Benchmark Strategies Forum Asia-Pacific
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Opening Remarks
Scott O'Malia, ISDA Chief Executive

Hello everyone, and welcome to the *Benchmarks Strategies Forum Asia-Pacific*. Thanks to all of you for joining us today. I'd also like to take this opportunity to thank HKEx for sponsoring this virtual event, as well as thanking all of our speakers.

We had planned to hold this forum in person in Hong Kong a few months back, but unfortunately the continued threat of coronavirus meant we had to change our plans.

We've now rescheduled the in-person event until next year, and we hope you can all join us then for what will be a critical opportunity to thrash out any last-minute issues as we approach the end of 2021, the date from which LIBOR is likely to disappear.

We can't wait until then, though.

The coming months will be absolutely pivotal for benchmark reform, and industry efforts will need to step up a gear.

As big users of LIBOR, and US dollar LIBOR in particular, institutions in Asia-Pacific need to have a detailed plan for dealing with their legacy LIBOR exposures, as well as a clear understanding of the alternative reference rates that will be used instead.

That's what today's virtual event is all about.

In my remarks today, I'll briefly summarize the state of play in Asia-Pacific. I'll then provide an update on ISDA's work to introduce new fallbacks for derivatives linked to key IBORs.

But let's start with a quick overview of the progress made so far.

The good news is that derivatives market participants are aware they can't rely on LIBOR being published after the end of 2021, and trading volumes linked to alternative reference rates have been increasing as a result.

Taking the US risk-free rate as an example, the notional of SOFR swaps traded in the first six months of 2020 was 4.5 times higher than the amount traded in the first half of 2019.

But there's still a lot of work to be done.

LIBOR continues to be used as a reference rate for derivatives and cash instruments, and new LIBOR trades are still being put on, some of which have a maturity after the end of 2021.

According to our new RFR Adoption Indicator, just 6.4% of cleared OTC and exchange-traded interest rate derivatives trading activity was referenced to RFRs in August.

It's a similar story in Asia-Pacific. For example, a recent Hong Kong Monetary Authority (HKMA) survey of the Hong Kong banking sector showed that derivatives exposure to LIBOR had actually increased to HK$34.7 trillion in the six months to March 2020, with more than half of total LIBOR exposure due to mature after the end of 2021.

On a positive note, the HKMA noted that banks had made good recent progress in preparing for LIBOR cessation, and 61% now have a bank-wide transition plan in place versus 38% six months earlier.

We are delighted to have HKMA deputy CEO Howard Lee with us today, and I'm sure he will provide more context on transition in the territory.

While institutions in Asia-Pacific face many of the same challenges as those in the US and Europe when it comes to LIBOR, there are also some differences.

Asian jurisdictions have their own interbank rates as well – for example, the BBSW in Australia, HIBOR in Hong Kong, TIBOR in Japan and SOR in Singapore. Most of these benchmarks will continue to exist alongside alternative risk-free rates that have been identified in each of those jurisdictions.

One of the few exceptions is SOR in Singapore, as US dollar LIBOR is used an input for its calculation. If US dollar LIBOR is discontinued or is deemed non-representative after the end of 2021, this will therefore have a knock-on effect on SOR.

Consequently, the industry and regulators are working together to shift the cash and derivatives market to SORA.

We're very grateful to have Leong Sing Chiong from the Monetary Authority of Singapore with us for a fireside chat today, and we'll talk further about Singapore's approach.

I'll now turn briefly to benchmark fallbacks. As many of you know, ISDA has been working on a new fallback methodology to ensure robust alternatives would automatically take effect if an interbank offered rate is permanently discontinued or if LIBOR is determined by the UK Financial Conduct Authority to be non-representative.

We've made very good progress, and we'll soon launch a supplement that will update ISDA's standard interest rate definitions to incorporate the new fallbacks for derivatives.

Once the amendments come into effect – approximately two to 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.

While 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.

Thank you.