



## **BANKERS ASSOCIATION OF THE PHILLIPPINES**

### **BAP Advisory on SOFR Term Rates**

Bangko Sentral ng Pilipinas (BSP) Memorandum M2020-083 issued last 17 November 2020 requires every BSP-supervised financial institution (BSFI) with LIBOR or LIBOR-related exposures to have a viable transition plan in place to ensure that the cessation of LIBOR does not disrupt its operations and the efficient provision of services to its clients and other market counterparties

On 5 March 2021, ICE Benchmark Administration (IBA)<sup>1</sup> confirmed the previously announced dates for the cessation of LIBOR. The U.K. Financial Conduct Authority (FCA)<sup>2</sup> also announced that 1-week and 2-month USD LIBOR will cease publication after December 31, 2021, as will all non-USD LIBOR tenors, and that 3-month, 6-month and 1-year USD LIBOR will cease publication after June 30, 2023.

On 29 July 2021, the Alternative Reference Rates Committee (ARRC)<sup>3</sup> announced that it is formally recommending CME<sup>4</sup> Group's forward-looking Secured Overnight Financing Rate (SOFR) term rates (SOFR Term Rates),

In the fact sheet accompanying the formal recommendation the ARCC stated that they *“support the use of SOFR Term Rates for business loan activity, where adapting to an overnight rate could be more difficult; and they do not support the use of SOFR Term Rates for derivatives markets, except for end users to hedge cash products using the SOFR Term Rates.”*

Given these global and local regulatory developments, the Bankers Association of the Philippines (BAP) and the BAP Open Market Committee (BAP OMC) takes the opportunity to inform affected BSFIs that the SOFR Term Rates published by the CME Group are available from information service providers such as Bloomberg on page BTMM US <GO>, and Refinitiv as tickers (.SR1M, .SR3M, .SR6M, .SR1Y).

The BAP and the BAP OMC do not, in any way, endorse or make any recommendation on the use of the SOFR Term Rates and remind parties to the relevant bilateral agreements to utilize such rates in-line with the ARRC recommendations and other requirements, as may be applicable.

For your information and reference.

#### **DISCLAIMER**

This does not constitute an endorsement of the use of the Term SOFR rate by the BAP, nor does it preclude the use of other alternative reference rates.

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<sup>1</sup> IBA is the administrator of LIBOR.

<sup>2</sup> FCA is the conduct regulator for around 51,000 financial services firms and financial markets in the UK and the prudential supervisor for 49,000 firms, setting specific standards for around 18,000 firms.

<sup>3</sup> The Alternative Reference Rates Committee (ARRC) is a group of private-market participants convened by the Federal Reserve Board and the New York Fed to help ensure a successful transition from U.S. dollar (USD) LIBOR to a more robust reference rate, its recommended alternative, the Secured Overnight Financing Rate (SOFR). The ARRC is comprised of a diverse set of private-sector entities that have an important presence in markets affected by USD LIBOR and a wide array of official-sector entities, including banking and financial sector regulators, as ex-officio members

<sup>4</sup> The CME Group, made up of the Chicago Mercantile Exchange, Chicago Board of Trade, New York Mercantile Exchange, and The Commodity Exchange), is an American global markets company.