Benchmark Strategies Forum
April 13, 2021

Opening Remarks
Scott O'Malia, ISDA Chief Executive

Hello everyone, and welcome to the Benchmarks Strategies Forum. I'd like to take this opportunity to thank CME Group for supporting this event once again. I know CME is as passionate as we are about raising awareness on benchmark reform, so we're delighted to be able to work together again on this event.

It's more than a year since our first Benchmark Strategies Forum in London and New York, but a huge amount of progress has been made over that time. Most importantly, we now have clarity following the Financial Conduct Authority's (FCA) March 5 announcement, which effectively heralded the death of LIBOR. We know for sure which LIBOR settings will end on which date, and which tenors will become non-representative.

Given LIBOR's days are now well and truly numbered, I'll start my remarks by touching on the key dates for its termination. I'll then talk a bit about the implications for ISDA's new derivatives fallbacks.

First, the timetable for LIBOR's demise.

We now know that 24 LIBOR settings will completely cease immediately after publication on December 31, 2021. This includes all seven settings for both euro and Swiss franc LIBOR and four settings for both sterling and yen LIBOR. One-week and two-month US dollar LIBOR will also permanently cease at the same time.

In addition, the UK FCA announced that it will consult on requiring ICE Benchmark Administration (IBA) – the administrator of LIBOR – to continue publishing one-month, three-month and six-month sterling LIBOR on a non-representative, synthetic basis for a further period after the end of 2021. It will also consult on requiring IBA to continue publishing one-month, three-month and six-month yen LIBOR on a non-representative, synthetic basis for an additional year after the end of 2021.

The timing for the remaining five US dollar settings differs from the rest, however. Publication of overnight and 12-month US dollar LIBOR will cease for good immediately after publication on June 30, 2023. The FCA has also said it will consider whether to require IBA to continue publishing one-month, three-month and six-month US dollar LIBOR on a non-representative, synthetic basis for a further period after end-June 2023.

The mid-2023 end date for most US dollar LIBOR settings means a large chunk of existing positions will roll off naturally, but firms shouldn't assume they can take their foot off the pedal. In fact, US regulators have made clear they expect US-regulated firms to stop using US dollar LIBOR for new trades after the end of 2021, subject to a few exceptions.

The UK FCA has also suggested it could heavily restrict new use of US dollar LIBOR after end-2021 under proposed new powers set out in the Financial Services Bill. More broadly, it has said that use of synthetic LIBOR by UK regulated firms will not be permitted for new trades, and use of synthetic LIBOR in legacy transactions will be subject to permission from the FCA.

In other words, derivatives users still need to prepare to use alternative reference rates for most new transactions by the end of this year, irrespective of which LIBOR they use.

We're delighted to have the FCA's Edwin Schooling Latter with us today, so I'm sure we'll hear more about the FCA's proposed approach to new LIBOR use.

I'd now like to briefly explain what the LIBOR timetable means for ISDA's new derivatives fallbacks.

As most of you know, the new fallbacks came into effect on January 25 this year. So far, more than 13,700 entities globally have adhered to an ISDA protocol that allows firms to incorporate the fallbacks into existing derivatives linked to LIBOR and other key interbank offered rates (IBORs).

This means a large portion of the derivatives market now has a vital safety net based on a consistent, robust and transparent methodology, which will automatically take effect if an IBOR ceases to exist or, in the case of LIBOR, becomes non-representative. This significantly reduces the systemic risk of a cessation event occurring while firms continue to have exposure to these rates.

Under the new methodology, the fallbacks are based on risk-free rates (RFRs), which are adjusted via a spread to reflect a portion of the structural differences between IBORs and RFRs. The intention of the spread adjustment is to reduce the chance of contracts originally based on IBOR diverging too far from counterparties' original expectations after the fallbacks take effect.

This spread is fixed at the point the relevant IBOR administrator, the administrator's regulator or another defined authority announce that an IBOR setting will cease or, in the case of LIBOR, the FCA announces a setting is or will be deemed non-representative.

Given the FCA statement covered all 35 LIBOR tenors, this means the spread adjustment for all settings was fixed as soon as that announcement was made – and those spreads are available on the Bloomberg and ISDA websites.

This means market participants now have more information about the fallback rates that will apply across all currencies and tenors, which should help with transition planning.

The fallbacks themselves will automatically take effect for remaining derivatives contracts referencing euro, sterling, Swiss franc and yen LIBOR on the first London banking day on or after January 1, 2022.

For outstanding derivatives that continue to reference US dollar LIBOR, the fallbacks will automatically apply on the first London banking day on or after July 1, 2023.

So, we now have clarity on the timing for LIBOR and more information on the fallback rates that will apply. We should all now calibrate our transition plans accordingly. If you haven't yet adhered to the ISDA protocol, I'd encourage you to do that. We know there's only eight months before 24 LIBOR settings disappear for good and another six become non-representative. Time is short, and firms should use it wisely.

Thank you.