ISDA Safe, Efficient Markets

The Path Forward for LIBOR Transition – Virtual Event
July 14, 2020

Opening Remarks
Scott O'Malia, ISDA Chief Executive

Hello everyone, and welcome to the *Path Forward for LIBOR Transition*. Thanks to all of you for tuning in today. I'd also like to take this opportunity to thank TriOptima for sponsoring this virtual event, as well as thanking all our excellent speakers.

Just before the lockdown, we held two big conferences on benchmarks in London and New York, and there was a strong recognition among attendees that 2020 would be a pivotal year for benchmark reform, and an acceptance that industry efforts would need to step up a gear.

Then the pandemic hit, bringing with it extreme market volatility, office closures and remote working.

Not surprisingly, there were some immediate questions about how this would affect preparations and whether transition work could continue at the necessary pace.

Fortunately, that work hasn't come to a standstill.

For our part, there's been no interruption to our efforts to finalize new fallbacks for derivatives linked to key interbank offered rates (IBORs), and we plan to publish these shortly. Progress also continues to be made on a variety of other fronts across the industry. Derivatives market participants are very, very aware that they can't rely on LIBOR being published in its current form after the end of 2021. Taking our foot off the pedal just isn't an option.

In my remarks today, I'd like to very briefly summarize some of the recent developments, before updating you on the new fallbacks.

So, what's been happening over the past couple of months? In the US, the Alternative Reference Rates Committee (ARRC) recently published best practices for LIBOR transition, which set out detailed timelines and interim milestones for both derivatives and cash markets.

I'll be talking a little later to Tom Wipf, chair of the ARRC, about these milestones and the progress the industry is making to meet them.

Meanwhile, in the UK, the Sterling Risk-free Rate Working Group has been moving forward on a plan to tackle tough legacy exposures. Additionally, the Financial Conduct Authority (FCA) announced last month it expects new powers under future UK legislation to force a change in LIBOR's methodology in certain circumstances in order to allow a 'synthetic LIBOR' to continue to be published for tough legacy contracts.

We're fortunate to have Edwin Schooling Latter with us today to provide keynote remarks, and I'm sure he'll talk further on this and other initiatives.

Of course, a critical part of the transition is the availability and liquidity of alternative rates. Here, there has also been progress, and trading volumes in risk-free rates are continuing to increase.

For example, according to data from the Depository Trust and Clearing Corporation's US swap data repository, the notional of SOFR swaps traded in the first half of 2020 was 4.5 times higher than the amount traded in the first half of 2019.

In comparison, the traded notional of swaps linked to US dollar LIBOR fell by 6.1% over the same period. So, we're heading in the right direction.

But when I tell you that $63 trillion was traded in US dollar LIBOR in the first half of 2020 versus $489 billion in SOFR, you'll see there's still a lot of work to be done.

Our first panel today will explore progress in adopting alternative rates and the forthcoming milestones that are expected to boost liquidity.

I'll now turn to benchmark fallbacks. As I mentioned a few minutes ago, the lockdown hasn't interrupted our work, and we'll soon update ISDA's standard interest rate definitions to incorporate new fallbacks for derivatives.

Once the amendments come into effect – approximately four months after publication – all new cleared and non-cleared derivatives that reference the ISDA definitions will automatically incorporate the changes.

Clearing houses also intend to implement the fallbacks for all existing cleared derivatives, so the changes will be made automatically for legacy cleared trades too.

For outstanding non-cleared trades, ISDA will publish a protocol that will allow firms to add fallbacks to existing contracts with all counterparties that also choose to adhere to the protocol.

Meanwhile, Bloomberg will begin publishing indicative fallback rates in the coming days to help firms with their preparations, so look out for that.

While certainly not an alternative to voluntary transition, the implementation of robust fallbacks will be a big step forward in reducing systemic risk. Having a reliable back-up in place will significantly reduce the potential for market disruption in the event an IBOR ceases to exist.

Let me now turn to our keynote speaker, Edwin Schooling Latter.

Edwin is director of markets and wholesale policy at the UK FCA.

In this role, he is very closely involved with benchmark transition, as well as policy in relation to primary and secondary markets, trading venues and trading conduct.

We’re extremely grateful to have him join us today.

Edwin, welcome and over to you.