



Understanding the Importance of the ISDA Interbank Offered Rate (IBOR) Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol

The International Swaps and Derivatives Association (ISDA) released the Interbank Offered Rate (IBOR) Fallbacks Supplement (Supplement) and the ISDA 2020 IBOR Fallbacks Protocol (Protocol) on October 23, 2020. The Supplement will amend ISDA's standard definitions booklet for interest rate benchmarks to incorporate robust fallbacks for derivatives linked to or referencing certain IBORs. The Protocol will enable counterparty pairs to incorporate these robust fallbacks into legacy non-cleared derivatives trades if both parties choose to adhere to the Protocol.

The new fallbacks are based on adjusted versions of the risk-free rates identified as alternatives to IBORs in the relevant jurisdictions. The Supplement and Protocol will both become effective on January 25, 2021. From that date forward, all new cleared and non-cleared derivatives trades that reference the definitions will include the fallbacks. The fallbacks for a particular currency will apply following a permanent cessation of the IBOR in that currency. For derivatives that reference certain LIBORs, the fallbacks would also apply following a determination by the UK Financial Conduct Authority (FCA) that LIBOR in that currency is or will no longer be representative.

Invesco has elected to adhere to the Protocol on behalf of its managed funds and accounts. Additionally, Invesco is currently in the process of determining which of its derivatives counterparties have not adhered to the Protocol.

Key Protocol Takeaways:

- **Product Impacts:** The Supplement and Protocol will impact interest rate derivative contracts and other over-the-counter derivatives that are linked to or reference certain IBORs. The Supplement allows market participants to incorporate robust fallbacks into these derivatives while the Protocol allows for the incorporation of these robust fallbacks into legacy non-cleared derivatives if both parties choose to adhere to the Protocol (by incorporating the Fallbacks Supplement into the existing trade documentation). Cash based securities, such as equities, bonds, floating rate notes, loans, asset-backed securities, and collateralized mortgage obligations are not impacted by the Supplement or the Protocol.
- **Timeline:** The Supplement and Protocol both become effective on January 25, 2021.
- **Impacted IBORs:** The relevant IBORs that are in scope of the Supplement and the Protocol include: sterling LIBOR, Swiss franc LIBOR, US dollar LIBOR, euro LIBOR, the euro interbank offered rate (EURIBOR), the Japanese yen LIBOR, the Japanese yen Tokyo interbank offered rate, the euroyen Tokyo interbank offered rate, the Australian bank bill swap rate, the Canadian dollar offered rate, the Hong Kong interbank offered rate, the Singapore dollar swap offer rate, and the Thai baht interest rate fixing.



Additional information on the Protocol can be found on ISDA's website ([link](#)).

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