

**INTEREST RATE BENCHMARKS**

***Global Summary of Reform Initiatives***

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The Global Financial Crisis exposed failings in the methodology and use of interest rate benchmarks. This paper summarises IOSCO and FSB reform guidance, and initiatives on LIBOR, EURIBOR, and TIBOR and in a number of jurisdictions towards solutions.

**IOSCO**

In July 2013, IOSCO published *Principles for Financial Benchmarks* which wasprepared by a task force benefitting from work by other authorities and public consultation<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf> .

The nineteen Principles, endorsed by the G20 and the FSB, set out a framework of standards for benchmark administrators and submitters which address governance (administrator accountability, oversight, controls, compliance), quality (design, data sufficiency, clarity, integrity), conduct of submitters, and cooperation with regulatory authorities.

Included is the call for credible transition policies should a benchmark cease to exist due to a change in market structure.

IOSCO followed up with *Guidance on the IOSCO Principles for Financial Benchmarks* inDecember 2016, which uses further study and public consultation to analyse ongoing issues, assess compliance, and offer guidance. <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD549.pdf> .

**FSB**

In July 2014, the FSB published *Reforming Major Interest Rate Benchmarks* followingthe recommendations of the Official Sector Steering Group of regulators and central banks <http://www.fsb.org/2014/07/r_140722a/> . The reports assesses major benchmarks against the IOSCO Principles and draws on a review by the Market Participants Group which analysed alternatives and transition issues (same link).

In July 2015, the FSB published an interim progress report <http://www.fsb.org/2015/07/reforming-major-interest-rate-benchmarks-july-2015-progress-report/> describing progress including reviews of methodologies and definitions, feasibility studies, consideration of transitional and legal issues, and broad consultations with stakeholders. It also reported progress in identifying potential risk-free rate alternatives and data collection exercises.

The July 2016 report noted good progress on EURIBOR, LIBOR, and TIBOR, as well as on benchmarks in other countries. However, much work remained on transition, use of objective data, and identifying risk-free rates. <http://www.fsb.org/2016/07/reforming-major-interest-rate-benchmarks-3/>

**LIBOR**

The final report of the Wheatley Review of LIBOR was published in September 2012. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191762/wheatley_review_libor_finalreport_280912.pdf> . Significant recommended reforms, in line with review, came into effect in 2013 including

* Introduction of U.K. regulatory oversight, with knowingly or deliberately making false or misleading statements relating to benchmark setting becoming a criminal offense
* Transfer to a new administrator (Intercontinental Exchange - ICE)
* Cessation of the publication of LIBOR for currencies and tenors with insufficient trade data to corroborate submissions (LIBOR now quoted in five currencies in seven tenors, reduced from ten currencies in fifteen tenors)
* Publication of individual LIBOR submissions after three months, to increase transparency and reduce incentive for manipulation

U.K. / Sterling

In the U.K., the Financial Conduct Authority is overseeing the reform of LIBOR (including Sterling LIBOR) and the Bank of England is overseeing the development of sterling risk-free rates.

The Working Group on Sterling Risk-Free Reference Rates comprised of major Sterling swap dealers has been established to assist the Bank. <http://www.bankofengland.co.uk/markets/Pages/benchmarks/rfr.aspx>

An Interim Report was published in May 2016 <http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2016/rfrwgintrep16.pdf>

In May 2017, the Working Group announced that SONIA was the preferred near risk-free interest rate.
<http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrwgwhitepaper0617.pdf>

In a July 2017 speech, Andrew Bailey (FCA Chief Executive) said that the FCA will phase out LIBOR by the end of 2021 as there is insufficient meaningful data upon which to base submissions. <https://www.fca.org.uk/news/speeches/the-future-of-libor>

Global

ISDA held a webinar in August 2017 to provide an overview of work to address risks in derivatives contracts of a permanent discontinuation of key IBOR rates (IOSCO Principle #13).

<http://www2.isda.org/search?headerSearch=1&keyword=libor>

ICMA has been engaged in analysis of the documentation challenges in shifting from LIBOR, and sponsored a call for its members in September 2017. <https://www.icmagroup.org/events/PastEvents/briefing-call-for-icma-members-benchmark-reform-and-the-future-of-libor-implications-for-the-primary-bond-markets/>

**U.S.**

In November 2014, The Federal Reserve convened the first meeting of the Alternative Reference Rates Committee. The ARRC was established to identify alternative reference interest rates based more firmly on transactions from a robust underlying market, and develop an implementation plan. Members are major over-the-counter (OTC) derivatives market firms. <https://www.newyorkfed.org/arrc>

In May 2016, the ARRC released an Interim Report summarising two leading alternatives to U.S. dollar LIBOR: the Overnight Bank Funding Rate (OBFR) and an overnight Treasury general collateral repo rate. Both rates represent underlying markets with sizable daily transaction volumes.

The ARRC proposed a “paced transition” strategy as a first step in creating a liquid market for the alternative rate. The OBFR was first published in March 2016 and is calculated using federal funds transaction data as well as certain overnight Eurodollar transaction data reported in the FR 2420 data collection. <https://www.newyorkfed.org/arrc/publications>

At its June 2017 meeting, the ARRC identified a broad Treasuries repo financing rate to be published by the Fed in cooperation with the Office of Financial Research. This rate, in its consensus view, represents best practice for use in certain new U.S. dollar derivatives and other financial contracts. The ARRC plans to publish its final report later this year before implementation is expected to begin. <https://www.newyorkfed.org/medialibrary/microsites/arrc/files/2017/ARRC-press-release-Jun-22-2017.pdf>

**EURIBOR**

Following a consultation in February 2013:

* The [Code of Obligations for Panel Banks (COPB)](https://www.emmi-benchmarks.eu/assets/files/D2725D-2013-Annex%201%20to%20the%20Euribor%20Code%20of%20Conduct%20-%20COPB%20-%201%20October%202013-clean.pdf) was adopted
* Definitions of EURIBOR were clarified
* The number of EURIBOR maturities was reduced
* A contingency plan for delayed/insufficient EURIBOR was put in place

In July 2014, Euribor-EBF became the European Money Markets Institute and Global Rate Set Systems became the administrator for EURIBOR. <https://www.emmi-benchmarks.eu/>

In 2015, EMMI published a revised Code and consultation paper on plans for the transition to a transaction-based EURIBOR. The design of the new methodology is supported by a EURIBOR+ Task Force of banks and benchmark users, with technical support from the ECB. The Belgian legislator designated the Belgian Financial Services and Markets Authority (FSMA) as supervisor of the EMMI and EURIBOR.

In 2016, EMMI published a revised Roadmap <https://www.emmi-benchmarks.eu/assets/files/D0273B-2016%20The%20path%20forward%20to%20Transaction-based%20Euribor.pdf> and guidelines for a “Pre-Live Verification Program” to determine the effects on rates and volatility of a transition to a new transaction-based methodology <https://www.emmi-benchmarks.eu/assets/files/D0264G-2016%20Pre-Live%20Verification%20Program%20Guidelines.pdf> .

In 2017, EMMI published papers on legal grounds for proposed reforms <https://www.emmi-benchmarks.eu/assets/files/D0562F-2017_EMMI%20Legal%20Position%20Paper_Final_PUBLIC.pdf> and transition challenges <https://www.emmi-benchmarks.eu/assets/files/D0247F-2017-euribor%20PLVP%20outcome-statement_final.pdf> .

**TIBOR**

The Japanese Bankers Association TIBOR Administration became regulated by the Japan Financial Services Agency as a Specified Financial Benchmark Calculator for TIBOR in May 2015.

The Study Group on Risk-Free Reference Rates was formed in April 2015 to identify Yen risk-free reference rates. The Study Group published a consultation paper in March 2016 and identified the uncollateralised overnight call rate (the Tokyo Overnight Average Rate, TONAR) as the primary candidate for the JPY risk-free rate. A GC repo rate was identified as the secondary candidate. The Study Group also considered how to expand and encourage use of the risk-free rate, and proposed enhanced conventions for the OIS market. <https://www.boj.or.jp/en/paym/market/sg/rfr1603c.pdf>

In December 2016, the Study Group published its conclusion that the uncollateralized overnight call rate calculated and published by the Bank of Japan would be the JPY risk-free rate. <https://www.boj.or.jp/en/paym/market/sg/rfr1612c.pdf>

In 2017, the Study Group has continued its investigation of market practices and contract design with respect to the usage of the uncollateralized overnight call rate and how to best support the growth of the OIS market. The Study Group will also analyse further the consistency of JPY risk-free rates compared to those in other currencies.

**AUSTRALIA**

ASX took over administration of the Bank Bill Swap Rate (BBSW) short-term money market benchmark interest rate from the Australian Financial Markets Association in January 2017.

The BBSW rate represents the midpoint of the Nationally Observed Best Bid and Offer (NBBO) for Prime Bank Eligible Securities (bank accepted bills and negotiable certificates of deposit issued by banks that meet eligibility criteria). The rate has been based on actual transactions rather than submissions since May 2016. <http://www.asx.com.au/documents/products/bbsw-frequently-asked-questions.pdf>

**CANADA**

Canadian Dollar Offered Rate (CDOR) is the benchmark for bankers' acceptances under one year. A January 2013 report by the Industry Regulatory Organization of Canada found that there was no consistent methodology used for submitting rates. In January 2014, the Office of the Superintendent of Financial Institutions announced it would begin supervising governance and risk controls surrounding the submissions. The Bank of Canada announced in March 2014 that the industry and regulators would develop a code of conduct.

<https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/cdor-methodology.pdf>

Canadian Overnight Repo Rate Average (CORRA) is a transaction-based rate calculated from overnight general collateral repo trades on Canadian government securities published since 1997. Thomson Reuters took over the administration of CORRA from the Bank of Canada in March 2015, and formed an official oversight committee. CORRA is used as the floating rate benchmark in the overnight index swap market. <https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/corra-methodology.pdf>

**HONG KONG**

In 2013, measures for the Hong Kong Interbank Offered Rate (HIBOR) proposed by the Treasury Markets Association were adopted by the Hong Kong Monetary Authority, including

* [Code of Conduct for Benchmark Submitters](http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CG-7.pdf)
* Change in administrator from The Hong Kong Association of Banks (HKAB) to the TMA, with a new surveillance and governance structure
* Phase-out of HIBOR fixings for 4-month, 5-month, 7-month, 8-month and 11-month tenors
* Annual submitter panel review
* Periodic independent external audit

Findings of an HKMA survey of transactions indicated that it would be more feasible to implement the risk-free rate using the Hong Kong Dollar Overnight Index Average (HONIA), which is based on overnight unsecured interbank transactions. HONIA is the reference rate for Hong Kong dollar OIS. In April 2016, the TMA took up administration of HONIA also.

<https://www.tma.org.hk/en_market_benchmark.aspx>

**MEXICO**

The Interbank Equilibrium Interest Rate (TIIE) is administered by Banco de México.

In 2015, reforms were enacted in governing documents, supervision, calculation methodology, and the review process.

The BdM is working with the market to base the TIIE determination on actual transactions in the market, but is finding it challenging to find consistently liquid pricing along the yield curve.

**NEW ZEALAND**

The Benchmark Oversight Committee was established in 2015 to oversee the capture, calculation and publishing methodology of the New Zealand reference rate published via the NZdata Service by the New Zealand Financial Markets Association. The committee reviews and challenges all aspects of the benchmark determination process, and considers the features and usage of the benchmarks and potential conflicts. <https://nzfma.org/Site/practices_standards/reference_rate_rules.aspx>

**SINGAPORE**

Following supervisory review by the Monetary Authority of Singapore in 2013, the Association of Banks in Singapore and the Singapore Foreign Exchange Markets Committee announced benchmark reforms:

* The ABS Benchmarks Administration Co Pte established to own and administer the Singapore Interbank Offered Rate (SIBOR), the Swap Offer Rate (SOR), the SGD Spot FX and the THB Spot FX. Thomson Reuters is the Calculating Agent of the SIBOR and SWAP Offer Rates
* New criminal sanctions for manipulation proposed
* New regulatory regime established
* Number of tenors for SIBOR reduced

Discussions on an enhanced SIBOR+ methodology are ongoing. <https://abs.org.sg/industry-guidelines/rate-setting-benchmarks>

**SOUTH AFRICA**

In 2011, the South African Reserve Bank initiated a review of benchmark rates, including the Johannesburg Interbank Average Rate (JIBAR). A Code of Conduct, Governance Process, and Operating Rules for JIBAR was published in 2012, and amended in 2014 and 2015. <https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/6859/Jibar%20Code%20of%20Conduct%20Aug%202015.pdf>

The SARB completed a data collection exercise to review the decline in the volumes of Negotiable Certificate of Deposits from which JIBAR is derived. Based on the findings, alternatives for calculating JIBAR are being considered by the Financial Markets Liaison Group.

**SWITZERLAND**

The National Working Group (NWG) on CHF reference rates is the forum for considering proposals to reform reference interest rates in Switzerland.

NWG efforts led to reforms in the TOIS (unsecured tomorrow/next indexed swap) fixing, but the decreasing size of the panel and the lack of transactions made the fixing unsustainable. In 2015, the NWG investigated the possibility of a new unsecured reference rate anchored in transactions and quotes but concluded there was no broad and clear market support for it. At the beginning of 2016, the NWG decided to focus on the transition from TOIS to SARON (secured Swiss Average Rate Overnight).

The NWG recommended that SARON shall replace the TOIS fixing as a benchmark prior to its termination on December 29, 2017. <https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates>

**SUMMARY**

Reform of interest rate benchmarks continues at a steady pace throughout the world, guided by high level principles from IOSCO and the FSB. Much work remains on the selection of risk-free rates, building of yield curves, implementation, and documentation. Meeting target dates for the replacement of benchmarks (such the FCA’s end-2021 for LIBOR) will require ongoing focus and progress.

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