



**22° Congreso  
de Tesorería**

Transformación, retos y oportunidades de los mercados

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## Libor Transition: International Perspective

## Evolution of international policy on benchmark reform

- Cases of attempted manipulation (first reported 2008) threatened the **integrity** of IBORs; and a significant decline in the liquidity of interbank deposit market threatened their **sustainability**.
- **The Wheatley Review of Libor** (2012) concluded that **integrity** should be addressed through IBOR regulation and reforms; and **sustainability** through proposals to expand bank submission panels, reduce reliance on expert judgement and, in extremis, public powers of compulsion.
- **The FSB Report on Interest Rate Benchmark Reform** (2014) recommended a ‘multi-rate’ approach to provide users with a choice of benchmarks to suit their economic needs: e.g. near risk-free rates (RFRs) for many derivatives; and reformed IBORs for bank lending products.
- **A J Bailey’s speech – *The Future of Libor*** (2017) questioned IBOR **sustainability**: bank panels could not be sustained, let alone expanded, in the absence of transactions. Instead transition to alternative rates would be strongly encouraged, followed by a managed discontinuation of Libor after end-2021.
- Notably, the FSB agreed this approach for Libor, but not for other IBOR’s – ESMA, the ECB and the JFSA expressed continued support for EURIBOR and TIBOR.

## Alternative rates across Libor jurisdictions

Currency	Libor footprint (USD TR)	Selected RFR (launch date)	Incumbent RFR	IBOR alternative
USD	180	<b>SOFR</b> (2018) – secured o/n UST repo rate	<b>EFFR</b> – unsecured o/n deposit rate	None *
GBP	30	<b>SONIA</b> (1997) – unsecured o/n deposit rate	<b>SONIA</b>	None
JPY	30	<b>TONA</b> (1997) – unsecured o/n deposit rate	<b>TONA</b>	<b>TIBOR</b>
CHF	5	<b>SARON</b> (2009) – secured o/n repo rate	<b>SARON</b> **	None
EUR	<2	<b>€STR</b> (2019) – unsecured o/n deposit rate	<b>EONIA</b> – unsecured o/n deposit rate	<b>EURIBOR</b>

\* ICE Bank Yield Index, although not yet available, is mooted as a potential alternative.

\*\* SARON replaced TOIS as CHF RFR for IRS markets December 2017.

## Progress on Libor transition in UK markets

Market	Transition Status	Comments
Derivatives		<ul style="list-style-type: none"> <li>• 50% of 2019 cleared GBP IRS linked to SONIA, not Libor</li> <li>• ISDA fallbacks agreed and set for introduction early 2020</li> </ul>
Bonds		<ul style="list-style-type: none"> <li>• 100% of new issue FRNs and covered bonds in 2019 linked to SONIA</li> <li>• Over £4bn of legacy bonds amended via consent solicitations</li> </ul>
Securitisations		<ul style="list-style-type: none"> <li>• 100% of RMBS, ABS since April 2019 linked to SONIA</li> <li>• Good progress on amendments via consent solicitations</li> </ul>
Wholesale loans		<ul style="list-style-type: none"> <li>• Only a few SONIA linked bilateral loans to date</li> <li>• But standard docs available, and systems upgrades underway</li> <li>• FCA targeting cessation of Libor loan origination Q3 2020</li> </ul>
Consumer loans		<ul style="list-style-type: none"> <li>• Consumer and SME lending linked to Base Rate, not Libor</li> <li>• SONIA is highly correlated with Base Rate</li> </ul>

## How are UK market participants preparing for transition?

Firm	Profile	Actions
<b>BMO Global Asset Management</b>	LDI asset manager with £50bn of pension fund liabilities under management	<ul style="list-style-type: none"> <li>April to August 2018: BMO transitioned 95% of their GBP £10bn Libor swap portfolio to SONIA</li> </ul>
<b>Associated British Ports</b>	UK's largest port owner and operator	<ul style="list-style-type: none"> <li>November 2018: shifted more than £500mm of Libor IRS and XCS to SONIA</li> <li>June 2019: Completed first successful consent solicitation to convert Libor FRN to SONIA</li> </ul>
<b>Nationwide Building Society</b>	Second largest provider of household savings and mortgages in the UK	<ul style="list-style-type: none"> <li>January 2019: £1bn SONIA Covered Bond</li> <li>April 2019: Converted b/s to SONIA-referencing basis</li> <li>April 2019: £750mm SONIA RMBS</li> <li>November 2019: Converted £2.3bn of Libor-linked bonds to SONIA via consent solicitations. Exploring potential transition of remaining Libor bonds.</li> </ul>