



# Moving Away from LIBOR : *Upcoming Challenges for Capital Markets*

Alexandre Bon



Bank of Thailand – Oct 15th

# The GFC & LIBOR rigging scandal exposed 2 issues

## 1. Risks of manipulation

~70% of quotes based on “expert judgment”

## 2. Insufficient volumes of underlying transactions in the post-crisis environment

Less than **\$1 billion** of daily interbank loans support a **\$370 trillions** market

*i.e. ratio exceeding 350,000 to 1*

=



# How to solve this ?

## Principles of the reforms



Reform IBOR indices by making them transaction-based

Identify Alternative Reference Rates (ARR)

- Transparent & robust
- Transaction-based
- Preference for OIS, “credit-risk free” benchmarks (RFRs)

Facilitate the adoption of ARR in place of IBOR indices

- Promote a market-led transition
- Encourage the discontinuation of defective indices (IBORs, TOIS, EONIA...)
- Develop transition mechanisms





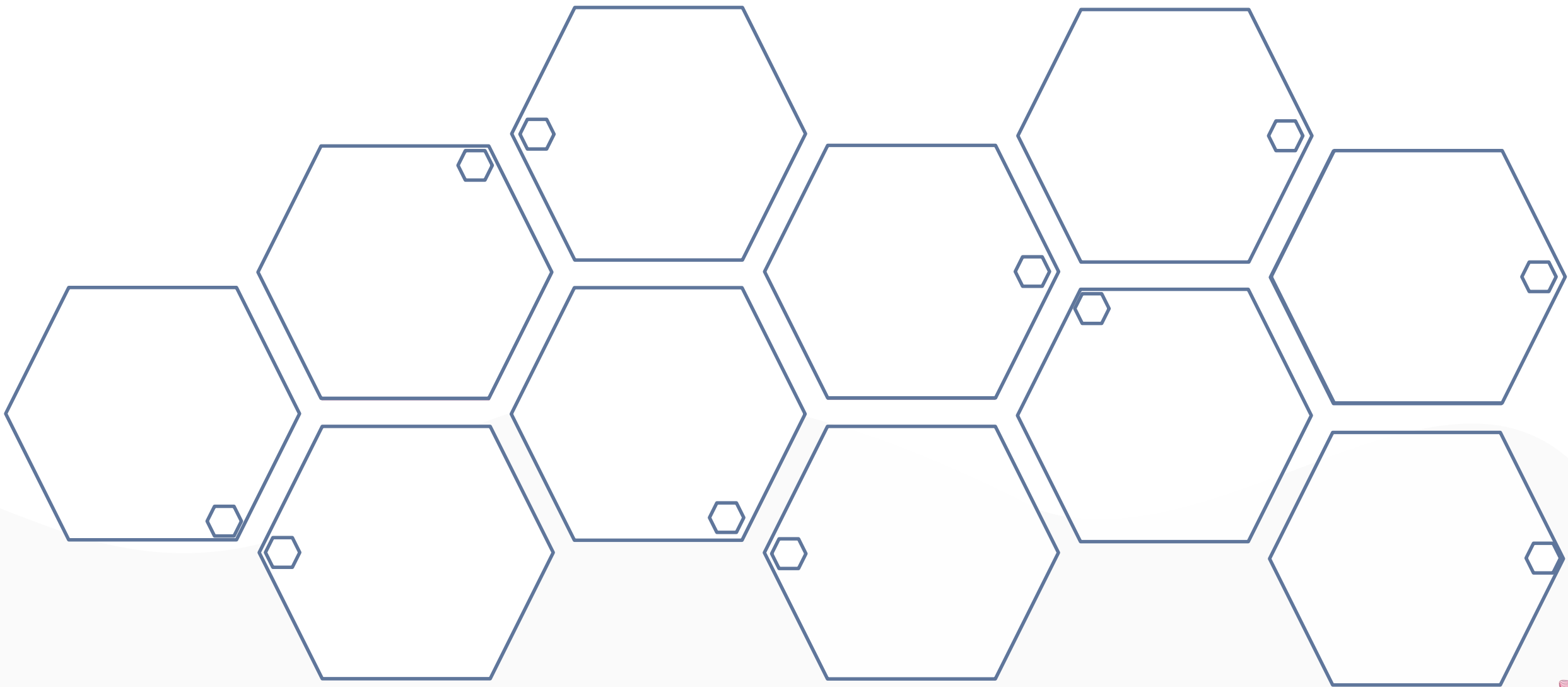
## Key challenges going forward

1. Achieving widespread adoption of RFRs across Markets & Business Lines
2. Are RFR forward-looking term rates required ?
3. Managing the back-book of LIBOR-referencing contracts : fallbacks & basis risks



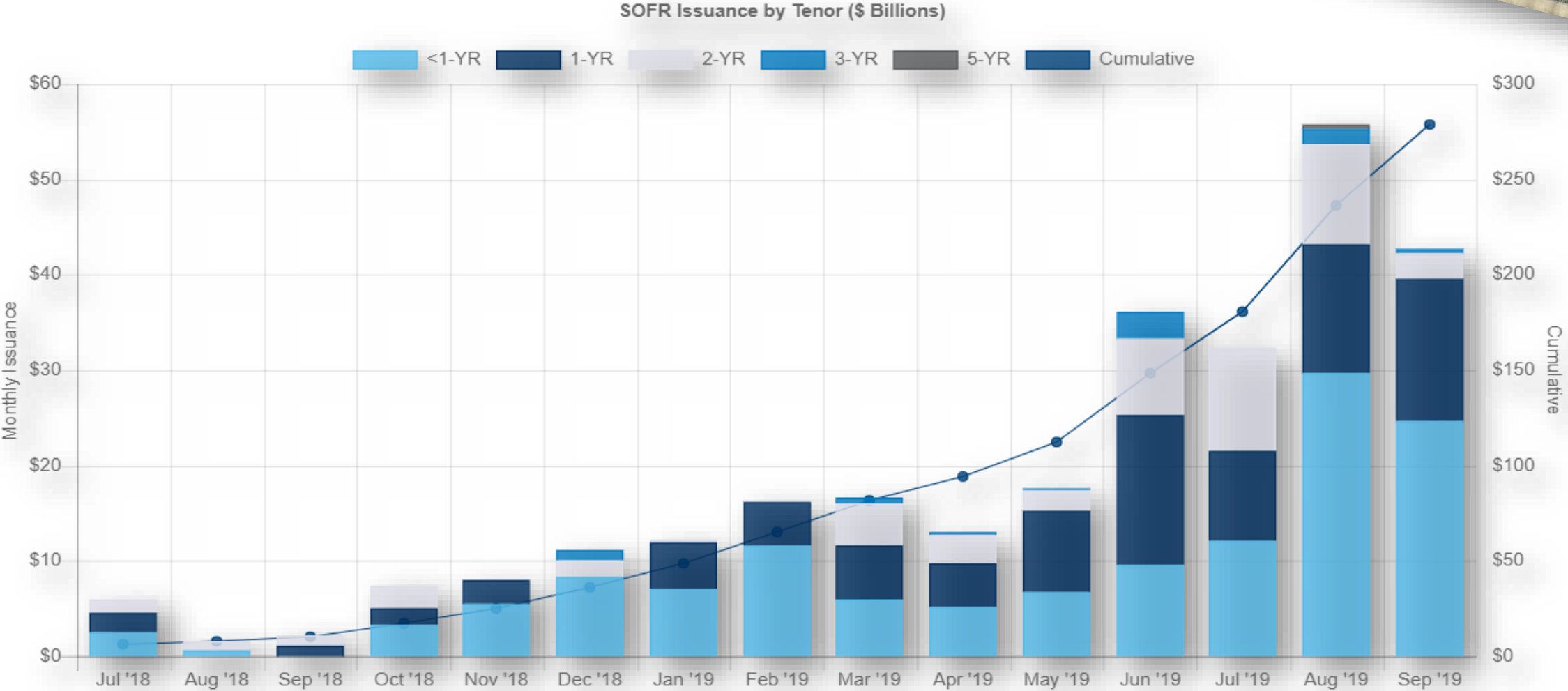


# How do we transition to a world without LIBOR?



# SOFR: the new kid on the block

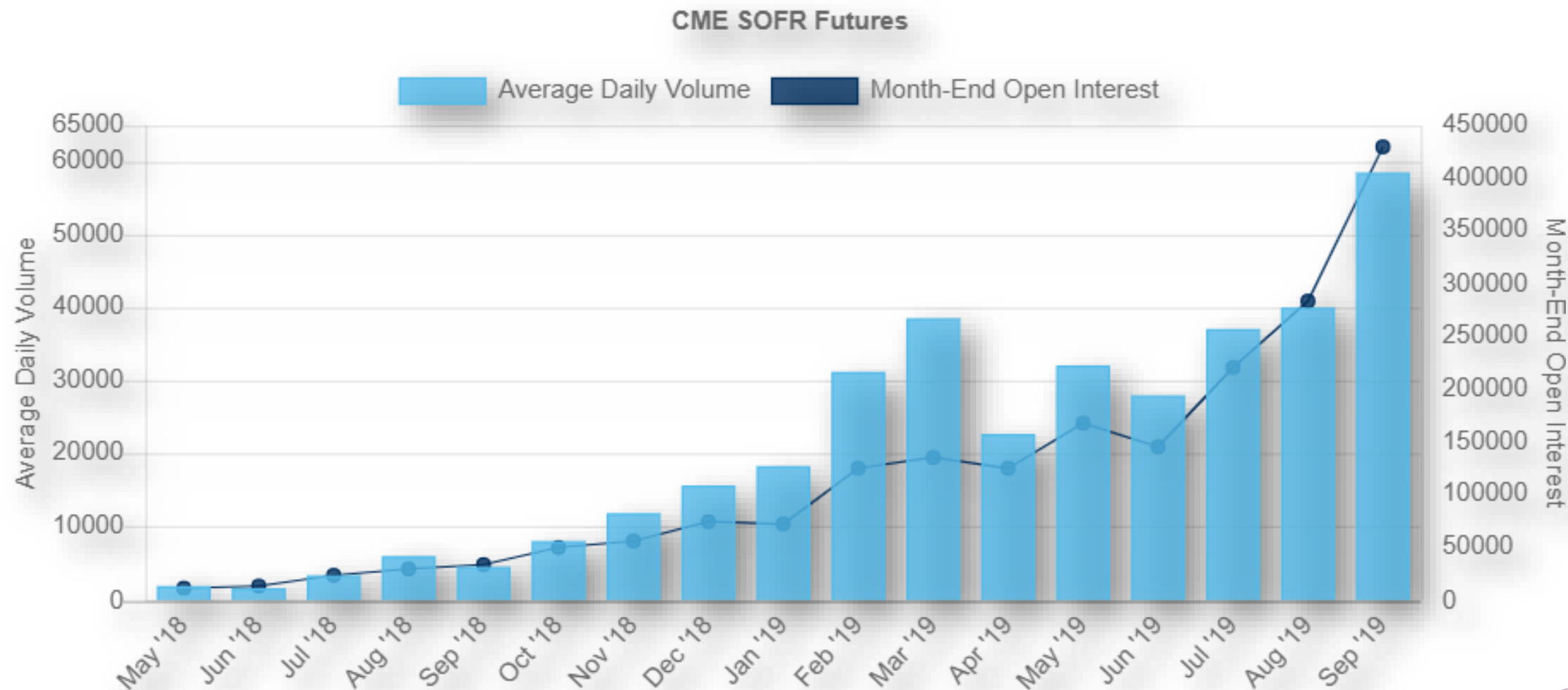
## SOFR FRN issuances to date



Source: Bloomberg & CME

# SOFR: the new kid on the block

## Futures open interest & volume

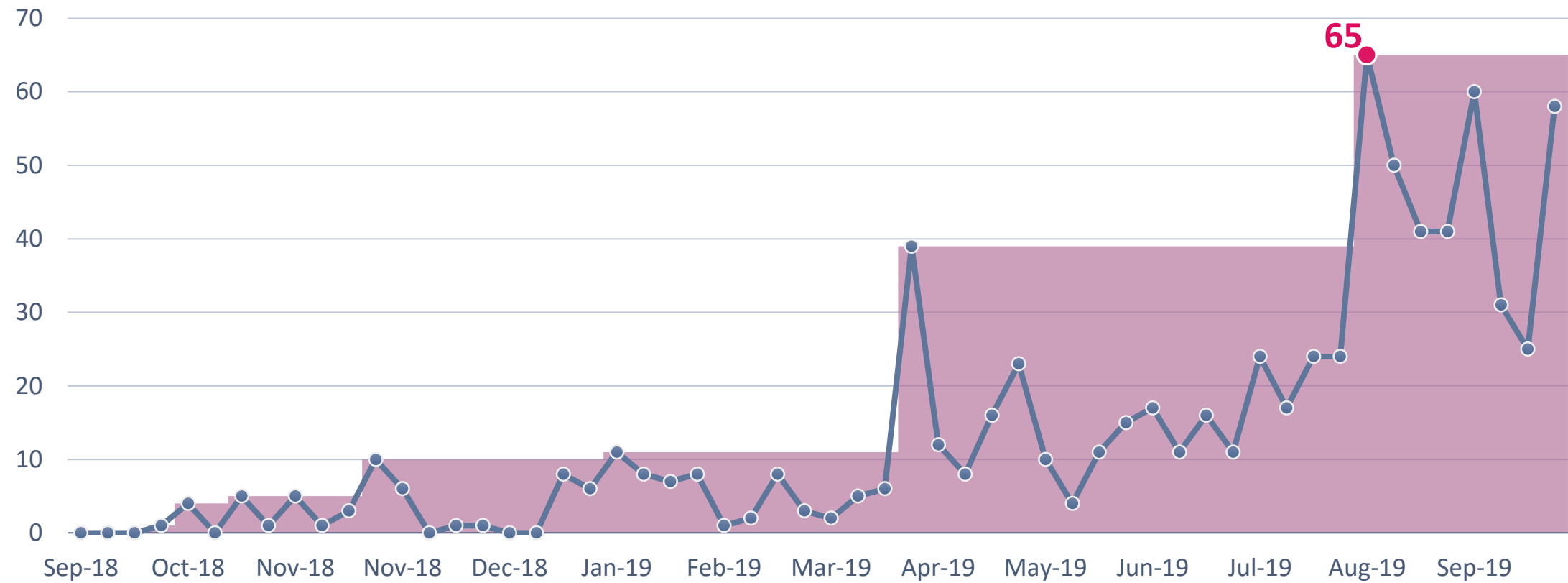


Source: CME

# OTC Markets:

## SOFR vs. LIBOR

SOFR SWAPS : WEEKLY TRADE COUNT



Source: ISDA SwapsInfo, compiled by Murex

Peak SOFR swaps



# OTC Markets: facing the Incredible Bulk

## SOFR vs. LIBOR

YTD Ending Sep 27	Notional (\$ Bn)	Trade Count
USD LIBOR	98,021	531,860
SOFR (Swaps & Basis Swaps)	213	728

Source: ISDA SwapsInfo



# SONIA

## Some encouraging developments

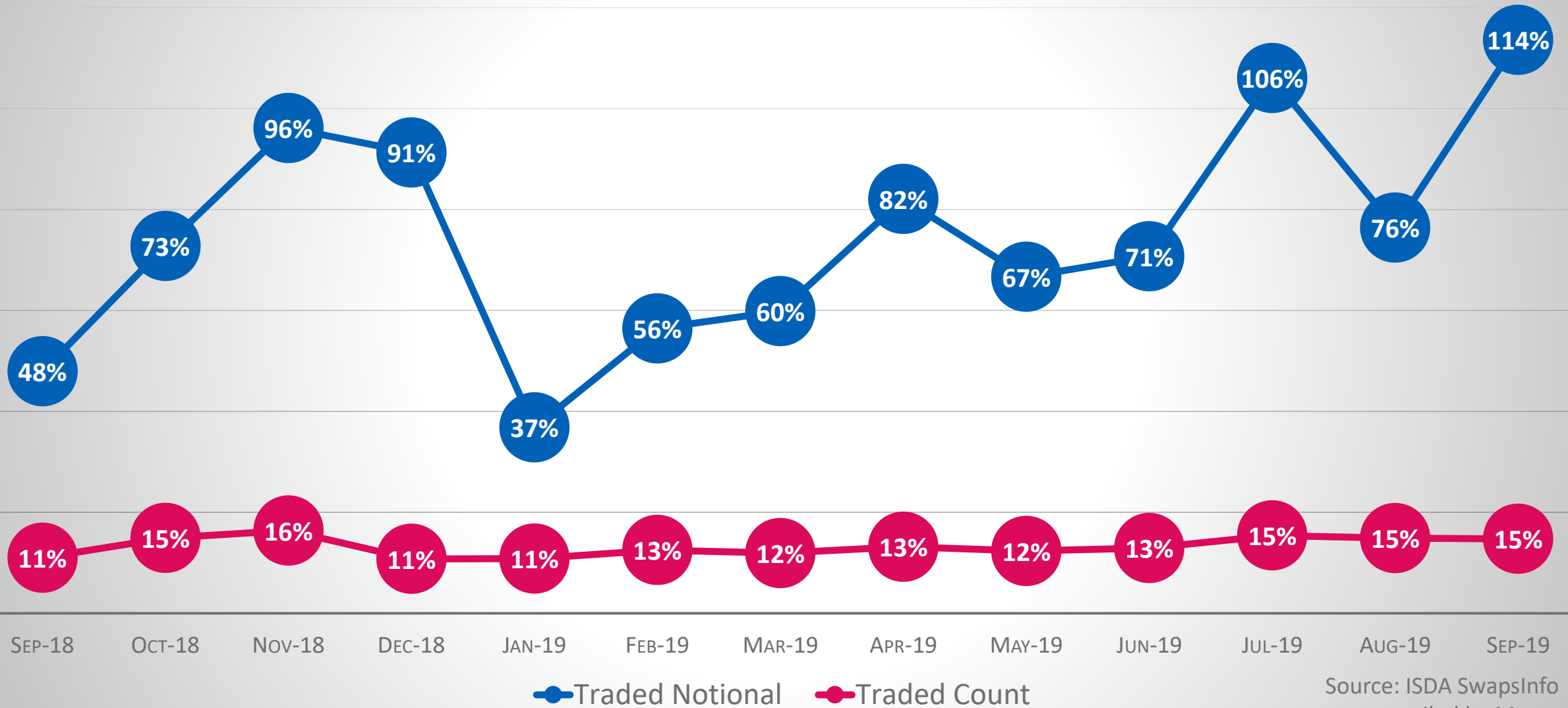
- Established in 1997
- BoE *Financial Stability Report – July, 2019*:
  - Used to value £30 trillion of assets each year
  - Over £18 billion of SONIA-linked FRNs maturing beyond 2021 vs. LIBOR issuances ceasing
  - 45% of GBP Cleared Swaps referenced SONIA in the 1<sup>st</sup> half of 2019



**“In sterling, products linked to (...) SONIA, have now been established in all key segments across cash and derivative markets, providing the necessary building blocks for a decisive shift away from Libor”**



# SONIA TO GBP LIBOR SWAP VOLUMES



Source: ISDA SwapsInfo  
compiled by Murex



BANK OF ENGLAND

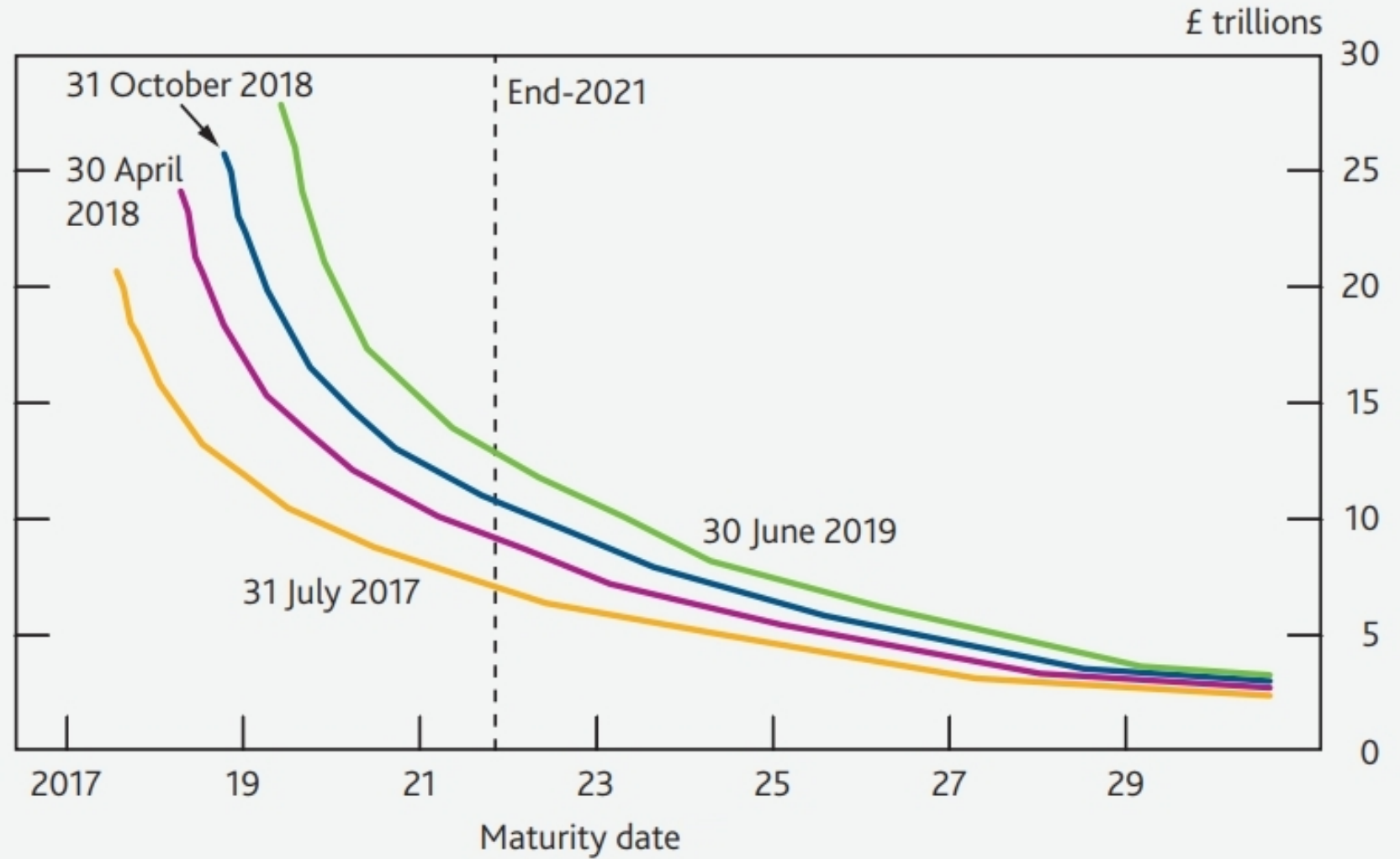
# Financial Stability Report

July 2019

There is no justification for firms continuing to increase their exposures to Libor.

The pace of market participants' transition efforts now needs to accelerate (...)

## Roll-off of outstanding notional for cleared GBP Libor derivatives



Source: Bank estimates based on LCH data provided to the FCA.

*“Fall-backs are not designed as, and should not be relied upon, as the primary mechanism for transition.*

*The wise driver steers a course to avoid a crash rather than relying on a seatbelt.”*

*Andrew Bailey*

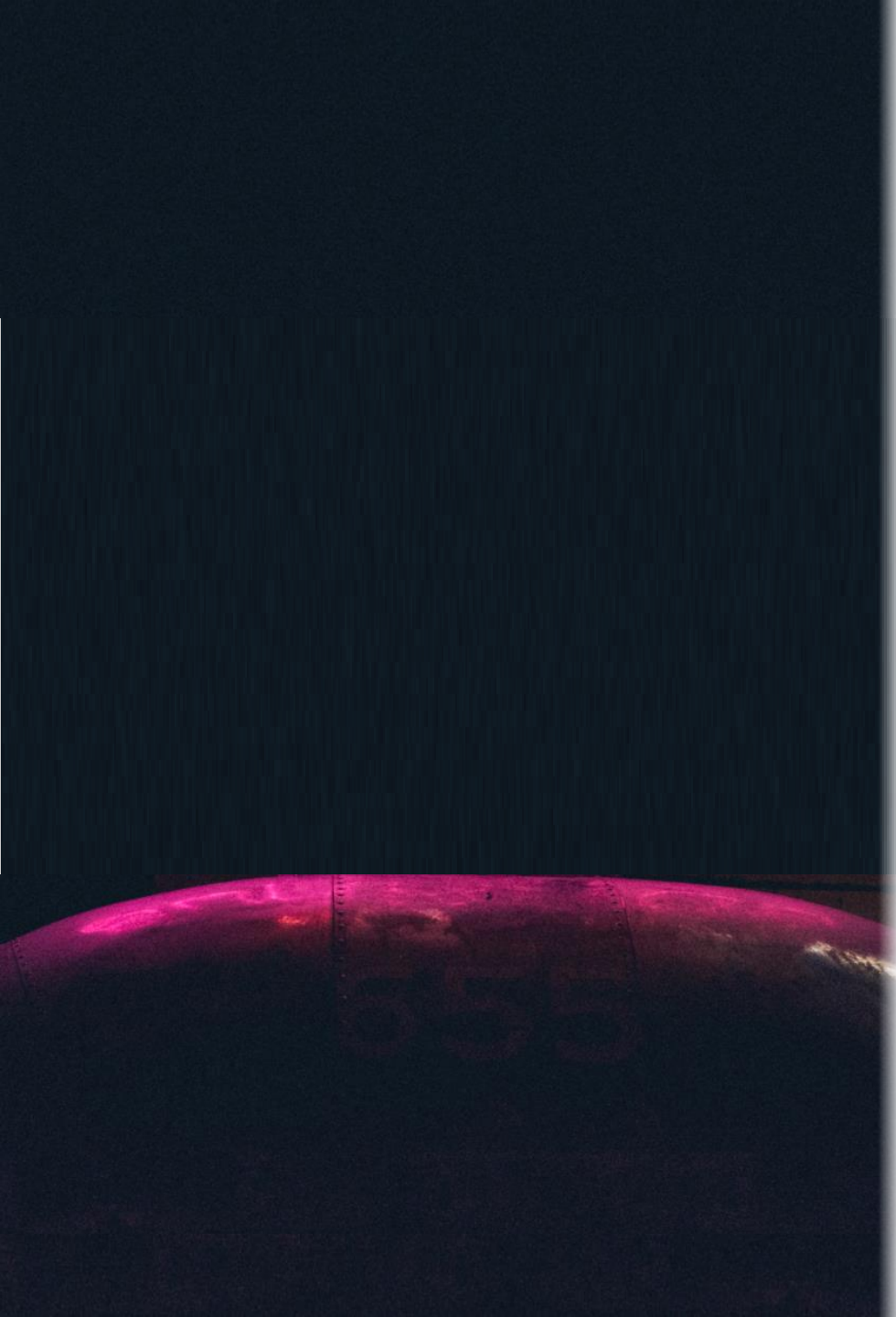
*FCA, Chief Executive*

*July 12, 2018*





# Cessation triggers & fallback mechanisms





# TRANSITION PATH: STEP BY STEP

- Trade new RFRs
- Update curves & valuation framework
- Adopt ISDA fallbacks protocol(s)
- Collateral rate / discounting switch
  - CCPs switch PAI to SOFR & €STR
  - Re-papering of CSAs
- Early transitions of bilateral portfolios
- IBOR index cessation
  - CCPs transition
  - Soft cessation: Cash fallbacks
  - Full cessation: Derivatives fallbacks

Move to the next  
IBOR and start again...



# Technology : hurdle or enabler ?

1



New market instruments  
& curves

2

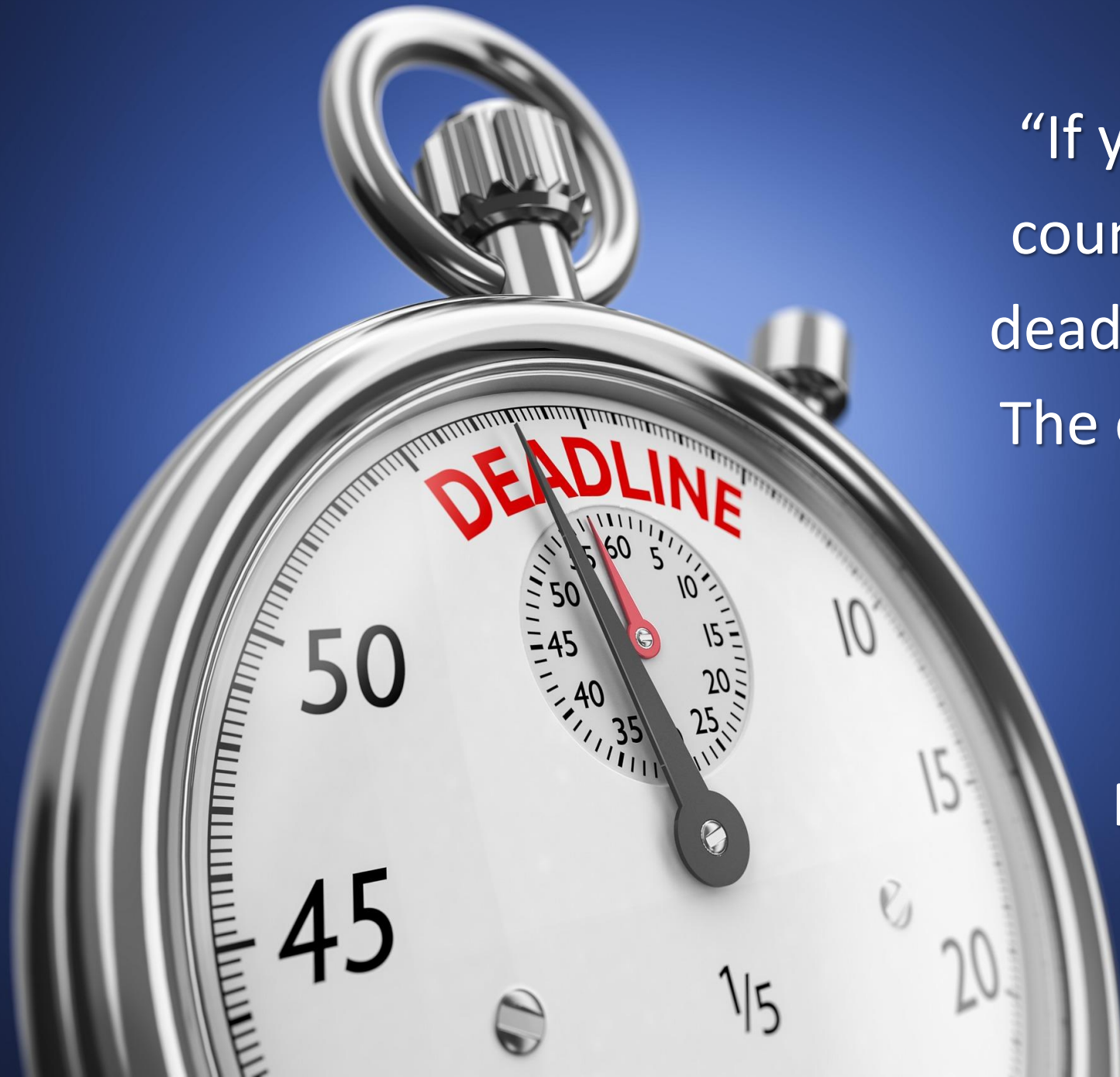


Exposure &  
Impact analysis

3



Transition mechanism for  
instruments & positions



“If your firm is one of those (...) counting on an extension to the deadline, take this message back: The clock is ticking, **LIBOR’s days are numbered.**”

**John Williams**

New York Fed, President

Sep 23, 2019

