



BNY Mellon Investment Management EMEA LIBOR transition

AN UPDATE ON OUR PLANS TO MOVE FROM INTERBANK OFFERED RATES TO ALTERNATIVE REFERENCE RATES

Financial entities around the globe are rigorously preparing to transition away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs), which are currently used in a significant number of financial instruments and products. It is expected that IBORs will be phased out for use as early as the end of 2021, in favour of more robust alternative reference rates (ARRs).

Here we provide an overview of interbank offered rates and the reasons behind the finance industry's transition from IBORs to ARRs.

WHAT ARE INTERBANK OFFERED RATES?

Interbank offered rates (IBORs) are unsecured interest rates published for periods ranging from overnight to 12 months.

One of the most widely used IBORs is the London Interbank Offered Rate (LIBOR), which is quoted in British pound sterling (GBP), US dollar (USD), euro (EUR), Swiss franc (CHF) and Japanese yen (JPY). These rates are derived from quotes submitted by a group of panel banks that represent each bank's cost of obtaining a loan from another member bank in the London interbank market for each of the published tenors.

IBORs also act as a benchmark for short-term interest rates across a wide spectrum of cash and derivative products. The volume of these transactions exceeds US\$400 trillion globally¹.

WHY IS THE FINANCIAL INDUSTRY TRANSITIONING FROM LIBOR AND IBORS?

Amid the financial crisis of 2008, multiple investigations by national regulators and central banks were launched regarding attempts by certain institutions to manipulate LIBOR, by coordinating their submission of the interest rate quotations that underpin the rate. Given the structural

weaknesses of LIBOR identified during these investigations, various regulatory authorities have announced support for a reduced reliance on IBORs in favour of rates based on actual underlying transaction rates. In particular, LIBOR is expected to be phased out as early as the end of 2021.

Regulators around the globe have initiated forums for market participants to identify alternative reference rates (ARRs). These forums were tasked with three primary objectives:

- Identify a rate that was more firmly based on transactions from a robust underlying market and aligned with the International Organization of Securities Commissions (IOSCO) principles for [Financial Benchmarks](#);
- Develop a plan to facilitate the acceptance and use of selected alternative rates by market participants; and
- Consider best practices in contract design that would ensure resiliency in the event of possible cessation or material alteration to the selected alternative rate or any subsequent reference rate.

As part of this work, regulators have identified various ARRs as possible replacements, and are considering ways of effecting the transition away from IBORs. Currently, it is not possible to confirm either the rates that will be used as alternatives to LIBOR or the adjustment spreads, if any, that may be applied to a given replacement rate.

¹Source: ISDA IBOR Global Benchmark Survey – 2018 Transition Roadmap.



PROPOSED REGIONAL BENCHMARK REPLACEMENTS

Jurisdiction	Prior Benchmark (internally assumed end date)	Replacement Rate	Description	Current Status
	USD LIBOR	SOFR Secured Overnight Financing Rate	<ul style="list-style-type: none"> Secured Fully transaction based Covers multiple Treasury repo market segments 	Transition plan has been outlined Publication of rate since April 2018
	EONIA EURIBOR	€STR – Euro Short-Term Rate EURIBOR (reformed)	<ul style="list-style-type: none"> Unsecured Transaction based Volume weighted-trimmed mean of transactions Gathered from 52 of the largest European banks 	Publication of €STR since October 2019 EURIBOR has been reformed and will continue as a BMR* compliant rate
	JPY LIBOR	TONAR Tokyo Overnight Average Rate	<ul style="list-style-type: none"> Unsecured Transaction based (call rate market) Calculated on market broker information Weighted by volume 	Investigation of market practices and contract design of TONAR ongoing
	GBP LIBOR	Reformed SONIA Sterling Overnight Index Average	<ul style="list-style-type: none"> Unsecured Fully transaction based Encompasses a robust underlying market Includes volume-weighted trimmed mean 	Reformed SONIA since April 2018
	CHF LIBOR	SARON Swiss Average Overnight Rate	<ul style="list-style-type: none"> Secured Introduced in 2009 Reflects interest paid on o/n repo 	IOIS now discontinued SARON swaps began trading in April 2017

*BMR = Benchmarks Regulation

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