ISDA Safe, Efficient Markets

Benchmark Strategies Forum: A Post-LIBOR World
March 22, 2022
Opening Remarks
Scott O'Malia, ISDA Chief Executive

Hello, and welcome to our first Benchmark Strategies Forum of 2022. I'd like to thank CME Group for continuing to support this event. I'd also like to thank our speakers and all of you for joining us today.

Just a few months ago, we experienced one of the biggest changes ever to occur to financial markets – the shift away from 30 LIBOR settings. This change affected hundreds of trillions of dollars worth of financial contracts, yet it was achieved without any serious market disruption.

That was by no means guaranteed back in 2017, when it first became clear that LIBOR could end. The fact this was accomplished relatively smoothly is testament to the close cooperation and coordination between the public and private sectors, and the strong determination of regulators, central banks, financial institutions and market infrastructures to meet the end-2021 deadline.

But we're not finished yet.

Five US dollar LIBOR settings will continue to be published on a representative basis until the end of June 2023. Other interbank offered rates (IBORs), potentially including Canada's CDOR, are also expected to be phased out over the coming years, which will require close industry attention.

We may have crossed a really important hurdle, but there's still plenty of work to be done.

In my remarks today, I'll summarize the progress made to date. I'll then briefly turn to the important work ahead of us.

When it comes to progress, the facts speak for themselves. Euro and Swiss franc LIBOR no longer exist. Two US dollar LIBOR tenors have been discontinued, along with four each of sterling and yen LIBOR. Synthetic LIBOR rates are available for the remaining sterling and yen settings, but they are not intended for use in new trades. All in all, 24 LIBOR settings have permanently ceased and a further six are only available in non-representative, synthetic form as a solution for tough legacy contracts.

A variety of factors contributed to this: the clear roadmaps for transition set by industry working groups, the development of legislative solutions to tackle tough legacy contracts, and the mass conversion of all cleared swaps linked to euro, sterling, Swiss franc and yen LIBOR to risk-free rates (RFRs).

A big part of the solution for the derivatives market was ISDA's work to develop robust contractual fallbacks. More than 15,200 entities across the globe have now adhered to

ISDA's 2020 IBOR Fallbacks Protocol, which allows firms to incorporate the fallbacks into existing non-cleared derivatives. This widespread adoption meant viable alternatives based on RFRs automatically took effect for most non-cleared derivatives that continued to reference those 30 LIBOR settings after December 31, significantly reducing the potential for disruption. These fallbacks also formed the basis for the central counterparty conversions of cleared LIBOR derivatives last year.

Attention now turns to the remaining five US dollar LIBOR settings, but there has been good progress there too. The 'SOFR first' strategy devised by the Commodity Futures Trading Commission's Market Risk Advisory Committee has been instrumental in driving up SOFR volumes in recent months. According to analysis by ISDA and Clarus, 33.4% of total cleared over-the-counter (OTC) and exchange-traded interest rate derivatives DV01 was linked to RFRs last month, up from just 5% in February 2021.

Multiple regulators, including those in the US, have also made clear that regulated institutions should no longer enter into new US dollar LIBOR trades except in limited circumstances, massively reducing the flow of new inventory.

Just last week, a vital step was taken to fix tough legacy contracts in the US with the passing of new legislation that will allow US dollar LIBOR in certain legacy contracts to be replaced with an alternative rate if no workable fallback exists. This is a really important piece of the transition puzzle and will go a long way to reducing the potential for systemic risk after end-June 2023.

As is clear, a lot has been done – but there is still more to do.

While SOFR volumes have climbed steeply, it's vital we maintain that momentum, both in OTC and exchange-traded markets. The SOFR first initiative was successful by changing trading conventions in the interdealer market for linear US dollar swaps, cross-currency swaps and non-linear derivatives from LIBOR to SOFR, but we need to think about how to encourage participants in other market segments and geographies to switch from US dollar LIBOR as well.

For our part, we will continue with outreach and education initiatives to support adoption of alternative rates, with a focus on ensuring US dollar LIBOR hedging markets have the tools they need as solutions in the cash markets continue to develop.

Another focus will be the transition of legacy LIBOR portfolios. For existing LIBOR-linked derivatives, the ISDA fallbacks will likely play an important role here, just as they did for the other 30 LIBOR settings. The 2020 IBOR Fallbacks Protocol remains open for adherence, and I'd strongly encourage you to consider adhering if you haven't already.

For those that have already adhered, take the time to fully understand how the fallbacks work, how they differ from market standard conventions and when they will take effect. For those looking for more information, there is plenty of material about this on our website.

It's important to remember that this work doesn't stop with the cessation of US dollar LIBOR. Other IBORs may also be phased out over the coming years. For example, the Canadian Alternative Reference Rate working group has recommended that all CDOR tenors cease after the end of June 2024 – although the decision ultimately lies with Refinitiv Benchmark Services Limited as the administrator of CDOR.

On this point, it is worth reminding everyone that the 2020 IBOR Fallbacks Supplement and protocol cover multiple IBORs, including CDOR, Australia’s BBSW and Singapore’s SOR. We also published an additional supplement and protocol at the end of last year to extend coverage to IBORs in India, Malaysia, New Zealand, Norway, the Philippines and Sweden, ensuring a robust replacement based on RFRs would automatically take effect if any of the IBORs in those jurisdictions permanently ceases to exist.

We have a panel later today that will explore the next steps for benchmark reform and the work being done to establish alternatives to other IBORs and swap rates. But we’re going to start the event by looking at the progress and remaining challenges in US dollar LIBOR transition.

Thank you.