# LIBOR FALLBACK AND TRANSITION DATA FIELDS

From the end of 2021, the Financial Conduct Authority (FCA) will no longer guarantee the production of London Interbank Offered Rate (LIBOR). There are a huge number of bonds that reference LIBOR, and related issuers will have to specify how the coupon is going to be calculated under the risk-free rate (RFR)-based regime, once LIBOR ceases.

Customers who own bonds will have two main problems to address:

– How do I know if some of the bonds in my portfolio are impacted by the LIBOR reform?
– How do I know what the impact on related coupon calculation is?

Refinitiv can help customers to address both those issues via specific reference data fields that have been recently introduced to our DataScope products: the fallback provisions and the index transition data fields.

## How do I know if my bonds are impacted by the LIBOR reform?

**Impacted securities can be retrieved via our Datascope products**

Floating Rate Notes (FRNs) are bonds, securitised products and loans that pay a coupon based on a combination of an index and a spread. All FRNs that reference the LIBOR index will be impacted by the LIBOR reform. Clients will have to look across their portfolio of International Securities Identification Numbers (ISINs) and check which FRNs reference the LIBOR index.

Refinitiv provides a field in our DataScope products – Float Index Type – that specifies the index used for the coupon calculation formula. In Datascope Select, this field is available in the Terms & Conditions, Composite and Bond Schedule-Coupon report templates. To use this feature, customers have to run a report (for example, by using the Terms and Conditions report template) against the list of their bonds, and identify those that reference LIBOR by checking the Float Index Type field.

## How do I know the impact on related coupon calculation?

Fallback provision is the language included Bonds prospectus to define how to calculate the coupon in case a reference rate isn't available. The bond prospectus contains fallback provisions which were quite limited before 2019 and became richer close to the LIBOR cessation.

The security prospectus indicates the screen/page and time to select the index rate. However, there might be circumstances in which the index rates aren't available through the regular source at the stipulated time for issuers or agents who calculate the rates on behalf of the issuers. If the index rate is not available, the prospectus should specify the provisions to obtain the rate, such as in the example below:

– Obtain the index value from alternate source/page. If not available on alternate source, then
– Obtain the rates from merchant banks. If only a few rates are provided by merchant banks, then
– Calculate the rate using transactions between banks, using the same methodology. If this is not available, then
– Use the index value the same as the previous determination date. If such a value is not applicable, then
– Pay interest the same as the previous interest rate or use the index value the same as the previous coupon or use the first interest rate

The above language or provisions in the prospectus/source are called fallback provisions. Fallback provisions change from issuer to issuer, index to index and market to market.

Prior to 27 July 2017, fallback language revolved around no publication of rate by the screen and the relevant steps to obtain the same rate using different methods. This provision goes from non-availability of rates to using the last index rate with relevant margin or last paid interest rate. These fallback languages did not take into account permanent cessation or possibility of regulatory intervention on LIBORs. Between July 2017 and late 2019, issuers provided more details on the impact of benchmark regulation (BMR) and other regulatory frameworks on the index or benchmark being used to calculate interest. This fallback language contains enhanced fallback language, providing details of the probability of index replacement and new calculation methodology. Some issuers also considered a regulatory or index administrator declaration or notification on the possibility of an index no longer being representative. Those securities referencing IBOR now will have clarity over fallback and transition provisions.

In addition, with the introduction of RFRs and the cessation of the LIBOR, came new fallback language. This language revolves around non-availability of RFRs and respective fallback provisions. As most current RFRs are daily rates with no term rates, few issuers considered replacing daily rates with term rates if and when available, which is also part of the fallback provisions. Though there are no term rates available for RFRs, medium- to long-term term debt instruments issued FRNs reference term rate RFRs. These documents have fallback language around non-availability of RFR term rates when interest based on them becomes effective. This language uses waterfall approach – ranging from the continuation of then-current index to replacing it with an issuer-selected index.

**Refinitiv has created specific data fields, available in Datascope products, to capture fallback provisions defined in the FRN prospectus as well as information that is relevant to understanding if and how a security has transitioned to a new index and/or rate:**

– Fallback provisions are the steps mentioned in the FRN prospectus that describe the process to determine disruptions to the IBOR or rate used for the FRN and remedies to use an alternate mechanism (alternate indices already identified or other measures) to ensure the coupon calculation for the security is always determined
– Refinitiv has created data fields to capture Fallback Provision language
– As there might be multiple fallback provisions in an FRN prospectus, there will be multiple instances of those sets of fields, each one identified by a different leg number
– Index transition data fields provide information on how a specific security has transitioned to a new index/rate to calculate the related coupon
– The fields in the index transition provision section are populated ONLY if a transition of the FRN index has been actually completed
– The 'transition code', which is part of the fallback provision fields, will provide information on whether a security has transitioned to a new index

**If my bonds have been impacted by the LIBOR reform, how do I know the impact on related coupon calculation?**

1 . Run a report on Data Scope Select

2. Check if the security has transitioned

3. Check the new index details

To learn more please visit: refinitiv.com/en/libor-transition-solutions

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