STATE OF CONNECTICUT

INSURANCE DEPARTMENT

October 16, 2020

NOTICE TO ALL INTERESTED PARTIES

CONCERNING

CLARIFIED STATUS OF CERTAIN DERIVATIVES RELATING TO LIBOR TRANSITION

The Connecticut Insurance Department (CID), in recognition of the transition away from the London Interbank Offered Rate (LIBOR) to Secured Overnight Financing Rate (SOFR) by market participants, including U.S. central clearing counterparties (CCPs), is providing this Notice as guidance to aide in the transition away from LIBOR toward SOFR.

CCPs will revalue existing swap positions by shifting their discounting rate from the Effective Federal Funds Rate (EFFR) to the SOFR using a one-time special valuation cycle that will include issuing basis swaps. The switch in the discounting rate will change each market participant's risk profile. The purpose of the basis swap is to restore each counterparty's original risk profile in the swap transaction. Market participants have no control over the distribution of the basis swaps to them. This one-time switch in the discounting rate is expected to occur prior to the end of calendar year 2021.

For the purposes of Conn. Gen. Stat. §102(f) and Connecticut Bulletin No. FS-14c-00, any basis swap received by an insurer in connection with a clearing party's replacement of the discounting rate for cleared swaps from the federal funds effective rate to the secured overnight financing rate (a "CCP Cutover") shall be deemed an effective hedging transaction notwithstanding any other provision of Conn. Gen. Stat. §102(f), Connecticut Bulletin No. FS-14c-00, or such insurer's derivatives use plan, so long as the insurer has documented the fact that it has received such basis swap in connection with a CCP Cutover. Such documentation shall be provided to CID upon request. This guidance is applicable for a period not to exceed one (1) year after the date of the "CCP Cutover."

Contact

Any questions about this Guidance Notice should be directed to cid.financial@ct.gov.

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