

# LIBOR Transition: the move to risk-free rates

Rich Fox, FCA

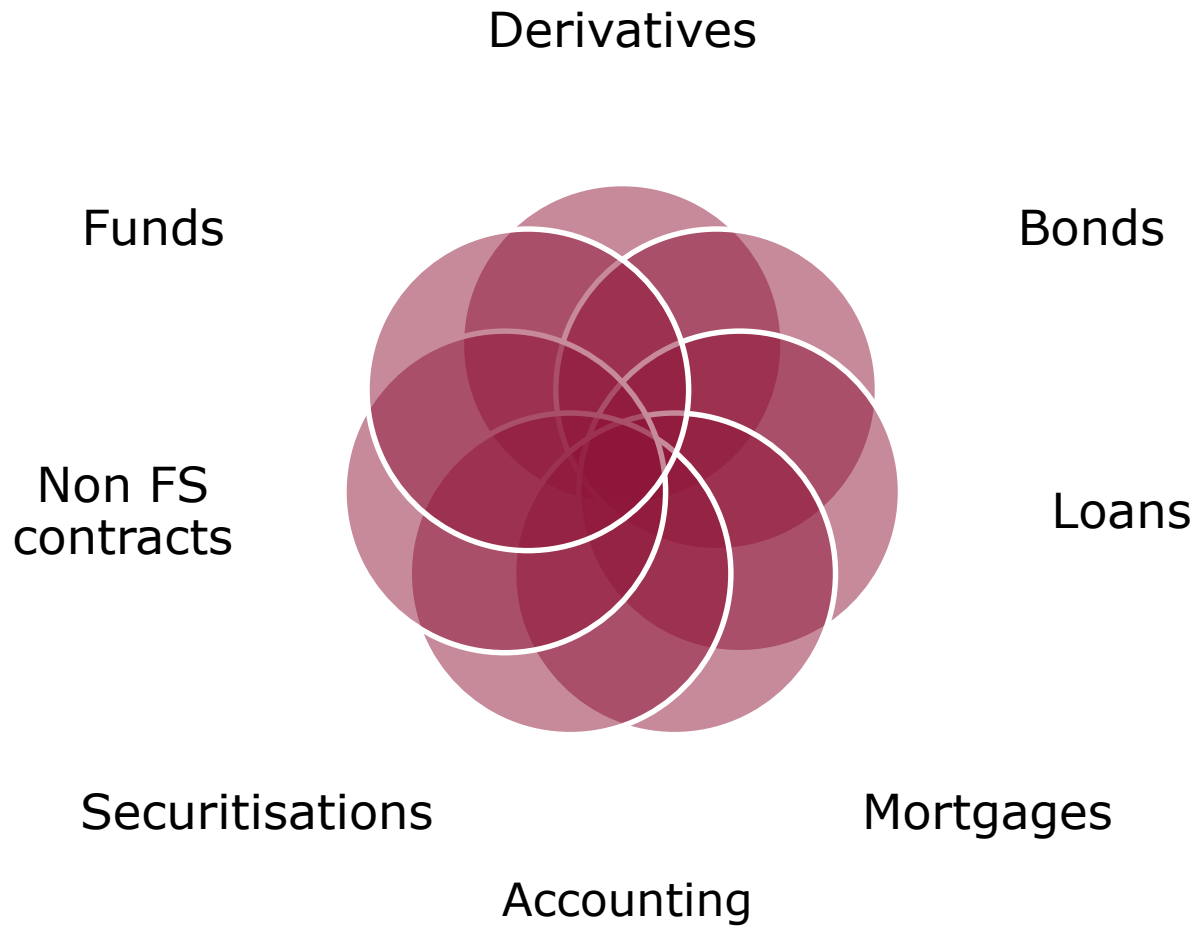
# Why is LIBOR ending?

- Panel banks submit to LIBOR based on their ability to borrow money from the wholesale market.
- The way banks fund themselves has fundamentally changed. LIBOR submissions now based on very few underlying transactions.
- Panel banks must use some degree of 'expert judgement'.
- Panel banks increasingly uncomfortable about continuing to support LIBOR. Have agreed to do so until end-2021 to provide time to transition.
- RFRs provide a more robust alternative – they are anchored in active underlying markets.

# Where is LIBOR used?

**Extensively!**

**c.\$400tn**



# Adoption of SONIA

## Swaps

- In the last six months, SONIA OIS accounted for around 47.5% of cleared swaps by notional traded
- Over £4 trillion of SONIA OIS traded every month
- First SONIA swaption traded this month

## Bonds

- From a standing start we now have over 80 issuances totalling over £40bn. All using the same convention
- £4bn converted to SONIA via consent solicitation process so far (including securitisations)

## Securitisations

- Also from a standing start we have now seen over 25 issuances (of which £10bn have been distributed and £8bn retained)

## Loans

- First RCF using SONIA and first conversion of a LIBOR loan to SONIA announced
- Main UK lenders are working on offering SONIA lending pilot programmes
- More to come

# What's happening overseas?

## US Dollar:

- Slower start as SOFR is a new rate.
- Initial activity in SOFR FRN and swaps markets.
- ARRC focus on fallbacks; now recommended for all products.
- H2 2020 clearing houses to move to SOFR for discounting – key milestone for liquidity.
- End-2021 forward-looking SOFR term rate expected.

# What's happening overseas?

## Euro:

- Multi-rate approach – EURIBOR authorised under the EU BMR with a reformed hybrid methodology
- €STR now live – 2 October
- Some initial activity – EIB 1bn bond
- EONIA has been reformed = €STR + fixed spread (8.5bps)
- Available until 3 Jan 2022
- Euro WG focusing on smooth transition away from EONIA ahead of this date – legal action plan
- Euro LIBOR exposure is small – but important to be aware

# Risk-Free Rate Working Group (RFRWG) Priorities

- Encourage greater adoption of SONIA in cash markets
- Design and adoption of fallbacks
- Identify remaining barriers to a further shift of volumes from LIBOR to SONIA in swaps and futures markets
- Maintain momentum on ability to produce a term rate
- Provide market input where necessary to help identify issues around the 'tough legacy'