NEWS RELEASE
25 June 2018

AFME, ICMA, ISDA, SIFMA and SIFMA AMG Publish Global Benchmark Report

25 June 2018 – The Association of Financial Markets in Europe (AFME), International Capital Market Association (ICMA), International Swaps and Derivatives Association, Inc. (ISDA), and the Securities Industry and Financial Markets Association (SIFMA) and its asset management group (SIFMA AMG) have published a new report that assesses the issues involved with benchmark reform, and makes recommendations on steps firms can take to prepare for the transition from interbank offered rates (IBORs) to alternative risk-free rates (RFRs).

The report, which was based on a survey of 150 banks, end users, infrastructures and law firms in 24 countries, shows that:

- There is a gap between high levels of awareness of benchmark reform and concrete steps being taken to transition from the IBORs to alternative RFRs.
- Several key issues are identified as being important for a successful and orderly transition, including the need for market participants to develop new cash products and liquidity in derivatives and futures referencing the RFRs. Corporate and financial end users believe a forward-looking term structure for the RFRs is necessary.
- There is an appetite for regular, globally coordinated information from the RFR public-/private-sector working groups, as well as further clarity on the preferred end state for each IBOR.

"This is a timely report. In Europe, there are €1.2 trillion of outstanding securitizations, many of which are linked to an IBOR and will revert to a fixed rate if this IBOR ceases to exist before the maturity of the bond, causing significant changes to future cash flows. To avoid this and ensure that the transition to new risk-free rates is smooth and minimizes disruption for market participants, we need to ensure we are actively engaged with authorities, trade associations and our members to raise awareness and work towards solutions," said Simon Lewis, AFME Chief Executive.

"This comprehensive global benchmark survey is an important step forward in raising the level of awareness in international financial markets about the transition to risk-free rates. It provides a helpful assessment of the challenges faced by market participants as they deal with this fundamental change to market structure," said Martin Scheck, ICMA Chief Executive.

"The transition from the IBORs to alternative RFRs will have an impact across financial markets – from derivatives to bonds to mortgages. It's vital that firms commit resources and begin their transition planning initiatives. Our report sets out a number of steps that institutions can take to prepare. Given the scale of the task, this implementation checklist should be adopted now," said Scott O'Malia, ISDA's Chief Executive.

"We need to prepare the market to transition away from reliance on LIBOR, and to ensure that both the cash and derivatives markets remain liquid and resilient when there is a move to new reference rates. By laying the foundation now, through efforts such as the Transition Roadmap published earlier this year and the survey that is the basis for today's report, along with participation with the Alternative Reference Rates Committee (ARRC), we are working to raise awareness, identify exposures and prepare for a smooth transition," said Kenneth E. Bentsen, Jr., SIFMA president and CEO. "SIFMA and SIFMA AMG agree it is crucial to try to strive for consistency across geographical regions, product segments and market participants to both avoid fragmentation in global markets and permit the most effective risk management.

Benchmark Transition Awareness and Preparation

Awareness of benchmark transition issues is relatively high, with 87% of respondents concerned about their exposure to the IBORs. Most survey participants expect to adopt RFRs, with 78% stating they intend to trade them within the next four years.

However, preparations are at an early stage. While more than half of survey respondents (53%) have commenced internal discussions on the transition to alternative RFRs, a much smaller proportion is at the stage of allocating budget (11%) or developing a preliminary project plan (12%).

Nearly a quarter of all survey participants have not yet initiated a program to support transition. Some segments of the market – notably corporates – are further behind, with just 30% having started internal discussions within their firms.

Key Transition Issues

Survey participants identified a number of key elements for achieving a successful transition to RFRs. These include widescale market adoption of the alternative RFRs (cited by 72% of respondents), and the need for market participants to develop liquidity in over-the-counter derivatives and futures referencing the RFRs (64%). Recent progress has been made in this area, with the launch of new futures contracts referenced to the reformed UK Sterling Overnight Index Average and the US Secured Overnight Financing Rate (SOFR).

Survey respondents also highlighted valuation and risk management issues (72%). These would primarily apply if market participants opt to amend legacy IBOR transactions to reference alternative RFRs while the relevant IBORs continue to exist.

The absence of forward-looking term fixings was cited as another key issue. The IBORs are currently available in multiple tenors – one, three, six and 12 months – but the RFRs are only available on an overnight basis. Term structures are considered important for certain types of products like floating rate notes, which are traded on the basis of known interest payments at the next interest payment date. Approximately 86% of survey participants believe a forward-looking term structure is required, with corporates and financial end users having the strongest views on the subject. The ARRC in the US has committed to creating a forward-looking term rate based on derivatives linked to SOFR, while the Working Group on Sterling Risk-Free Reference Rates is expected to launch a consultation on the issue shortly. Other public-/private-sector RFR working groups are also looking at this topic.

Communication and Timelines

The various RFR public-/private-sector working groups are recognized as a key source of information on benchmark transition. However, firms expressed a preference for regular, globally coordinated information and more clarity about the desired end state. The need for sufficient time to plan and implement transition was also highlighted, with respondents particularly concerned about compressed timelines in the European Union.

Transition Checklist

Alongside the survey results, the report includes a checklist of steps that firms can take to prepare for the transition to alternative RFRs. This includes:

- Mobilizing a formal IBOR transition program and allocating budget and staffing;
- Assessing exposure and the anticipated roll-off of IBOR exposures;
- Understanding the impact of a permanent cessation of an IBOR, reviewing fallback provisions within existing contracts and making amendments where necessary;
- Communicating with clients and counterparties early;
- Defining a transition roadmap for the organization.

Click here to read the full report.

Background

- Working groups have been set up in several jurisdictions, including the UK (the Working Group on Sterling Risk-Free Reference Rates), US (the ARRC), Europe (the Working Group on Euro Risk-Free Rates), Switzerland (the National Working Group on Swiss Franc Reference Rates) and Japan (the Japanese Study Group on Risk Free Reference Rates), to bring together representatives from both the public and private sectors to determine the most appropriate RFRs in the relevant currencies.

- This is in response to concerns that liquidity in the transactions underpinning certain of the IBORs has decreased to the extent that these rates are no longer sustainable across all relevant tenors.
- The selected alternative RFRs are reformed SONIA for sterling, SARON for Swiss franc, SOFR for US dollar and TONA for yen.
- In July 2017, the chief executive of the UK's Financial Conduct Authority (FCA), Andrew Bailey, announced that the FCA would no longer compel or persuade banks to provide submissions for LIBOR post-2021.
- On February 1, 2018, ISDA, AFME, ICMA, SIFMA and SIFMA AMG jointly launched a benchmark transition roadmap that aggregates and summarizes existing information published by regulators and various public-/private-sector RFR working groups in order to provide a single point of reference on the work conducted up until publication to select alternative RFRs and plan for transition.

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About AFME
AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU

About ICMA

ICMA is the trade association for the international capital market with over 530 member firms from 60 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, helping to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market. www.icmagroup.org

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 68 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, Twitter: @ISDA

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About SIFMA

SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the US, serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, DC, is the US regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

About SIFMA AMG

SIFMA's Asset Management Group (SIFMA AMG) brings the asset management community together to provide views on US and global policy and to create industry best practices. SIFMA AMG's members represent US and global asset management firms whose combined assets under management exceed $39 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.sifma.org/amg