



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Item 3.1

FSB's recommendations on benchmarks and follow-up examples of private-sector initiatives on alternative rates in other currencies

Inaugural meeting of the working
group on euro risk-free rates

Frankfurt, 26 February 2018

Overview

- 1 Financial Stability Board's tasks related to interest rate benchmarks
- 2 Review of key developments
- 3 FSB's main recommendations
- 4 Key FSB documents
- 5 Examples of private sector initiatives on risk free rates in other currencies

1- Financial Stability Board's tasks on financial benchmarks

Financial Stability Board's (FSB) tasks related to benchmark

G20 tasked FSB to

- **Coordinate the work at international level;**
- Undertake a **fundamental review of major interest rate benchmarks;**
- **Promote consistency** in these assessments;
- Develop and promote the **implementation of effective regulatory, supervisory and other financial sector policies;**
- To promote widespread **support, dissemination and adoption of any principles and good practices**

2 - Key developments under FSB

Feb 2013

- G20 asks the **FSB to undertake a fundamental review of major interest rate benchmarks** in response to cases of attempted manipulation and to the decline in liquidity in underlying markets

Jun 2013

- FSB establishes **Official Sector Steering Group (OSSG)** comprising senior officials from central banks and regulatory agencies **to coordinate the reviews of widely used interest rate benchmarks**
- OSSG convenes and guides the work of **Market Participants Group (MPG)** **to identify feasible and viable alternative reference rates and recommend transition paths**

Sep 2013

- **FSB endorsement as global standards of Principles for Financial Benchmarks developed by IOSCO** (Jul 2013) addressing benchmark governance, integrity, methodology, quality and accountability. Respecting Principles are starting point for any robust benchmark.

Mar 2014

- **MPG** provides **recommendations for potential alternatives to existing IBORs favoring a multi-rate approach** and **proposals for strategies for any transition to alternative reference rates** and for **dealing with legacy contracts**.

Jul 2014

- FSB issues its **final report setting out FSB recommendations** on financial benchmarks
- FSB publishes first **review of the implementation of IOSCO's Principles**

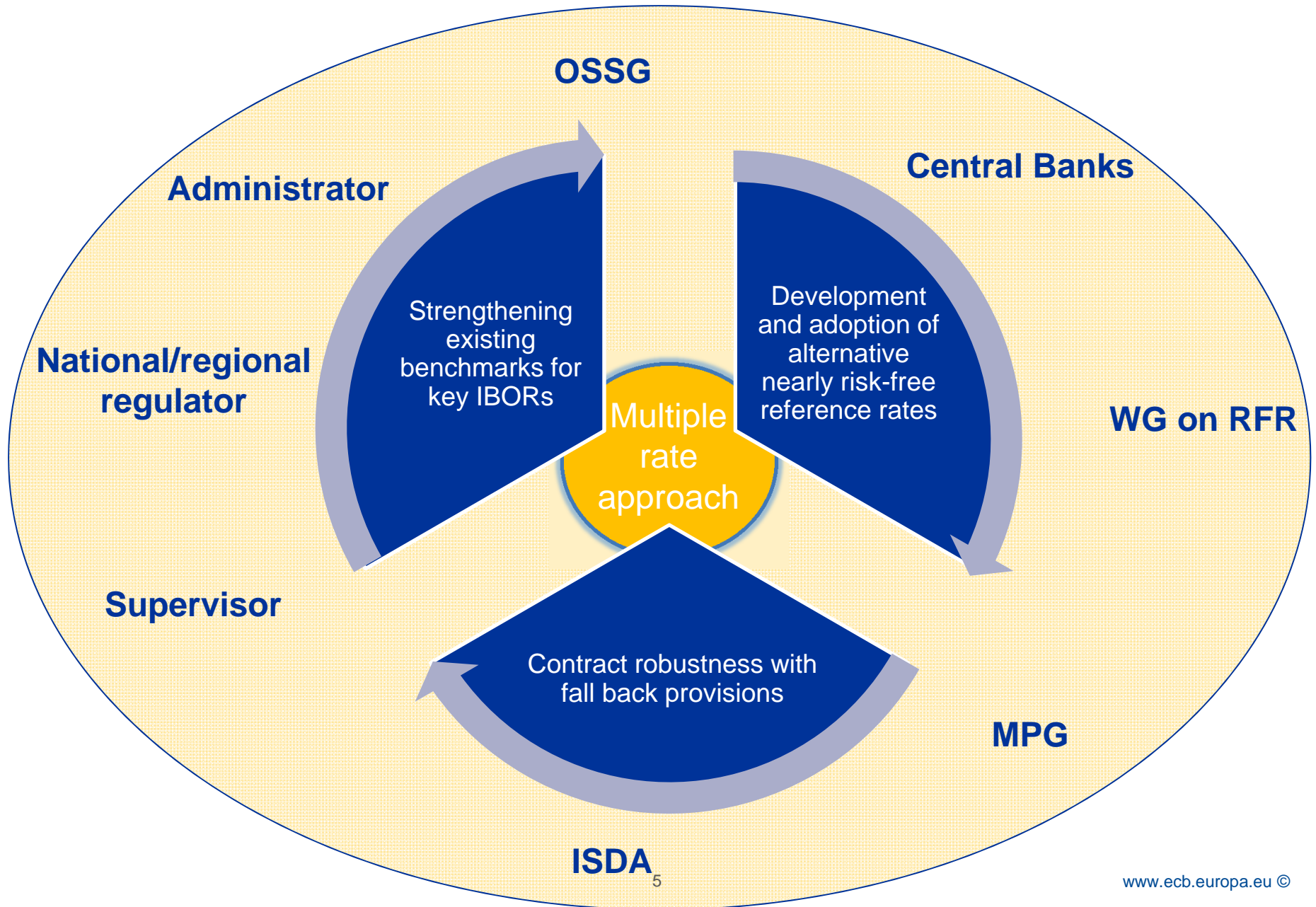
May and Jul 2016

- FSB publishes second **review of the implementation of IOSCO's Principles**
- OSSG asks **ISDA to carry out work on contract robustness and to tackle risks associated with permanent discontinuation**

2015, 2016,
2017, 2018
(envisaged)

- FSB releases progress reports on implementation and compliance with FSB recommendations

3 - FSB main recommendations and parties involved



4 - Key documents on FSB financial benchmark work

Key Documents

- **Reforming Major Interest Rate Benchmarks – Final Report**

July 2014

This [report](#) sets out the findings of the FSB's Official Sector Steering Group with regards to reforms to major interest rate benchmarks.

- **Final Report of the Market Participants Group on Reforming Interest Rate Benchmarks**

July 2014

A [report](#) of the Market Participants Group in support of the FSB's work on reviewing major interest rate benchmarks.

- **First and Second Review of the Implementation of IOSCO's Principles**

[22 July 2014](#), [May 2016](#)

The reports set out the findings of the reviews by IOSCO of the degree of implementation of IOSCO's Principles for Financial Benchmarks by the administrators

- **FSB progress reports** in [2015](#), [2016](#) and latest in [October 2017](#); next envisaged for 2018

5 – Examples of Private sector initiatives on risk-free rates

FSB workstream on risk-free rates

- **Designated private-sector groups** have been formed in many member jurisdictions/currency areas
 - To **select and recommend risk-free rates**.
 - Sometimes to also **identify strategies to create liquidity** in newly introduced risk-free rates.
 - To **recommend transition strategies**

3 – Example: United States



Alternative Reference Rates Committee (ARRC)

Chair: Sandie O'Connor (JP Morgan Chase)

Milestones:

- November 2014: ARRC established
- June 2017: Secured Overnight Financing Rate (SOFR) recommended as preferred risk-free rate (RFR)
- Q2 2018: first SOFR publication by the Federal Reserve Bank of New York

Latest developments:

- ARRC membership expanded to directly address cash products
- Focus of work now on transition plan

Next steps:

- 2018 H2: start of futures and OIS trading on new infrastructure
- 2020 Q1: parallel choice between cleared contracts featuring EFRR PAI/discounting and SOFR PAI/discounting
- 2021 Q3: only SOFR PAI/discounting environment
- 2021 H2: creation of a term reference rate based on SOFR derivatives



Working Group on Sterling Risk-Free Rates

Chair: François Jourdain (Barclays)

Vice Chairs: Frances Hinden (Shell International); Simon Wilkinson (Legal & General IM)

Milestones:

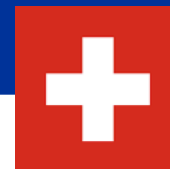
- 2015: established
- April 2017: reformed SONIA (unsecured overnight) selected as preferred RFR
- April 2018: publication of reformed SONIA
- January 2018: new mandate and set up of the working group with the objective to *‘catalyse a broad based transition to SONIA over the next 4 years across GBP bonds, loan and derivatives related markets’*

Latest developments:

- New composition including investment managers, corporates, issuers, infrastructure

Next steps:

- Public consultation on term rates in 2018
- Adoption plans for the alternative RFR
- Development of SONIA futures



National Working Group on Swiss Franc Reference Rates (NWG)

Co-chairs: Martin Bardenhewer (ZKB) and Marcel Zimmermann (SNB)

Milestones:

- 2017: transition from the TOIS fixing (unsecured rate) to the Swiss Average Rate Overnight (SARON) (repo rate)
- 2017: SARON recommended as preferred alternative RFR to the CHF Libor

Latest developments:

- Establishment of two sub-working groups to evaluate appropriateness of SARON based benchmarks as alternative and to develop a transition plan for derivatives & capital markets and loan & deposit markets respectively

Next steps:

- Focus is now on the transition from Libor to SARON