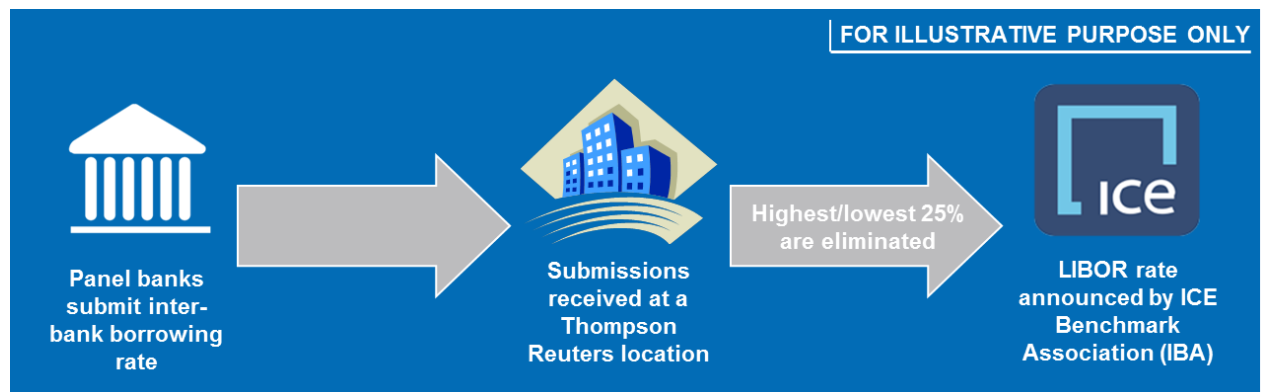


LIBOR Transition: What You Need To Know

What is LIBOR?

- Since 1986, the London Interbank Offered Rate (LIBOR) has been the recognized interest rate at which banks can borrow short-term funds, without posting collateral, in the interbank market
- LIBOR is an estimate of the rate that 12-16 panel banks (depending on the currency) would be charged if they were to borrow overnight from other banks
- While LIBOR was historically calculated from polling banks, recognized interest rate methodology is being reformed to leverage real transaction data as well as expert judgment¹.
- Across markets and jurisdictions, LIBOR underpins \$370tn of securities, serving as the base/benchmark for a variety of financial products, including interest rate derivatives (e.g., swaps, options, Eurodollar futures), floating rate notes (FRNs), loans, and securitizations
- By the term LIBOR we refer to all variants – 5 LIBOR currencies, USD, GBP, EUR, CHF, and JPY as well as other IBORs (e.g., EURIBOR, JPY TIBOR, Euroyen, TIBOR, EONIA). LIBORs are administered by the Intercontinental Exchange (ICE) and ICE Benchmark Association (IBA)
- In addition to the 5 currencies of LIBOR administered - USD, GBP, EUR, CHF, JPY, “LIBOR” is frequently used to refer to all interbank offered rates (“IBORs”) used as benchmarks globally (e.g., SIBOR, HIBOR, etc.)



Source: GSAM

Why is LIBOR being discontinued?

- International regulatory bodies are promoting transaction-based alternative risk-free rates (RFRs) due to limitations in the relevance of LIBOR as a benchmark, questions around its sustainability and stability in stressed market conditions and the lack of an active/liquid underlying market
- The 2014 FSB report [Reforming Major Interest Rate Benchmarks](#) set out recommendations for strengthening existing benchmarks in unsecured lending markets, and for promoting development/ adoption of alternative RFRs

¹ Goldman Sachs is not, and has never been, a panel bank

How and when will LIBOR be discontinued?

- As announced in a [July 2017 speech](#) by Andrew Bailey, Chief Executive of the UK FCA (LIBOR's regulator), panel banks will not be required to submit rates used to calculate LIBOR after the end of 2021
- In another [speech in July 2018](#), Bailey again highlighted the likelihood of LIBOR discontinuation and the need for the market to prepare for transition between now and the end of 2021
- In a speech in Washington, D.C., at the beginning of April 2019, Randal Quarles, the Federal Reserve Governor and Chair of the Financial Stability Board (FSB), [stressed the importance](#) to accelerate the transition to alternative RFRs given the magnitude of LIBOR's footprint

What is the EU BMR?

- The EU enacted the EU Benchmark Regulation (BMR), which imposes restrictions on benchmark usage in the EU (affecting not only EURIBOR, EONIA, EUR LIBOR, but also any other currency or rate benchmark used by an entity in scope for BMR). Only benchmarks deemed compliant with the BMR may be used in new contracts after a set transition period, initially set through January 1st 2020. However, in mid-December, the EU Parliament approved text that extends the BMR transition period for critical benchmarks (including EURIBOR and EONIA) through year-end 2021, which is awaiting confirmation by the European Council of EU member governments before May 2019
 - The ISDA 2018 Benchmarks Supplement ("the Supplement") has been created in response to requirements under the BMR
 - The Supplement sets out fallbacks to be applied in the event that a referenced benchmark is changed/ceases to be provided and will serve as intermediate fallback should LIBOR cease to exist before the LIBOR ISDA fallbacks are implemented
 - If both the IBOR fallbacks (once available) and the Supplement are incorporated into a transaction, IBOR fallbacks will take precedence for relevant IBORs

Are other non-LIBOR benchmarks impacted?

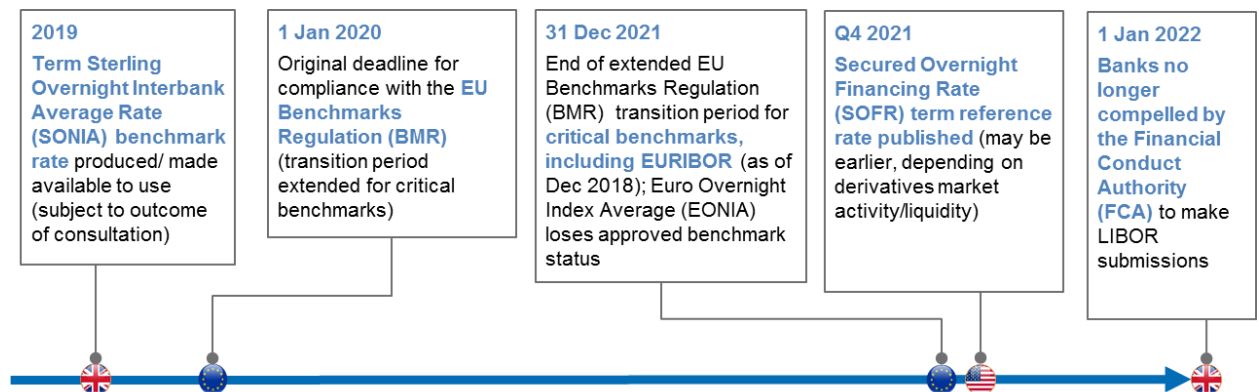
- By notional, EURIBOR (published in multiple tenors) is the benchmark underlying most floating-rate transactions in the EU, followed by EONIA and EUR LIBOR
 - EONIA (overnight reference rate for OIS) is expected to no longer have approved benchmark status beyond the end of 2021
 - The European Money Markets Institute (EMMI), administrator of EURIBOR and EONIA, is consulting with the industry on a new hybrid methodology for EURIBOR, which the ECB expects to be deemed compliant with the BMR
- Euroyen TIBOR and JPY TIBOR are expected to be combined into one TIBOR rate computed by pooling the underlying transactions from both the offshore (Euroyen) and domestic markets
- Australia, Brazil, Canada, Hong Kong, Mexico, Singapore, and South Africa have all progressed their plans to either reform their rates or select alternative RFRs based upon the recommendations made in the FSB's 2014 Reforming Major Rate Benchmarks

How is the market preparing for transition?

- Large banks and insurers regulated by the FCA submitted board-approved transition plans in December 2018
- New alternative Risk-Free Rates (RFR) have been selected for the 5 LIBOR currencies. The new RFRs will bring fragmentation to the market as each jurisdiction using a different rate and the chosen rates are overnight and will have to be translated/adjusted for certain tenors/products
- Regulatory-industry working groups and industry associations (e.g., ISDA) have launched market consultations to collect input on:
 - Establishing triggers, fallbacks, and adjustments to alternative RFRs in the event of LIBOR cessation
 - Further developing markets in alternative RFRs
 - Facilitating amendment of existing contracts via industry protocols or bilateral agreements based on recommended guidelines or best practices
- Market participants have begun issuing debt and trading contracts linked to alternative RFRs
- Central Counter Parties (CCPs) have suggested (and in some cases, formally announced) that if the industry aligns on standardized fallback language, they are likely to incorporate into their rulebooks. Consultations with members will be used to inform and solidify their approach
- The Sterling RFR Working Group in the UK conducted a consultation on Term SONIA Reference Rates (TSRRs) to inform potential development of a term structure

How will I be impacted?

- With or without successful benchmark reforms by administrators (e.g., IBA, EMMI), regulators will continue to encourage market participants and investors to have a plan for the LIBOR transition
- The phase-out of LIBOR presents several complications:
 - Identified alternative RFRs will not be equivalent to LIBOR, requiring technical adjustments
 - Systems and processes will require updates and models recalibrated or redesigned
 - Portfolio guidelines and benchmarks may require updates
- Issuers and market participants may adopt a more fragmented pool of reference rates beyond the preferred alternative RFRs recommended by central banks
- Given the uncertainty around what the post-2021 interest rate benchmark landscape could look like, and the timeline of events that may unfold over the next 3 years, preparedness for transition is key



Source: ARRC Progress Timeline, 30 October 2018; ISDA, "IBOR Global Transition Roadmap 2018", EMMI, "EURIBOR and EONIA reforms," February 2018

What should I do to prepare?

1. Create awareness within your organization
2. Get informed – leverage GSAM and industry working groups
3. Consider creation of internal committees to review progress and monitor timelines
4. Create exposure inventory across investment, legal, operational dimensions
5. Understand benchmark exposures to IBOR
6. Identify operational and systems exposures
7. Speak with your GSAM sales coverage to discuss new transactions with LIBOR exposure, conversion of legacy positions, amendments to existing contracts and information on regulatory and market developments.

Where can I get more details?

For further understanding of how this will impact you, contact your GSAM sales coverage for any other inquiries.

Helpful Resources

- [ISDA IBOR Global Benchmark Transition Roadmap 2018](#)
- [ISDA IBOR Global Benchmark Transition Report 2018](#)
- [ISDA Benchmark Consultation & Preliminary Results](#)
- [SIFMA Issues – Alternative Reference Rates](#)
- [US Alternative Reference Rates Committee \(ARRC\)](#)
- [UK Working Group on Sterling Risk-Free Reference Rates](#)
- [EU working group on euro risk-free rates](#)
- [EU Benchmark Regulations: Operational roadmap and timelines](#)

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