LIBOR TRANSITION TERMS

Term	Definition
Adjustable Rate Mortgage (ARM)	A mortgage whose interest rate is not fixed. The interest rate resets on a period, and the new rate is equal to the index (reference rate) plus a margin (spread).
Alternative Reference Rates (ARR)	The rates that are potential alternatives to LIBOR. Worldwide, different regions have developed different alternatives. In the United States, the ARRC has recommended SOFR as the alternative, but there are other alternatives such as Ameribor, and others.
Ameribor	Ameribor is an Alternative Reference Rate, published by the American Financial Exchange (AFX), that is designed to mimic small bank borrowing costs, as it includes a credit spread component for unsecured loans. It may, or may not, be adopted by the market.
American Financial Exchange (AFX)	The AFX is a financial exchange that is creating and backing Ameribor as an alternative to LIBOR.
ARRC (Alternative Reference Rates Committee)	“The Alternative Reference Rates Committee (ARRC) is a group of private-market participants convened by the Federal Reserve Board and the New York Fed to help ensure a successful transition from U.S. dollar (USD) LIBOR to a more robust reference rate, its recommended alternative, the Secured Overnight Financing Rate (SOFR).”[i]
Bid/Ask Spread	A bid-ask spread is the amount by which the ask price exceeds the bid price for an asset in the market. The bid-ask spread is essentially the difference between the highest price that a buyer is willing to pay for an asset and the lowest price that a seller is willing to accept.[ii] A wide bid/ask spread indicates that an asset is illiquid. This spread can be used to judge the acceptance of an asset class in the marketplace (meaning which ARRs are doing better than others).
Chicago Mercantile Exchange (CME)	By many measures, the CME is the largest exchange for options and futures contracts in the world.
Dodd-Frank Act Stress Tests (DFAST)	The Dodd-Frank Act requires certain financial companies with total consolidated assets of more than $10 billion, and which are regulated by a primary federal financial regulatory agency, to conduct annual stress tests to determine whether the companies have sufficient capital to absorb losses and support operations. These stress tests emulate changes in interest rate, and so the models will be affected by LIBOR transition, as there is not yet a well understood correlation with the alternative rates.

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Duration	Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.[iii] When we say “rates move up by 1,” such as in a stress test, then a rate for a particular instrument at a particular rate will be increased by 1. However, not all rates will move the same amount. The duration provides a way to estimate how much the 10-year Treasury will move, in rate, if the 5 year Treasury increases by 1.
Dv01	Dv01 is the ‘dollar duration.’ “As duration measures the sensitivity of a bonds price in interest rate changes, dollar duration seeks to give these changes an actual dollar amount.” [iv]
Fallback Language	Fallback Language, in this case, is language in a contract that specifies what happens if LIBOR is not available. It might specify what the replacement rate is, or it might specify that it converts to fixed rate. It should specify what the trigger is. However, most older Fallback Language did not consider that LIBOR might cease to exist at all.
FCA (Financial Conduct Authority)	United Kingdom’s Financial Conduct Authority (FCA) previously announced that LIBOR is expected to disappear after December 31, 2021, when panel banks will no longer be required to submit transaction data to the FCA that is used to determine the rate.
Index Rate	The Index Rate is a specific example of a Reference/Benchmark rate, used in lending. The Index Rate is Reference Rate that an adjustable rate loan is based on. Typically, the loan’s interest rate is the Index Rate plus a Spread (or margin). LIBOR is a popular Index Rate for mortgages and student loans.
International Swaps and Derivatives Association (ISDA)	The International Swaps and Derivatives Association is a trade organization of participants in the market for over-the-counter derivatives.[v] They are working with SIFMA and others on LIBOR transitions and fallbacks to alternative rates.
LIBOR (London Interbank Offered Rate)	LIBOR is the most widely used Reference Rate / Index Rate in the world. Will not be published after December 31, 2021 and is already losing credibility.

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Mark (short for Mark-to-Market)	The Mark is the value an asset at a particular point in time. If it is exchange traded this is easy to lookup. If it is not, it must be obtained from either a model or through the counterparty.
New York Department of Financial Services (NYDFS)	The New York State Department of Financial Services is the department of the New York state government responsible for regulating financial services and products, including those subject to the New York insurance, banking and financial services laws.[vi] They are the regulator who asked all the companies they regulate to show them their LIBOR Transition Plan on 7 weeks' notice.
Over the Counter (OTC)	Many financial instruments are traded on an exchange (see CME), but others are deals struck directly with a counterparty, so they are non-exchange traded and referred to as "Over the Counter." For some markets, OTC is the only way to get a contract. However, these markets depend on your counterparty and are illiquid. Getting a Mark (the value) can be difficult (remember The Big Short?).
Reference Rate or Benchmark Rate	A Reference Rate or Benchmark Rate is an interest rate used to determine other interest rates. LIBOR is the most popular Reference Rate in the world.
Risk Free Rate (RFR)	A Risk Free Rate (RFR) does not have credit risk as a component. SOFR is an RFR. RFRs are good for derivatives, the majority of LIBOR contracts, but are less good for lending, because the credit component, which is variable over time depending on circumstances, must be accounted for.
Sarbanes-Oxley Act (SOX)	In 2002, the United States Congress passed the Sarbanes-Oxley Act (SOX) to protect shareholders and the general public from accounting errors and fraudulent practices in enterprises, and to improve the accuracy of corporate disclosures. The LIBOR Transition is supposed to be value neutral. However, the change to a different benchmark rate (plus spread) will have wide-ranging accounting impacts, including effects on hedge accounting, debt modification, and discount rates for impairment testing, lease accounting and mark-to-market/fair valuation.

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Securities Industry and Financial Markets Association (SIFMA)	The Securities Industry and Financial Markets Association (SIFMA) is a United States industry trade group representing securities firms, banks, and asset management companies.[vii] They are taking a major role in the transition away from LIBOR.
SOFR (Secured Overnight Financing Rate)	Secured Overnight Financing Rate (SOFR) is a secured interbank overnight interest rate and reference rate established as the leading alternative to Libor in the US, by the ARRC. It is based on the Treasury repurchase market (repo).[viii] The two rates have many differences, including credit risk and term structure.
Spread	Spread is the difference between two interest rates. The term is used often in LIBOR replacement discussions. A common example is in regards to LIBOR, which has a credit risk component, and SOFR, which is risk free – so there is a natural Spread between the two rates because of the credit risk. However, the credit risk spread has varied over time depending on market conditions.
Term Structure	"The term structure of interest rates is the relationship between interest rates or bond yields and different terms or maturities. When graphed, the term structure of interest rates is known as a yield curve…"[ix] LIBOR is actually not one number, it is seven. The term structure is overnight, 1 week, 1 month, 2 months, 3 months, 6 months and 12 months. SOFR, however, is currently only an overnight rate. So whereas LIBOR offers an actual number for a 1-year ARM to use as an index, SOFR does not. Fannie Mae and Freddie Mac are publishing guidance on how this will work with their SOFR ARM's.
Trigger	In the dictionary, a Trigger is an event that causes something to occur. In LIBOR Transition, trigger is often used in regards to a contract – the Fallback Language should specify what event(s) actually triggers the transition away from LIBOR.
Value Neutral / Value Transfer	The Federal Reserve has expressed the desire that the LIBOR replacement not be an economic event; that is to say, that it be "value neutral." However, this is virtually impossible, so it is more like that some "value transfer" will take place – meaning that there will be winners and losers. Companies that do not know that they are a winner in a replacement then they are likely a loser.

[i] https://www.newyorkfed.org/arrc
[ii] https://www.investopedia.com/terms/b/bid-askspread.asp
[iii] https://www.investopedia.com/terms/d/duration.asp
[iv] https://www.investopedia.com/terms/d/dollar-duration.asp
[v] https://en.wikipedia.org/wiki/International_Swaps_and_Derivatives_Association
[vi] https://en.wikipedia.org/wiki/New_York_State_Department_of_Financial_Services
[vii] https://en.wikipedia.org/wiki/Securities_Industry_and_Financial_Markets_Association
[viii] https://en.wikipedia.org/wiki/SOFR
[ix] https://www.investopedia.com/terms/t/termstructure.asp