks still use **PRIME**. With no legal mandate or profit incentive, banks will be extremely slow to transition



“TED Spread” 3M LIBOR versus Treasuries

◆ **USD LIBOR Transition:** *Unresolved Questions*

- ▶ **What economic incentive do banks have?**
- ▶ **Will the recent problems with repo rates get resolved?**
- ▶ **Will fallbacks make it “too easy”?**
- ▶ **The Chicken & the Egg on the forward curve**