ISDA Safe, Efficient Markets

ISDA Publishes Preliminary Results of Benchmark Consultation

NEW YORK, November 27, 2018 – The International Swaps and Derivatives Association, Inc. (ISDA) has today published a statement summarizing the preliminary results of a consultation on technical issues related to new benchmark fallbacks for derivatives contracts that reference certain interbank offered rates (IBORs).

The consultation, which was launched in July, covered the proposed methodologies for certain adjustments that would apply to the fallback rate in the event an IBOR is permanently discontinued. The full ISDA statement is available on the ISDA website, along with additional information about the consultation.

"The development of robust contractual fallbacks for derivatives that reference LIBOR and other key IBORs is critical to ensure financial stability in the event an IBOR ceases to exist. We are very pleased with the breadth of responses for our consultation," said Scott O'Malia, ISDA Chief Executive.

ISDA intends to publish additional information – including an anonymized and aggregated summary of responses to the consultation – by the end of December.

Background

- ISDA has been leading an industry effort to implement robust fallbacks for derivatives contracts referenced to certain IBORs since 2016, at the request of the Financial Stability Board's Official Sector Steering Group (FSB OSSG). 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.

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- Following consultation with industry participants, regulators and the FSB OSSG, the fallback rates will be the risk-free rates (RFRs) identified as alternatives for the relevant IBORs as part of global benchmark reform efforts. These fallbacks will be included in the 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.

- 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 adjustments to the RFRs are intended to ensure legacy derivatives contracts referenced to an IBOR continue to function as close as possible to what was intended if a fallback takes effect.

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About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 70 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.