

The transition to risk-free rates: other recent publications

RFR

In addition to the feature article in this Quarterly Report, there have also been several other publications of note relating to the transition to risk-free rates generally:

- In July 2019, IOSCO published a [statement](#) setting out matters for market participants to consider if they have exposure to LIBOR, particularly USD LIBOR, in light of its expected cessation after the end of 2021 and USD LIBOR's widespread global use. The key messages from the statement were: RFRs provide a robust alternative to IBORs and can be used in the majority of products; in both new and existing IBOR contracts, the inclusion of robust fallbacks should be considered a priority; the best risk mitigation to a LIBOR cessation event is moving to RFRs now; and it is prudent risk management for market participants to engage early in the LIBOR transition process in preparation for the cessation of LIBOR post-2021.
- The SEC published a [staff statement](#) in July 2019 on LIBOR transition encouraging market participants to manage transition away from LIBOR and providing guidance in specific areas.
- Also in July 2019, the ECB published an updated version of its [Explainer on Benchmark Rates](#). It also sent a [Dear CEO Letter](#) to significant institutions requesting a board-approved summary of key risks relating to benchmark reform and a detailed action plan to mitigate such risks, address pricing issues and implement process changes, as well as contact points at management level who are in charge of overseeing the implementation of these action plans.
- In September 2019, the Bank of England published an analysis entitled [How Prepared are the Markets for the End of LIBOR?](#). The analysis had been presented to the Bank of England Financial Policy Committee (FPC) in June 2019.
- The ARRC updated its previously released set of [frequently asked questions \(FAQs\)](#) in September 2019. The FAQs are updated from time to time to reflect developments, provide information about the work of ARRC, its progress to date, and the overall effort to promote voluntary market adoption of SOFR.
- In September 2019, the ARRC [released](#) a [practical implementation checklist](#) to help market participants transition to using SOFR. The information in the checklist was expected to be especially helpful for market participants that have not fully started taking the steps needed to transition away from LIBOR.
- Also in September 2019, the Executives' Meeting of East Asia-Pacific (EMEAP) Working Group on Financial Markets released a [Study on Implications of Financial Benchmark Reforms](#), which aims to raise market awareness and further enhance market readiness for financial benchmark reforms. The study focuses on the implications of LIBOR discontinuation, the EU BMR and reform of local benchmarks in the EMEAP region.
- The [record](#) of the Bank of England's FPC meeting of 2 October 2019 stressed the importance of accelerating the transition away from LIBOR to alternative reference rates and noted that, in Q4 2019, the FPC would consider further potential policy and supervisory tools that could be deployed by authorities to reduce the stock of legacy LIBOR contracts to an irreducible minimum ahead of end-2021.
- To enable a smooth transition from EONIA to €STR, the Euro RFR Working Group made available a communication toolkit, providing material which interested parties can use in their own communication and education efforts. The toolkit currently consists of: (i) [frequently asked questions](#) dated 17 October 2019; (ii) a [standard set of slides](#); and (iii) a [checklist](#).
- In October 2019, the Euro RFR Working Group published its report on [Risk Management Implications of the Transition from EONIA to the €STR and the Introduction of €STR-based Fallbacks for EURIBOR](#). The report focuses mainly on the risk management implications for banks, but also touches on additional challenges facing the asset management and insurance sectors. It should be read in conjunction with [Recommendations of the Working Group on Euro Risk-Free Rates on the EONIA to €STR Legal Action Plan](#) and [Report by the Working Group on Euro Risk-](#)

[Free Rates on the Impact of the Transition from EONIA to the €STR on Cash and Derivatives Products.](#)

- The Hong Kong Monetary Authority (HKMA) published a [letter](#) on 23 October 2019 addressed to relevant authorised institutions providing an overview and status update on the transition from IBORs to alternative reference rates. It states that the Treasury Markets Association has identified the Hong Kong Dollar Overnight Index Average (HONIA) as the alternative reference rate to the Hong Kong Interbank Offered Rate (HIBOR) and there is no plan to discontinue HIBOR. In addition, HKMA observes that many authorised institutions have made progress in preparing for the transition to alternative reference rates. To monitor progress, the HKMA will start conducting regular surveys and take suitable follow up actions.
- In November 2019, ICE Benchmark Administrator published a [feedback statement](#) on possible enhancements to the ICE Swap Rate (the principal global benchmark for swap rates and spreads for EUR, GBP and USD interest rate swaps). IBA intends to seek to: expand the data used in the ICE Swap Rate calculation and work with ISDA on potential fallbacks; work to produce ICE Swap Rates based on SONIA; and consider the introduction of ICE Swap Rates based on other risk-free rates in due course.
- Also in November 2019, EMMI [confirmed](#) that it has successfully completed the phase-in of all panel banks to the EURIBOR hybrid methodology. The phase-in, which began in Q2 2019, occurred on a gradual basis in order to minimise operational and technological risks for panel banks, EURIBOR users, and the benchmark itself.
- The [Working Group on Sterling Risk-Free Reference Rates](#) opened invitations to join three new task forces focusing on (i) frameworks to support transition of legacy cash products, (ii) providing market input regarding the “tough legacy” products that may prove unable to be converted or amended to include robust fallbacks and (iii) enablers to moving new loans issuance away from GBP LIBOR.
- The Financial Stability Board published its [annual progress report](#) on implementation of recommendations to reform major interest rate benchmarks in December 2019. The report emphasises that the continued reliance of global financial markets on LIBOR poses risks to financial stability and calls for

significant and sustained efforts by the official sector and by financial and non-financial firms across many jurisdictions to transition away from LIBOR by end-2021.

- FINMA published a [Risk Monitor Report](#) in December 2019 that identifies the six most important risks currently being faced by Swiss financial institutions. It includes the discontinuation of LIBOR and details three specific risks: legal risk, valuation risk and the risk related to related to operational readiness. The report states that FINMA-mandated self-assessments indicate that most banks are behind schedule and cautions of the far-reaching consequences of inadequate preparation for the transition to SARON.
- In its [Semi-Annual Risk Perspective Report](#) published in December 2019, the United States Office of the Comptroller of the Currency noted that it would be increasing regulatory oversight in relation to the discontinuation of LIBOR to evaluate bank awareness and preparedness for LIBOR’s anticipated cessation.

Further general publications, including regular newsletters from official sector working groups, are made available on the following webpages:

- [FSB information and materials](#)
- [ECB information and materials](#)
- [ESMA information and materials](#)
- [Financial Conduct Authority information and materials](#)
- [€RFR Working Group information and materials](#)
- [Alternative Reference Rates Committee information and materials](#)
- [Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks information and materials](#)
- [Euro RFR Working Group information and materials](#)
- [The National Working Group on Swiss Franc Reference Rates information and materials](#)

In addition, ICMA seeks to include links to relevant publications on its benchmark reform and transition to risk-free rates [webpage](#).

**Contacts: Charlotte Bellamy
and Katie Kelly**

charlotte.bellamy@icmagroup.org
katie.kelly@icmagroup.org
