

Update on ISDA's Benchmarks Initiatives



July 2018

The IBOR Roadmap, Survey and Report

- ISDA, AFME, ICMA, SIFMA and SIFMA AMG:
 - IBOR Global Transition Roadmap, February 1 2018.
 - IBOR Global Transition Survey, February – April 2018
 - IBOR Global Transition Report – 25, May 2018

IBOR Global Transition Survey & Report

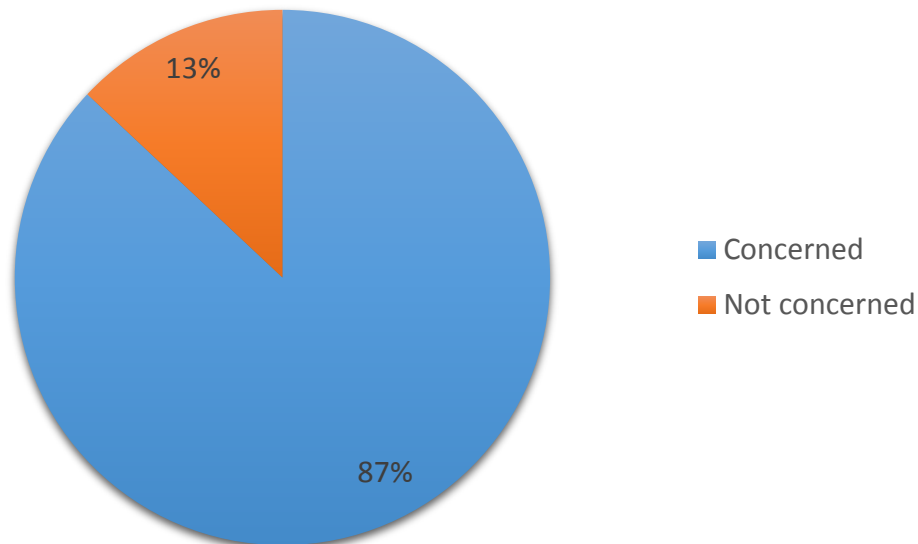
- Designed to gauge market readiness to transition away from certain interbank offered rates (IBORs) and adopt alternative risk free rates as well as identify challenges and solutions.
- In person interviews and an e-survey questionnaire completed with over 150 market participants from 24 countries.
- Participants included banks, end users, infrastructure providers and law firms.
- Covered wholesale and retail derivative and cash products referencing LIBOR denominated in USD, Sterling, EUR, CHF and JPY as well as EURIBOR and other Japanese IBORs.

Overview

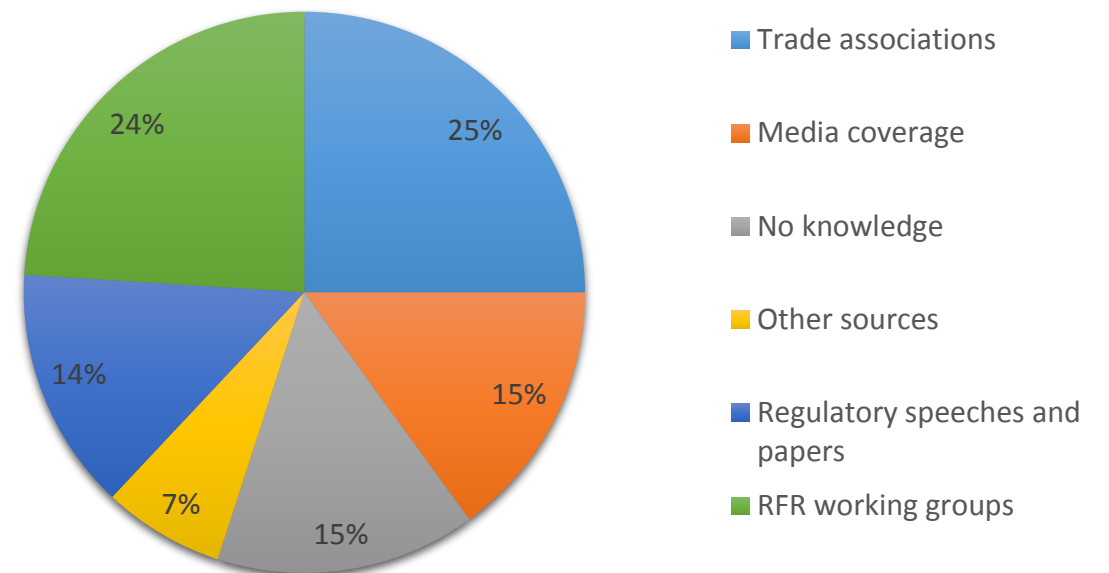
High awareness and positive understanding of RFR Working Group efforts

- 87% of respondents were concerned about their exposure to IBORs.
- The majority of participants were familiar with RFR WGs objectives and work output.

Exposure Awareness (%)



Main Source of Knowledge (%)

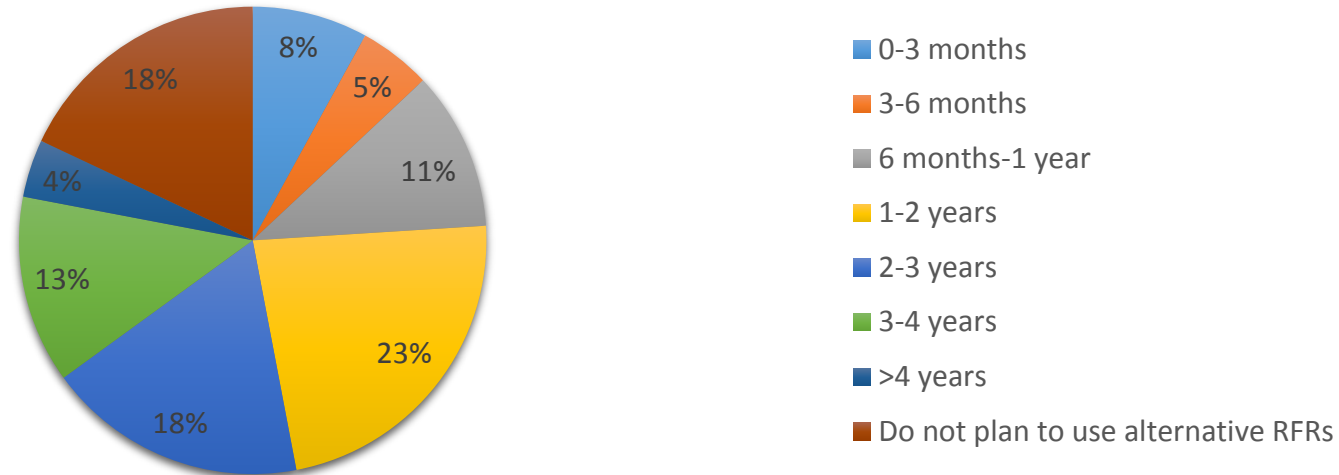


Overview

The results indicate that survey participants are gearing up for transition

- 75% have started internal discussions on the transition from IBORs to alternative risk free rates (RFRs).
- 78% intend to trade products which reference RFRs within next 4 years.

When does your organization intend to enter into new contracts referencing alternative RFRs?



Key Elements for Transition

Survey participants indicated what they regard as the key elements to successful transition. Many of these are already being addressed by RFR working groups

- **Clear and co-ordinated regulatory messaging and RFR Working Group timelines:**
 - Evolution of desired end state for LIBOR vs TIBOR/EURIBOR
 - Co-ordinated approach to legacy positions across RFR working groups
 - Appetite for more frequent output from RFR working groups, particularly in board/client friendly format

Note RFR working groups have been stepping up the visibility of their coordination efforts and some are launching sub-groups dedicated to communications.

- **Momentum**
 - 72% of respondents cited wide-scale market adoption of alternative RFRs as critical; and
 - In terms of new RFR products, respondents indicated developing liquidity in the following products would be required to facilitate successful transition:
 - OTC derivatives (>80%)
 - Cash products (67%)
 - Futures (63%)

Note the recent progress made with SONIA futures recently launched by ICE and Curve Global and SOFR futures recently launched by CME.

Key Elements for Transition

- **Long runways** (particularly EURIBOR).
- **Forward-looking term rates** - 86% of respondents believe forward-looking term reference rates based on RFRs are required for cash products.

Note the ARRC, Sterling RFR working group and EU RFR working group all have initiatives aimed at producing a forward-looking term reference rate for these purposes.

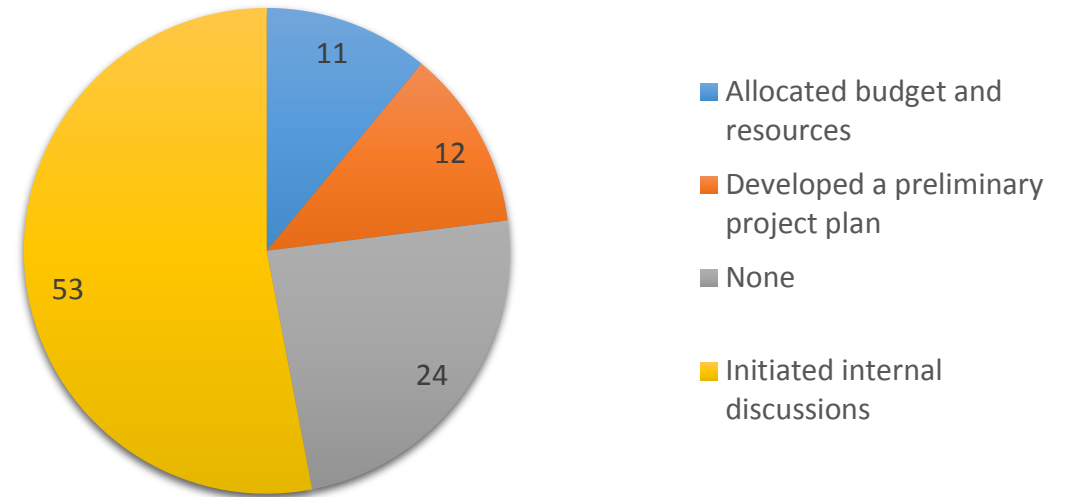
- **Development of credit premia** for new transactions referencing RFRs.
- **Tax and accounting alignment**
 - Margin, trading and clearing obligations for non-centrally cleared derivatives;
 - Consumer Protection law
 - Regulatory implications on capital & liquidity ratios

The RFR working groups have been investigating these issues with helpful messaging, for example on margin obligations have been received from the OSSG, FCA and the ARRC.

Preparations

- The survey results suggest that preparations are at an early stage:
 - 11% of respondents have allocated a budget to the process.
 - 12% have developed preliminary project plans.
 - Nearly a quarter have yet to initiate a program to support transition – corporates are furthest behind with only 30% having commenced internal discussions.
- This is not a surprise – over the past two years RFR working groups have been selecting alternative RFRs and only recently turned their focus to implementation.
- **The survey results suggest, however, that there are concrete steps which firms should take today in order to start the process of transitioning to RFRs and to reduce reliance on IBORs.**

Mobilization for transition (%)



Implementation Checklist

Assessment of IBOR Exposures	Assess impact of permanent cessation
<ul style="list-style-type: none"> • Inventory of products linked to IBORs. • Dynamic quantification of net and gross exposure on and off-balance sheet. • Calculate roll-off profiles ahead of 2019, 2020, 2021. 	<ul style="list-style-type: none"> • Review existing contracts and assess fallbacks. • Determine re-papering/client outreach. • Engage with industry working groups to enhance fallbacks. • Mobilize efforts to implement fallbacks.
Transition Route Map	Mobilization of an IBOR Transition Programme
<ul style="list-style-type: none"> • Contribute to demand for, design of and trading in new RFR products. • Review relevant RFR WG publications, Roadmap etc. • Apply to participate in RFR WGs. • Determine required infrastructure and process changes. • Develop an implementation route map of key projects, milestones and ownership. 	<ul style="list-style-type: none"> • Allocate responsibility to senior executive. • Federate governance structure. • Budget & resourcing. • Project objectives. • Stakeholder education.

IBOR Fallbacks

Background

- Per the request of the FSB OSSG in 2016, ISDA will amend its 2006 Definitions to implement **fallbacks for LIBOR in USD, GBP, JPY, CHF, EUR, AUD.**
- The fallbacks will apply upon the *permanent discontinuation* of the relevant IBOR (based on pre-determined, objective triggers) and will be to the relevant alternative risk-free rate, subject to term and spread adjustments.
- ISDA will also publish a protocol to facilitate inclusion of the amended definitions (*i.e.*, the definitions with fallbacks) into existing derivatives contracts.

IBOR Fallbacks

Timeline for IBOR Fallbacks

- **July – October 2018.** ISDA will launch a **market consultation (of ISDA members and non-members)** to inform final decisions regarding the approaches to **term and spread adjustments**. While the consultation is outstanding, ISDA will begin outreach to vendors who are interested in administering and publishing the spread.
 - ISDA Board Benchmarks Committee is determining how to evaluate consultation responses and the process will be set forth in the consultation so that all respondents are aware of it.
- **2019.** Fallbacks for GBP LIBOR, JPY LIBOR, JPY TIBOR, Euroyen TIBOR, CHF LIBOR and BBSW expected to be implemented (exact timing contingent on time required for a vendor build and for competition law and other regulatory approvals).
- **2019-onwards.**
 - Supplemental consultations on the term and spread adjustments for USD LIBOR, EUR LIBOR and EURIBOR. Exact timing is uncertain contingent on sufficient trading developing in the fallback rates (i.e., SOFR for USD LIBOR and the rate ultimately selected by the EUR RFR Working Group for EUR LIBOR and EURIBOR).
 - ISDA is also discussing potential fallbacks for HIBOR and SIBOR with local regulators in Hong Kong and Singapore, respectively.

ISDA Benchmark Supplement

- Response to the EU Benchmarks Regulation (Article 28(2)) but drafted globally.
- Amends ISDA definitional booklets for interest rate, equity, fx and commodities derivatives to ensure cessation, prohibition or material change of index have robust fallbacks.
- Seeks to leave current triggers and fallbacks unchanged where they are already robust.
- Introduces new waterfall for interest rate derivatives: (i) agreement between the parties; (ii) alternative index nominated at trade date; (iii) alternative index nominated by Central Bank or similar; (iv) Calculation Agent nomination; (iv) no fault termination.
- Will be structured to provide interim fallbacks for IBOR trades but will give priority to IBOR fallbacks once implemented.