ISDA Safe, Efficient Markets

ISDA Publishes Preliminary Results of Supplemental Benchmark Fallbacks Consultation

NEW YORK, July 30, 2019 – The International Swaps and Derivatives Association, Inc. (ISDA) has today published a statement summarizing the preliminary results of a supplemental consultation on adjustments that would apply to fallback rates in the event certain interbank offered rates (IBORs) are permanently discontinued.

The supplemental consultation was launched in May, and set out options for spread and term adjustments if fallbacks are triggered for derivatives referencing US dollar LIBOR, Hong Kong's HIBOR and Canada's CDOR. Feedback was also sought on a proposed fallback for Singapore's SOR following a permanent cessation of US dollar LIBOR, given US dollar LIBOR is currently used as an input to calculate the Singapore rate.

The full ISDA statement is available on the ISDA website.

The supplemental consultation follows a similar exercise last year that covered sterling LIBOR, Swiss franc LIBOR, yen LIBOR, yen TIBOR, euroyen TIBOR and the Australian Bank Bill Swap Rate.

"Once finalized, the results of this consultation will enable us to further progress in our work to develop and implement robust fallbacks for derivatives. As a next step, ISDA will publish a further consultation on the final parameters of the adjustments, with the aim of publishing amendments to the ISDA definitions by the end of this year. This will go a long way to reducing the systemic threat posed by a permanent discontinuation of an IBOR," said Scott O'Malia, ISDA's Chief Executive.

ISDA hopes to publish additional information – including anonymized and aggregated responses to the consultation – in August.

View the preliminary results of the supplemental consultation here.

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Background:

- In July 2016, the Financial Stability Board's Official Sector Steering Group (FSB OSSG) asked ISDA to participate in work to enhance the robustness of derivatives contracts referencing widely used benchmarks.

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- The FSB's objectives were for market participants to understand the fallback arrangements that would apply if key IBORs were permanently discontinued, and for the arrangements to be robust enough to prevent potential serious market disruption.

- If an IBOR is not available (including if it is permanently discontinued), current fallbacks under the 2006 ISDA Definitions require the calculation agent to obtain quotes from major dealers in the relevant interdealer market. If an IBOR has been permanently discontinued, it is likely that major dealers would be unwilling and/or unable to give such quotes. Even if quotes were available in the near-term after a permanent discontinuation, it is unlikely they would be available for each future reset date over the remaining tenor of long-dated contracts. It is also likely that quotes could vary materially across the market.

- Following consultation with industry participants, regulators and the FSB OSSG, it was determined that the fallbacks for derivatives will be the risk-free rates (RFRs) identified by the relevant public-/private-sector working groups as an alternative to the IBORs.

- These RFRs will be adjusted when a fallback is triggered to ensure legacy derivatives contracts referenced to an IBOR continue to function as close as possible to what was intended. The adjustments reflect the fact that the IBORs are available in multiple tenors – for example, one, three, six and 12 months – but the RFRs are overnight rates. The IBORs also incorporate a bank credit risk premium and a variety of other factors (such as liquidity and fluctuations in supply and demand), while RFRs do not.

- The ISDA fallbacks will be included in the 2006 ISDA Definitions for interest rate derivatives and will apply to new IBOR trades. ISDA will also publish a protocol to allow participants to include the fallbacks within legacy IBOR contracts, if they choose to.

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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 900 member institutions from 71 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. Follow us on Twitter @ISDA.