

## S&P Dow Jones Indices' Consultation on Potential Replacement Rates for USD London Interbank Offered Rates – Updated

**NEW YORK, NOVEMBER 15, 2021:** On October 12, 2021, S&P Dow Jones Indices (“S&P DJI”) announced the results of [S&P DJI’s Consultation on Potential Replacement Rates for Key London Interbank Offered Rates](#) (“LIBOR”).

On October 20, 2021, the Federal Reserve issued further [guidance](#) on the LIBOR transition. This updated guidance includes a clarification on the meaning of new LIBOR contracts with reference dates after December 31, 2021. With this updated guidance, S&P DJI is modifying the proposed replacement rates it will use in indices utilizing a USD LIBOR rate following the wind-down of **USD LIBOR**.

These proposals supersede those previously described for **USD LIBOR only**. This consultation has no impact on the transition from EUR and JPY LIBOR. The replacement rates for EUR and JPY LIBOR rates remain as [announced](#) and indices utilizing those rates will transition effective prior to the open on Monday, November 22, 2021.

Please note that S&P DJI will continue to monitor the continued growth of the Secured Overnight Financing Rate (“SOFR”) market, and alternative replacement rates for USD LIBOR may be considered in the future as they become available.

### USD LIBOR SETTINGS – REPLACEMENT RATES

S&P DJI is considering two options for the replacement of USD LIBOR rates in indices utilizing overnight, one-month, three-month, and 12-month USD LIBOR rate settings.

**Option 1.** S&P DJI would replace these settings with SOFR. No compounding of SOFR would be applied.

**Option 2.** S&P DJI would convert these settings to a SOFR + fixed spread calculated by S&P DJI. For the overnight setting, the fixed spread would be the median between overnight LIBOR and overnight SOFR using a one-year look back period ending on October 29, 2021. For the term settings, the fixed spread would be the median between LIBOR and SOFR compounded for each respective setting using a one-year look back period ending on October 29, 2021.

The table below summarizes the options considered and the fixed spread that would be applied to overnight SOFR in Option 2:

USD LIBOR Setting	Proposed Replacement Rate	
	Option 1	Option 2
Overnight	SOFR	SOFR + 0.029630%
One-Month	SOFR	One-Month Compounded SOFR + 0.06452%
Three-Month	SOFR	Three-Month Compounded SOFR + 0.16000%
12-Month	SOFR	12-Month Compounded SOFR + 0.74944%

**Compounded SOFR Calculation.** The SOFR rates used for term settings are compounded in arrears for each respective time horizon. The one-month, three-month, and 12-month SOFR compounded rates for a given calculation date incorporate all the SOFR values starting exactly 30, 90, or 360 calendar days, respectively, prior to the calculation date. The start date can be a weekend or holiday and extends through SOFR published on the calculation day.

The formula for calculating compounded SOFR is as follows:

$$\text{Compound Annualized Interest} = \left[ \prod_{b=1}^T \left( 1 + \frac{r_b \times n_b}{N} \right) - 1 \right] \frac{N}{d_c}$$

where:

$T$  = the number of *calendar days* in the interest period

$d_c$  = the number of *calendar days* in the interest period ( $d_c = \sum n_b$ )

$r_b$  = the interest rate applicable on day  $b$

$n_b$  = 1

$N$  = the market convention for quoting the number of days in the year (in the United States, the convention for money markets is  $N = 360$ )

$b$  = a series of ordinal numbers representing each *calendar day* in the period

## INTERPOLATION RATE REPLACEMENT

As announced on October 12, 2021, indices that utilize an interpolation calculation between the two-month and three-month USD LIBOR rates would instead utilize an interpolation calculation between the one-month and three-month USD LIBOR rates. Based on the details of the modified proposals for the wind-down of USD LIBOR above, S&P DJI is proposing to remove all interpolation calculations in indices that utilize USD LIBOR and either apply SOFR overnight or three-month compounded SOFR + fixed spread. The table below summarizes the options being considered.

Proposed Interpolation Calculation Rates		
Current	Option 1	Option 2
2M and 3M USD LIBOR	SOFR Overnight	Three-Month Compounded SOFR + 0.16000%

## IMPLEMENTATION TIMING

S&P DJI is targeting the transition for indices that reference **USD LIBOR** rates no earlier than after the market close on **Friday, December 17, 2021**. A list of impacted indices is available [here](#). Please note that this list will be updated, and transition dates included, in due course.

## QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

### 1. For indices that reference USD LIBOR term rates, which proposal is preferred?

- Option 1: Convert all USD LIBOR settings to SOFR overnight rate
- Option 2: Convert all USD LIBOR settings to an applicable rate that employs compounded SOFR + fixed spread calculation

## CONSULTATION

2. If you agreed with option 2 in question 1 above, should the overnight SOFR setting also incorporate a fixed spread?
3. For indices that utilize an interpolation calculation, which proposal is preferred?
  - Option 1: Remove the calculation and refer to SOFR overnight only
  - Option 2: Remove the calculation and instead use a compounded SOFR + fixed rate spread calculation applicable to a three-month setting
4. Do you agree with S&P DJI's proposal to implement the changes for all indices that utilize USD LIBOR rates no earlier than after the market close on Friday, December 17, 2021?
5. Do you have any other comments or feedback regarding the proposed changes outlined above?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by **November 26, 2021**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at [SPDJI\\_Index\\_Governance@spglobal.com](mailto:SPDJI_Index_Governance@spglobal.com).

*Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.*

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit [www.spdji.com](http://www.spdji.com).

#### ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

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