



LIBOR, EURIBOR,  
EONIA...

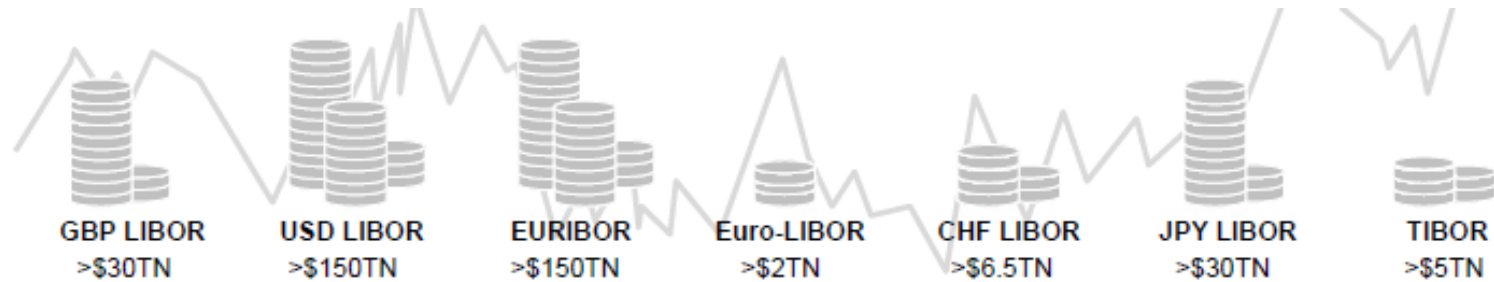


IBOR TRANSITION  
PROGRAM

28/06/2018

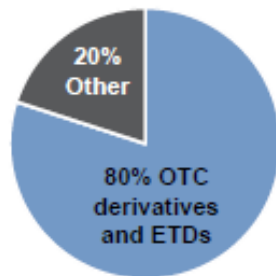
# IBOR BACKGROUND

LIBOR is the predominant interest rate benchmark for USD, GBP, CHF and JPY derivatives contracts. EURIBOR is the most widely used interest rate benchmark for EUR contracts. The MPG Report showed in 2014 that OTC derivatives and ETDs represent approximately 80% of LIBOR-linked contracts by outstanding notional value, and thus derivatives formed much of the early focus for global transition and reform initiatives. Going forward, this focus will broaden to include other products, such as securities, loans, ETDs and mortgages.



The main categories of contracts indexed to IBORs include OTC derivatives and ETDs, syndicated loans, securitized products, business loans, retail loans, floating rate bonds and deposits.

% IBOR linked contracts by total notional outstanding



<sup>1</sup> Source: *MPG Final Report on Reforming Interest Rate Benchmarks*, July 2014.

Product	Product examples
• OTC derivatives	• Interest rate swaps, FRAs, cross-currency swaps
• ETDs	• Interest rate options, interest rate futures
• Loans	• Syndicated loans, business loans, mortgages, credit cards, auto loans, consumer loans, student loans
• Bonds and FRNs	• Corporate and non-US government bonds, agency notes, leases, trade finance, FRNs, covered bonds, capital securities, perpetuals
• Short-term instruments	• Repos, reverse repos, time deposits, CDS, commercial paper
• Securitized products	• MBS, ABS, CMBS, CLO, CMO
• Other	• Late payments, discount rates, overdraft

# TRANSITION FROM IBOR TO ALTERNATIVE RFR (RISK FREE RATES)

## The need to transition from certain key IBORs to alternative solution

A **lack of robustness and durability in certain key IBORs**, coupled with the large volume of financial transactions that reference these rates, has resulted in systemic risk concerns.

- The minimal number of transactions in the unsecured interbank funding market means that submissions by panel banks are largely based upon judgment
- In the face of concerns regarding potential liabilities associated with judgment-based submissions, panel banks have become significantly less willing to submit. (For example, EURIBOR panel of submitting banks has fallen from 43 to 20 since 2013)

## FSB recommendations and global roadmap

- Since 2014, the Financial Stability Board has recommended **reviewing and improving the benchmarks** by anchoring them, to the greatest extent possible, with financing transactions.
- The FSB has also invited central banks to **coordinate the development of alternatives to IBOR benchmarks with so called “Risk Free Rates” (RFR)** and to **organize the transition** from IBOR to these new benchmarks.



### Enhance major interbank interest rate benchmarks (IBOR+)

Initiatives related to the strengthening of existing IBORs and other reference rates based on unsecured bank funding costs by underpinning them with transaction data as much as possible and improving the processes and controls around submissions to the greatest extent possible. These enhanced rates are termed “IBOR+.” However, these initiatives have not succeeded in repolving all the underlying issues for the IBORs. In particular, it has been noted that there are not enough transactions in the market for unsecured wholesale term lending to banks to be able to underpin certain IBORs with transaction data.



### Identify alternative RFRs

Initiatives have focused on identifying new or existing alternative RFRs that could be used in place of IBORs in a range of contracts, particularly derivatives, with a goal of encouraging the implementation of at least one IOSCO-compliant alternative RFR and, in some cases, identifying strategies to create liquidity in these newly introduced alternative RFRs.



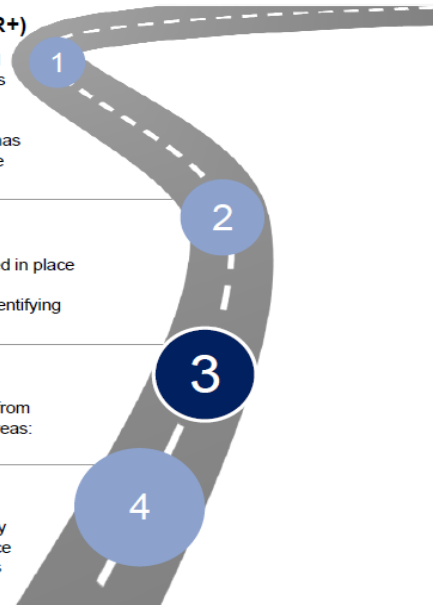
### Promote transition to alternative RFRs

Initiatives relate to transition planning for the migration of cash and derivatives products from their respective IBORs to IOSCO-compliant alternative RFRs in the following currency areas: GBP, USD, EUR, CHF and JPY, where appropriate.








### Increase contractual robustness

Initiatives focus on increasing derivative contract robustness against the risk that a widely used interest rate benchmark could be discontinued permanently. This work would reduce the risks to financial stability of reliance on the IBORs by ensuring that financial contracts referencing them include fallback provisions in case the IBORs are no longer available.



The timing has recently accelerated as with the FCA’s statements that panel banks would only be required to submit LIBOR contributions until the end of 2021

# WHERE WE ARE : OVERVIEW OF ALTERNATIVE RFR

					
<b>Rate Administrator</b>	Bank of England	FED	<b>ECB (TBC)</b>	SIX Swiss Echange	Bank of Japan
<b>Working group</b>	Working Group on Sterling Risk Free Reference Rates	Alternative Reference Rates Committee	New Working Group on RFR for the Euro Area	The National Working Group on Swiss franc Reference Rate	The Japan Study Group on Risk-Free Rates
<b>Alternative RFR</b>	Reformed SONIA	SOFR	<b>ESTER</b>	SARON	MUTAN (TONAR)
<b>Publication Date</b>	April 23rd 2018	April 3rd 2018	Planned for Dec 2018	2009	1997
<b>Description</b>	<ul style="list-style-type: none"> <li>• Unsecured</li> <li>• Fully transaction based</li> <li>• Overnight</li> </ul>	<ul style="list-style-type: none"> <li>• Secured</li> <li>• Fully transaction based</li> <li>• Overnight</li> <li>• Covers multiple repo market segments</li> </ul>	<p><b>TBC</b></p> <ul style="list-style-type: none"> <li>• <i>Unsecured</i></li> <li>• <i>Fully transaction based</i></li> <li>• <i>Overnight</i></li> </ul>	<ul style="list-style-type: none"> <li>• Secured</li> <li>• Reflects interest paid on interbank overnight repo</li> </ul>	<ul style="list-style-type: none"> <li>• Unsecured</li> <li>• Overnight</li> </ul>
<b>Market Liquidity</b>	<ul style="list-style-type: none"> <li>• Swap up to 2Y: liquid</li> <li>• Basis swap vs Libor GBP above 2Y: liquidity in progress</li> <li>• Future 1M &amp; 3M., low liquidity.</li> </ul>	<ul style="list-style-type: none"> <li>• Swaps and Futures : low liquidity</li> </ul>	None	<ul style="list-style-type: none"> <li>• Existing market on swaps</li> <li>• No Futures market</li> </ul>	<ul style="list-style-type: none"> <li>• Existing market on swaps</li> <li>• No Futures market</li> </ul>
<b>Comment</b>	<ul style="list-style-type: none"> <li>• LSE and IBA recently launched 3 month SONIA futures contract</li> </ul>	<ul style="list-style-type: none"> <li>• SG Trading begins SOFR Futures and swaps.</li> <li>• Push on going from FED</li> </ul>	None	<ul style="list-style-type: none"> <li>• The TOIS has been replaced by SARON in DEC 17</li> </ul>	

The alternative RFR benchmarks are overnight, whereas current use of IBORs is largely in term rates.

# TRANSITION : WHEN IT WILL HAPPEN

A lot of uncertainties remain on the schedule and transition protocol

