

AFME Member Briefing

Phasing out IBORs: What does the transition to new risk-free rates mean for the industry?

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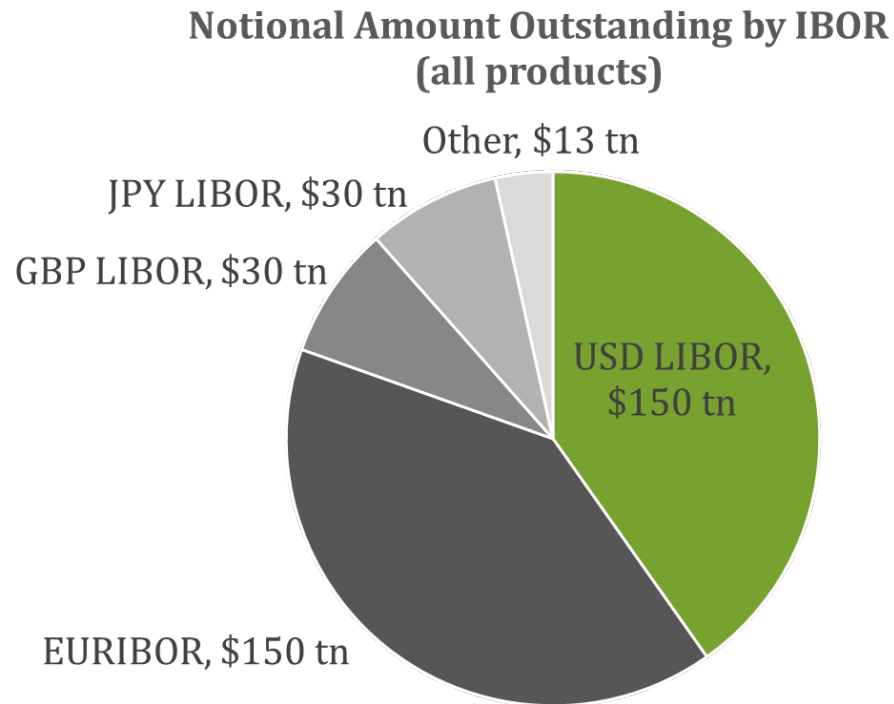
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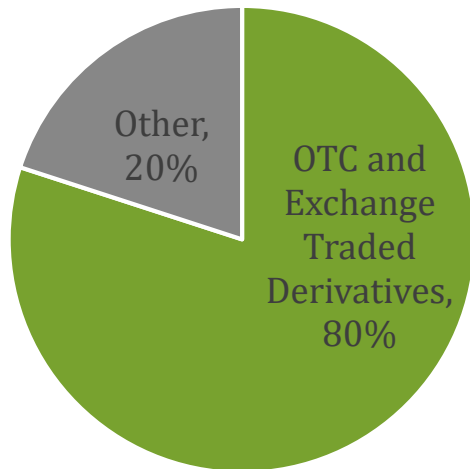
“Work must begin in earnest on planning transition to alternative reference rates that are based firmly on transactions”

Andrew Bailey, Chief Executive of UK FCA
27 July 2017



Typical contracts based on IBORs

% Notional Outstanding of
all financial contracts linked
to IBORs



- OTC derivatives: interest rate swaps, FRAs, cross-currency swaps.
- Exchange-traded derivatives: interest rate options, interest rate futures.
- Loans: syndicated loans, business loans, mortgages, credit cards, auto loans, consumer loans, student loans.
- Bonds and FRNs: corporate and non-US government bonds, agency notes, leases, trade finance, FRNs, covered bonds, capital securities, perpetuals.
- Short-term instruments: repos, reverse repos, time deposits, CDS, commercial paper.
- Securitisations: MBS, ABS, CMBS, CLOs and CMOs.
- Other: late payments, discount rates, overdrafts.
- **Around €2.5 trillion of bonds and FRNs and €1.2 trillion of securitisations linked to GBP LIBOR/EURIBOR outstanding**

Source: Market Participants Group on
Reforming Interest Rate Benchmarks and
AFME

Different regional approaches

| Jurisdiction | Current IBOR | Alternative RFR | Secured / unsecured | Published |
|--------------|--------------|--|---------------------|-----------------------------|
| Eurozone | EURIBOR* | ESTER (Euro short term rate) | Unsecured | Expected before 2020 |
| UK | GBP LIBOR | Reformed SONIA (Sterling overnight index average) | Unsecured | 24 th April 2018 |
| US | USD LIBOR | SOFR (Secured overnight financing rate) | Secured | 3 rd April 2018 |

*EUR LIBOR also used but to a much lesser extent

Sterling (Secretariat provided by Bank of England)

WORKING GROUP ON STERLING RISK FREE REFERENCE RATE (STEERING GROUP)

TECHNICAL
SUB GROUP

BOND
MARKETS

TECHNICAL
SUB GROUP

TERM
RATES

TECHNICAL
SUB GROUP

SYNDICATED
LOANS

TECHNICAL
SUB GROUP

PENSION
FUNDS &
INSURANCE
COMPANIES

SONIA
FUTURES

RFR
BUYSIDE
FORUM

RFR
BANKING
INDUSTRY
FORUM

RFR
CORPORATES
FORUM

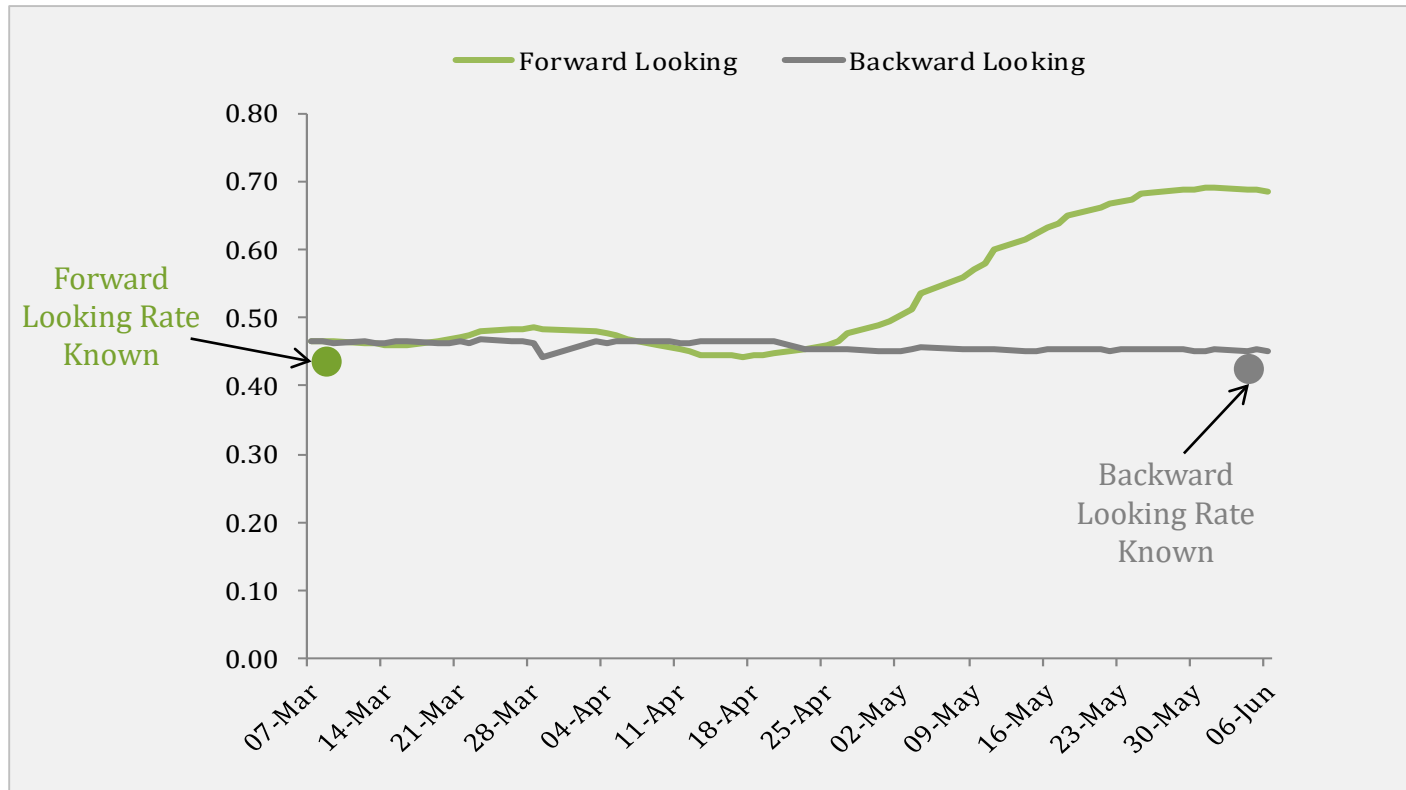
Euro (Secretariat provided by ECB)

WORKING GROUP ON EURO RISK FREE RATES (STEERING GROUP)

Subgroup on Term Rates

Subgroup on Contractual
Robustness

Practical issues arising for bonds: new issues and legacy deals



Source: Bloomberg

How is the market responding?

- Current documentation
- Attempts to address uncertainty in new transactions
- Legal issues for today
- Legacy transactions – what will happen?

As of 1 January 2018:

- Application of Benchmark Regulation 2016/1011 (“the BMR”)
- Fallbacks (Article 28.2 & ESMA Q&A)

Pre-1 January 2020:

- Benchmark users can continue to use existing benchmarks (Article 51.3)

Post-1 January 2020:

- Benchmark users can only use compliant benchmarks
- Relevant NCA decides on grandfathering of non-compliant benchmarks for use in legacy contracts if certain conditions are met (Article 51.4)

- Euribor and Eonia may be used for new and existing contracts until 1 January 2020
- Eonia will not evolve to compliance with BMR (EMMI) ⇒
Art 51.4 applies & new RFR + fall backs required
- Reformed Euribor (EMMI) ⇒ sustainability assessment not expected before Q1 2019 ⇒ FSMA authorisation needed by 1 January 2020
- Possible mitigating measures to avoid financial stability risks ?

- [Bank of England](#)
- [ECB](#)
- [US Alternative Reference Rates Committee](#)
- IBOR Global Transition Report (expected to be published shortly)

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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