



Global IBOR Transition Survey

Webinar to discuss the results

22 October 2019

IBOR Transition - Overview

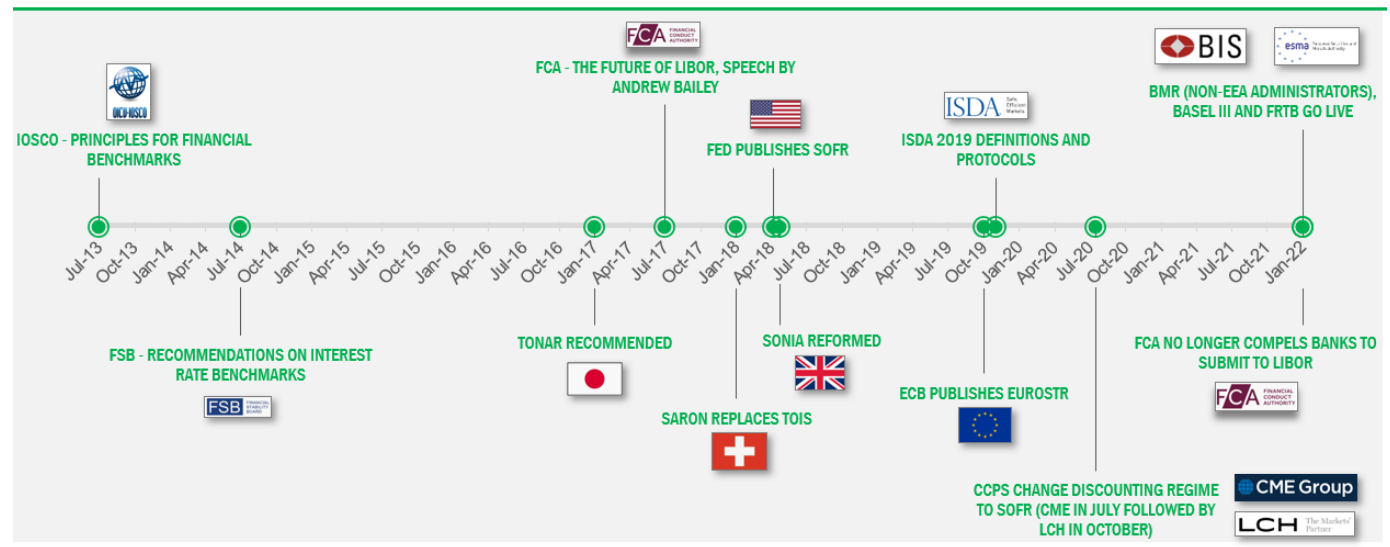
With only a few years to go before the end of 2021 and a potential cessation of LIBOR publication, most jurisdictions have taken steps to select and create new benchmarks to transition away from LIBOR

Liquidity in OTC derivatives markets is starting to build for SOFR, although limited to linear instruments at this stage. Out of all new RFRs, SONIA seems to be ahead with a well-established market for swaps and basis swaps

“You can’t assume that LIBOR will be there after the end of 2021. So don’t plan on the basis that you can go on as before because either it won’t be there or what will be there will, frankly, not be what’s there today.” - *Andrew Bailey, SIFMA LIBOR Transition Briefing, July 15*






Why is the Industry Moving Away from LIBOR?

- The reliability and representativeness of current IBOR benchmarks has been questioned increasingly since the last global financial crisis (risk of manipulation, lack of liquidity in interbank unsecured markets)
- To remedy this, global markets have taken steps to create or reform existing benchmarks to comply with new regulations. These new benchmarks are commonly referred to as Risk Free Rates (RFRs) because they are typically overnight and as such can be considered (almost) risk-free



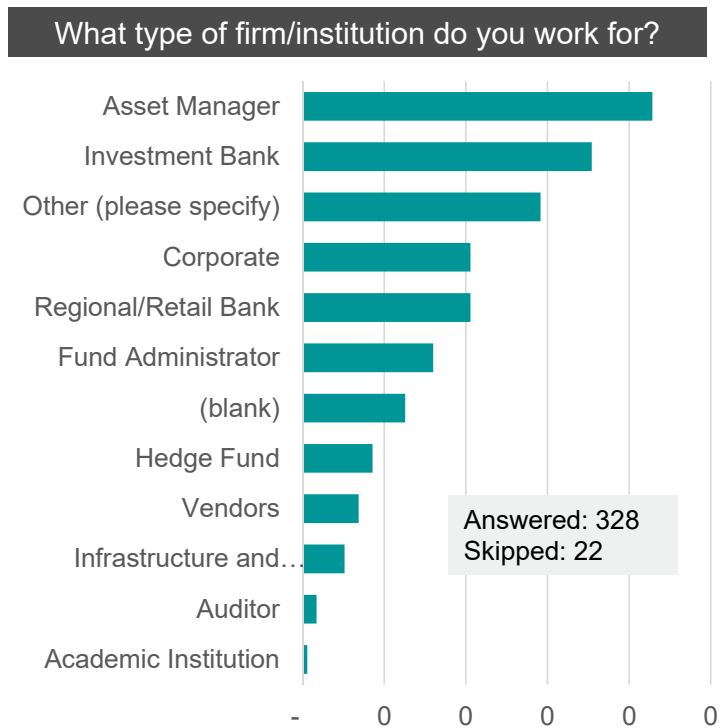
A Not So Harmonized Picture...

- Although all new RFRs are overnight benchmarks, they differ in terms of their calculation methodology
- SOFR and SARON are secured rates, based on repo transactions whereas SONIA, EuroSTR and TONAR are reflective of the unsecured cost of funding in the overnight market
- These are fundamental differences that industry participants must incorporate in their pricing and risk management decisions

Jurisdiction	RFR	Working Group	Secured	Data Sources	Term Rate	Liquidity in OTC derivatives
	SOFR	Alternative Reference Rate Committee (ARRC)	Yes	Tri-Party, GCF and FICC bilateral repos (DTCC, BoNY Mellon)	Anticipated 2020	Starting to build
	SONIA	Working Group on Sterling Risk Free Rates	No	Modified SONIA rate	Anticipated 2019	Liquid
	EuroSTR	Working Group on Risk Free Rates for Euro Area	No	O/N unsecured wholesale deposits (MMSR)	Anticipated TBD	No derivatives trading
	TONAR	Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks	No	Money Market brokers	TBD	Limited derivatives trading
	SARON	National Working Group on CHF Reference Rates	Yes	Interbank repos	TBD	Limited derivatives trading

Survey - Thank you for participating!

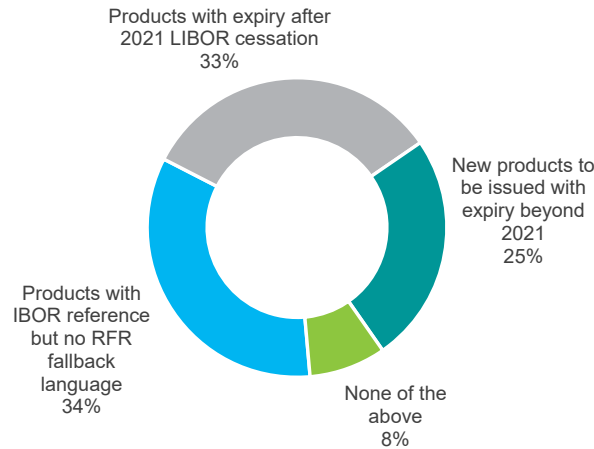
350 participants from all corners of the industry: asset managers, investment banks, regional banks, corporates, buy-side firms, etc.



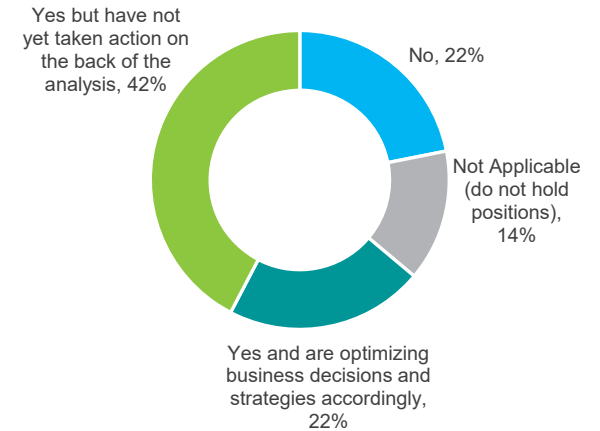
Understanding your firm exposure, fallback language and what is in your contract?

- Legacy trades – understanding current exposure and what fallback language exists in legacy products
- New trades – ensure strong fallback language is in place to limit value transfer and litigation risk
- Derivatives products – ISDA Definitions & revised fallback language
- Loans – LSTA consultations
- Bilateral loan and financing agreements
- Fallback differences across jurisdictions
- Technology challenges with downstream implications

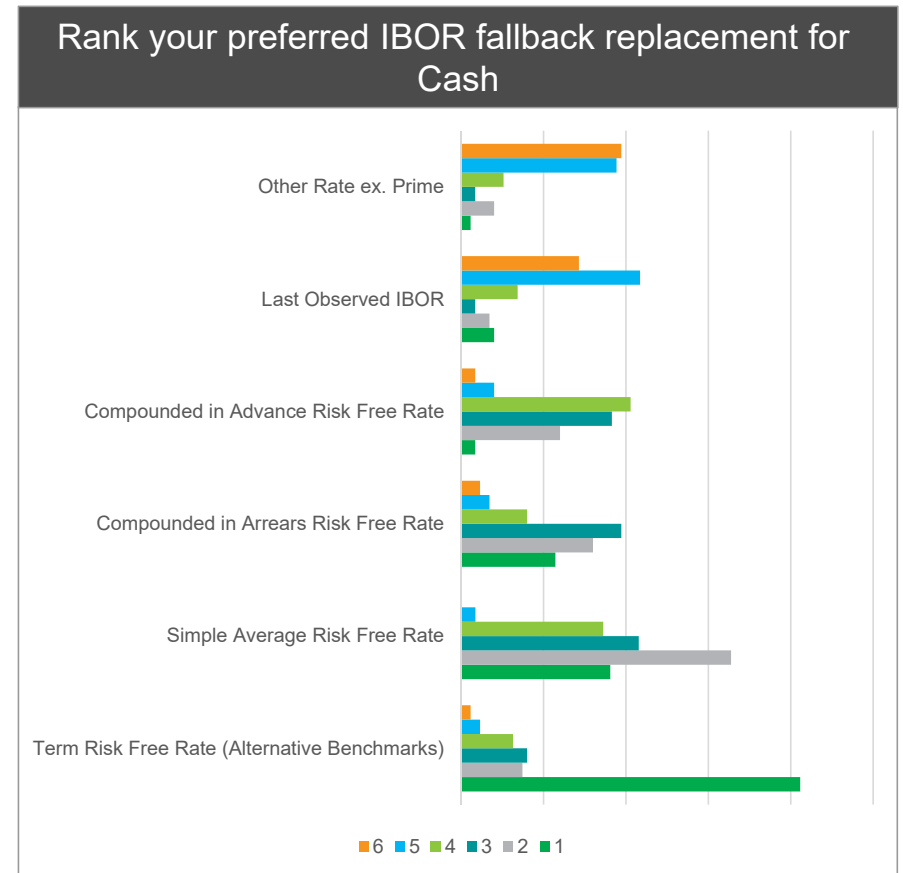
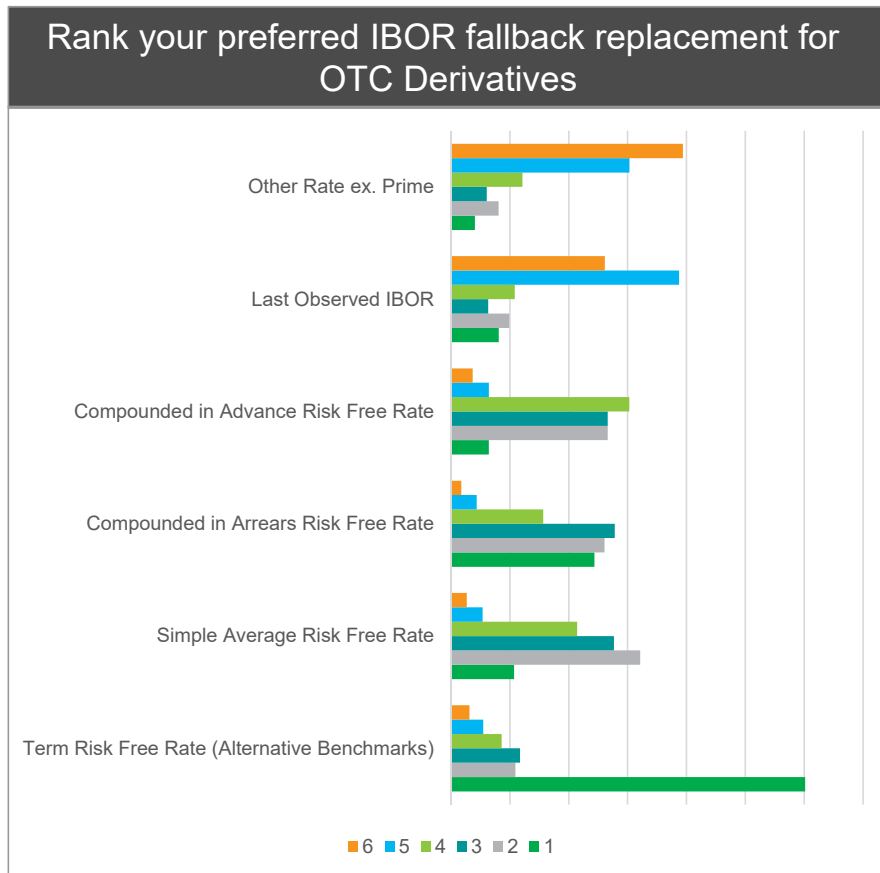
Which products are currently in focus for your firm?



Survey: Have you performed an inventory of your IBOR portfolio?



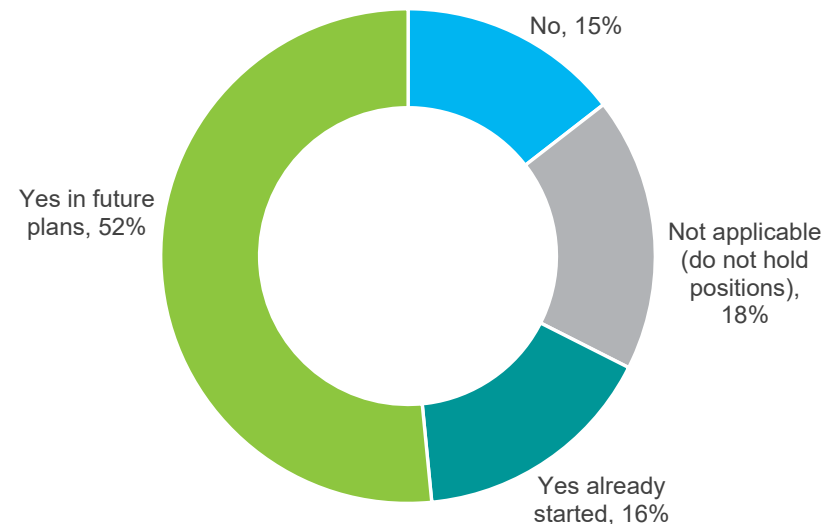
Preferences for IBOR fallbacks – Derivatives and Cash



Risk mitigation, what should you do in the next few years?

- Post inventory of IBOR exposure, decision making in terms of handling the transition depends on:
 - > Liquidity in new RFRs, data observability
 - > Availability of strong and standardized fallback language
 - > Concentration risk and cost of replacing or novating IBOR positions
 - > Cost of handling operational aspect of the transition, legal, contract repapering
- Timing is critical
 - > A long dated IBOR financial instrument (expiring post 2021) is unlikely to be based on IBOR post cessation date
 - > This means that value and risk transfer has, is and will continue to happen between today and IBOR cessation date
 - > Data availability and price discovery will be critical in the new benchmark space

Do you plan to perform a PV or pricing impact assessment of trades/holdings for the IBOR transition?

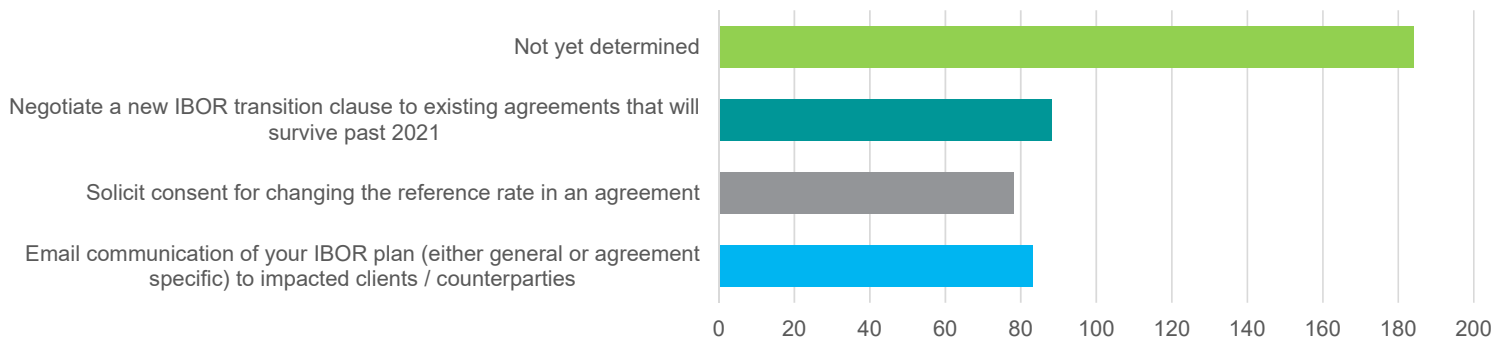


Readiness, client education, communication

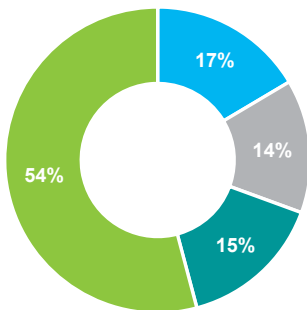
- The IBOR transition is a multi-faceted and multi-year project
 - > Communication to internal and external stakeholders is key
 - > If one piece of the puzzle is missing, the whole transition plan is at risk
 - > It is important to make informed decisions starting today (or even yesterday!)
- End user and retail client communication is critical in managing the transition
 - > If not, this could have a ripple effect and impact the pace of the transition plan
 - > Do firms have a client communication and engagement plan?



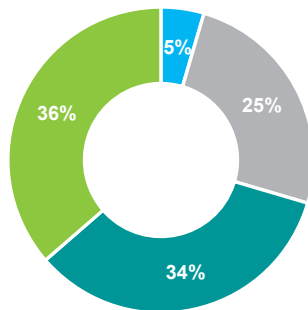
Do you plan to take the following actions as part of your IBOR transition plan?



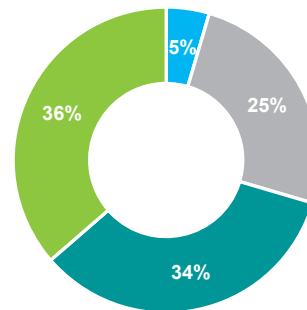
Asset Manager:



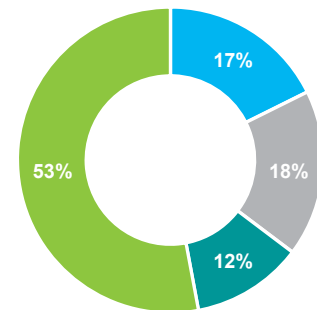
Corporate:



Investment Bank:



Hedge Fund:



Thank you.

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