ISDA to Produce Comprehensive Analysis and Global Roadmap on Benchmarks Transition

NEW YORK, November 2, 2017 – The International Swaps and Derivatives Association, Inc. (ISDA) has announced that it has begun a comprehensive analysis of the issues and potential solutions related to transitioning financial market contracts and practices to new alternative risk-free rates (RFRs). The analysis will include a targeted global survey of buy- and sell-side firms and infrastructure providers to identify the means by which market participants can effectively implement regional benchmark transitions, as well as highlight possible challenges.

The new report will consider how interbank rates, or 'IBORs', are currently used across financial markets, including in derivatives, loans, bonds and mortgages. It will also explore potential adjustments required to transition from IBORs to RFRs for both new and existing contracts. This may include documentation issues, the potential for value transfer, threats to market liquidity, the requirement for term fixings and differences in credit spreads between existing and new rates, among other topics. In addition, the report will outline a roadmap of any identified solutions, along with a timeline for actions required to implement them.

"The transition away from IBOR rates to alternative RFRs will pose an unprecedented shift for the entire financial industry, from the derivatives to the mortgage sectors. Building on the public-private sector initiatives and the identified risk-free rates, ISDA will work at a global level to identify specific required solutions to enable the various transitions in different jurisdictions. Derivatives are used to hedge products across a variety of sectors, so it is fundamental that any potential solutions take into account the interconnectedness of the markets. Time is relatively short, so it's critical that the industry starts thinking about the issues now," said Scott O'Malia, ISDA's Chief Executive.

The report will include feedback and input from all sectors of the market, including banks, mortgage providers, asset managers, non-financial corporations, regulators, central banks and trade associations. A global consultancy firm will be commissioned to run the research, which is expected to be published in the first quarter of 2018.

ISDA serves as an observer to the key public-private sector risk-free rates working groups overseen by the Bank of Japan, Bank of England and US Federal Reserve. "Our market survey will build on the work conducted by these groups to establish a clear roadmap for transition. We will engage various market sectors to help them better understand both the challenges and solutions required to achieve a successful transition," said Mr. O'Malia.

Background

- Interbank rates such as LIBOR, EURIBOR and TIBOR (known collectively as IBORs) are floating rates based on the average rate at which an IBOR contributor bank can obtain unsecured funding in the interbank market for a given period in a given currency.
- As a result of alleged manipulation of IBORs and other financial benchmarks in the aftermath of the financial crisis, a series of reviews were published, starting with the Wheatley Review of LIBOR in the UK in September 2012.
- This was followed by a broader set of principles issued by the International Organization of Securities Commissions (IOSCO) in July 2013, and a further, more targeted report on interest rate benchmarks by the Financial Stability Board (FSB) in July 2014.
- The FSB's report noted that liquidity in the transactions underpinning certain of the IBOR rates had decreased to the extent that they are unable to support such a widely traded benchmark on a sustainable basis across all relevant tenors. The FSB therefore recommended transitioning to alternative RFRs.
- Individual working groups have been set up in several jurisdictions, including the UK (the Working Group on Sterling Risk Free Reference Rates), US (the Alternative Reference Rates Committee), Switzerland (the National Working Group on Swiss Franc Reference Rates) and Japan (the Japanese Study Group on Risk Free Reference Rates), to bring together public- and private-sector market participants to determine the most appropriate RFRs.
- In July 2017, the chief executive of the UK's Financial Conduct Authority (FCA), Andrew Bailey, announced that the FCA would no longer compel or persuade banks to provide submissions for LIBOR post-2021.
- The working groups have until now focused mainly on identifying the most appropriate alternative rates, but the FCA's announcement has prompted the industry to begin focusing on transition strategies for new and legacy contracts. In the US, the Alternative Reference Rates Committee has developed a paced transition plan, and intends to augment and expand that plan through additional proposals later this year.

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About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 875 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.