



Federal Housing Finance Agency

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To: Federal Home Loan Bank Presidents and Chief Executive Officers
Chief Executive Officer, Office of Finance

From: Andre D. Galeano, Deputy Director
Division of Federal Home Loan Bank Regulation

Subject: International Swaps and Derivatives Association 2020 IBOR Fallbacks Protocol

Date: October 21, 2020

On October 9, 2020, the International Swaps and Derivatives Association (ISDA) announced an IBOR Fallbacks Protocol and IBOR Fallbacks Supplement (the Protocol). The Protocol's intent is to ensure a smooth transition away from LIBOR should it be declared unrepresentative or cease altogether by providing a new fallback, i.e., SOFR, for legacy and new derivative contracts. As members of the Alternative Reference Rates Committee (ARRC) since 2018 through their representation by The Federal Home Loan Bank of New York¹, the Federal Home Loan Banks (FHLBanks) have been kept aware of the ISDA's multi-year effort to develop this protocol. As ISDA has a representative on the ARRC who regularly reports on ISDA's progress, the FHLBanks have had many opportunities to be made aware of, and ask questions about the ISDA's protocol, which was completed last summer.

On October 9, 2020, the ARRC encouraged "...market participants to adhere to the Protocol *before* (emphasis added) it takes effect, and for those dealers and market participants with significant derivatives exposures to do so during the two-week escrow period ahead of the official launch date on October 23, 2020, in order to promote adoption on as timely a basis as possible."² In so doing, market participants, including the FHLBanks, would align with the ARRC's Recommended Best Practices for Completing the Transition from LIBOR.³

ISDA has established an escrow period that the FHLBanks and other significant market participants can adhere to the Protocol prior to the launch date of the Protocol. The escrow period began on October 9, 2020 and concludes on October 23, 2020 at **9:30am EST**. When the protocol is officially opened to all participants after the escrow period closes, the ISDA will indicate the firms that have adhered to the protocol during the escrow period. Having a large number of firms that have already adhered is expected to encourage broader market participants

¹ FHFA is an ex-Officio Member represented by Senior Associate Director Daniel E. Coates.

² https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Press_Release_ISDA_Protocol.pdf

³ <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-Best-Practices.pdf>



to sign the protocol. The larger the number of market participants that sign the protocol, the less disruption is likely to result upon the demise of LIBOR. The Protocol will be effective on January 25, 2021.

I believe that prudent risk management mandates signing the ISDA protocol within the escrow period. Signing the protocol within the escrow period will contribute to systemic stability which will contribute to the safety and soundness of the FHLBanks and System. I commend the four FHLBanks thus far that have provided notice to ISDA of their adherence to the Protocol during the escrow period.

If your FHLBank does not adhere to the Protocol by the close of the escrow period, it must do so by no later than **December 31, 2020**. In addition, to the extent your FHLBank needs to amend any bilateral agreements regarding the adoption of the Protocol, it must have all such agreements amended by **December 15, 2020**. Please notify your examiner-in-charge (EIC) of your planned date to adhere to the Protocol by close of business October 22, 2020 and notify your EIC when you have adhered to the Protocol. Lastly, please notify your EIC when your FHLBank has amended applicable bi-lateral agreements.

As market participants with significant derivative contracts, it is important that your FHLBank provide leadership and transparency in transitioning away from LIBOR to SOFR. The FHLBanks have demonstrated strong leadership in SOFR debt issuance, I expect the same leadership in adopting the Protocol.

If you have any questions, please contact Daniel E. Coates, Senior Associate Director and Chairman of the FHFA's Reference Rate Transition Steering Committee at Daniel.Coates@fhfa.gov or 202-649-3280.

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