

LIBOR/SOFR FAQs

Updated April 8, 2019

Summary

- The London Interbank Offered Rate (LIBOR) is expected to be phased out as a benchmark interest rate by the end of 2021.
- In the United States, the Alternative Reference Rates Committee (a committee convened by the Federal Reserve Board and the New York Fed) identified the Secured Overnight Financing Rate (SOFR) as its recommended alternative to U.S. dollar LIBOR
- The FHLBank System has had 13 SOFR-linked debt offerings in 2019 totaling \$31.6 billion.
- FHLB Dallas and other FHLBanks anticipate participating in additional SOFR issuances during 2019.
- LIBOR-indexed floating-rate advances with maturities beyond December 31, 2021 will no longer be offered by FHLB Dallas. If you are interested in taking new LIBOR advances with a maturity date that falls before December 31, 2021, please contact Member Services at 844.FHL.BANK.
- As they become available, details related to LIBOR changes at FHLB Dallas will be included in future FHLB Dallas member communications.

Why is LIBOR being phased out?

- LIBOR is based on the rate submissions by panel banks as to the rate at which they could borrow funds on the wholesale unsecured term bank funding markets.
- LIBOR panel banks are hesitant to provide these rates today because the volume of actual transactions in the wholesale unsecured term bank funding markets has dwindled since the financial crisis for various reasons.
- The chief executive of the UK Financial Conduct Authority (FCA), the regulatory entity that has overseen LIBOR since 2014, announced that after 2021 FCA would no longer persuade or compel LIBOR panel banks to submit the interbank borrowing rates required to calculate LIBOR.
- After that date panel banks are unlikely to submit rates of their own accord.

What is replacing LIBOR?

- The Federal Reserve formed the Alternative Reference Rates Committee (ARRC) in 2014 to determine the implications of a LIBOR phase out and identify an alternative reference interest rate.
- In June 2017, the ARRC identified the Secured Overnight Financing Rate (SOFR) as its recommended alternative to U.S. dollar LIBOR.
- SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities.

How is LIBOR different from SOFR?

- LIBOR is a forward-looking rate that is published for multiple terms, the most common being one, three, and six months, and includes a bank credit risk element for the term concerned.
- SOFR is an overnight, risk-free reference rate that correlates closely with other money market rates and is based on actual transactions in a robust market.
- SOFR volumes reliably remain close to \$1 trillion, on a daily basis, whereas volume in the markets on which LIBOR is based is often less than \$1 billion.
- SOFR is a backward-looking overnight rate based on transactions in the Treasury repurchase market and, therefore, does not have a term credit element, or spread, embedded into it.
- As more SOFR debt issuances are issued in the market, the spreads on LIBOR and SOFR debt seem to be converging, but this trend is not predictable with certainty and could change in the future.

Why did the ARRC choose SOFR as an alternative to LIBOR?

- In choosing SOFR as its preferred alternative to LIBOR, the ARRC cited the depth and robustness of the Treasury repo market, where around \$1 trillion is traded daily, and it also noted that SOFR's market is resilient, having operated smoothly during the financial crisis.

Is SOFR active now?

- Yes. On April 3, 2018, the Federal Reserve Bank of New York began publishing SOFR.
<https://apps.newyorkfed.org/markets/autorates/sofr>

Preparing for the transition

What is FHLB Dallas doing to prepare for the LIBOR-to-SOFR transition?

- FHLB Dallas is in the process of implementing its LIBOR transition plan in anticipation of LIBOR being phased out in 2021. The plan was developed during 2018 and finalized in early 2019. It will be updated often as we follow developments in LIBOR and SOFR. We will announce changes that affect members with various forms of communication up to and beyond 2021.

How should FHLB Dallas members stay informed?

- For additional information on the FHLB Dallas transition from LIBOR to SOFR, members should follow future FHLB Dallas member communications (member bulletins, webinars, etc.).

How can members book new LIBOR advances?

- New LIBOR advances can only be booked through Member Services and cannot have a maturity date past December 31, 2021.