

Title: Anyone have a take on this? Came in an email from my broker, IG. Seems like LIBOR is being phased out, but looking at the rates the swaps and derivatives people are adding 0.11% to what used to be the USD LIBOR rate...

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We'd like to inform you that the majority of Interbank Offered Rates (IBORs) will cease to exist by the end of 2021. This means all interest rate benchmarks falling under the IBOR umbrella – including the London Interbank Offered Rate (LIBOR). will be phased out over the coming months.

On 25 September 2021 we'll be replacing our IBORs with ARR's and a spread adjustment, meaning you'll be charged fees according to the adjusted ARR benchmark +/- an IG admin fee.

What will replace IBORs?

Regulators have proposed a switch to Alternative Reference Rates (ARRs). Based on actual overnight interest rates in liquid wholesale cash and derivative markets, ARR's are more robust and less volatile than IBORs.

Since ARR's are risk-free rates, they don't incorporate the credit risk that is inherent in the calculation of IBORs, which are based on interbank lending over longer time periods.

Each currency has their own ARR as follows:

CCY Current benchmark ARR

GBP GBP LIBOR SONIA

USD USD LIBOR SOFR

EUR EUR LIBOR ESTR

CHF CHF LIBOR SARON

JPY JPY LIBOR TONA

SGD SIBOR SORA

How are we adjusting for this change?

To compensate for the missing credit risk, we will be adjusting the ARR's by the one-month spread adjustment proposed by the International Swaps and Derivatives Association (ISDA).

LIBOR Tenor Spread Adjustment %

GBP 1 Month 0.0326

USD 1 Month 0.11448

EUR 1 Month 0.0456

CHF 1 Month -0.0571

JPY 1 Month -0.02923

How will you be affected?

We've used IBORs for the calculation of overnight funding charges on index and share positions. On 25 September 2021, these will be replaced by an ARR and a spread adjustment, meaning you'll be charged fees according to the adjusted ARR benchmark +/- an IG admin fee.

Edit: formatting, I'm on mobile.