



THE LIBOR REFORM

FMS East Cost Regional – September 8-10, 2019

Mazars USA LLP

CONTEXT

2 - MAZARS



WHAT ARE IBOR'S

- IBORs = InterBank Offered Rates
- The most famous = The LIBOR (London IBOR)
- They are used to determine the unsecured short-term funding cost in the interbank market for a combination of currencies, tenors and maturities

ALL

FINANCIAL INSTRUMENTS –
DERIVATIVES AS CASH PRODUCTS –
POTENTIALLY AFFECTED

\$370tn

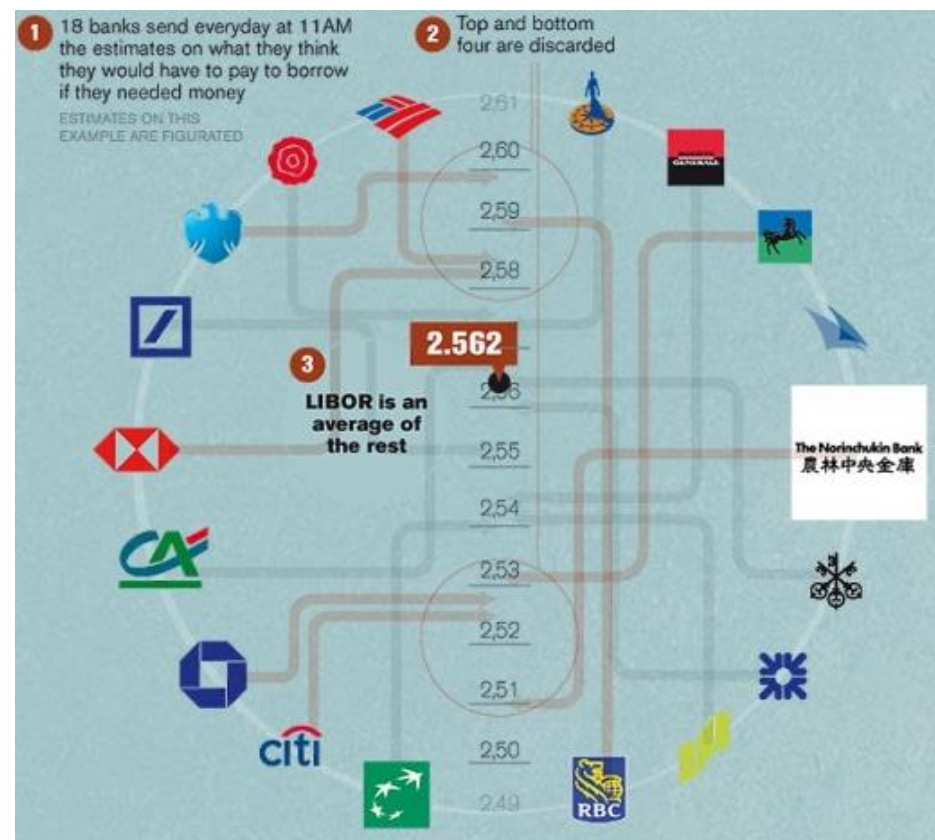
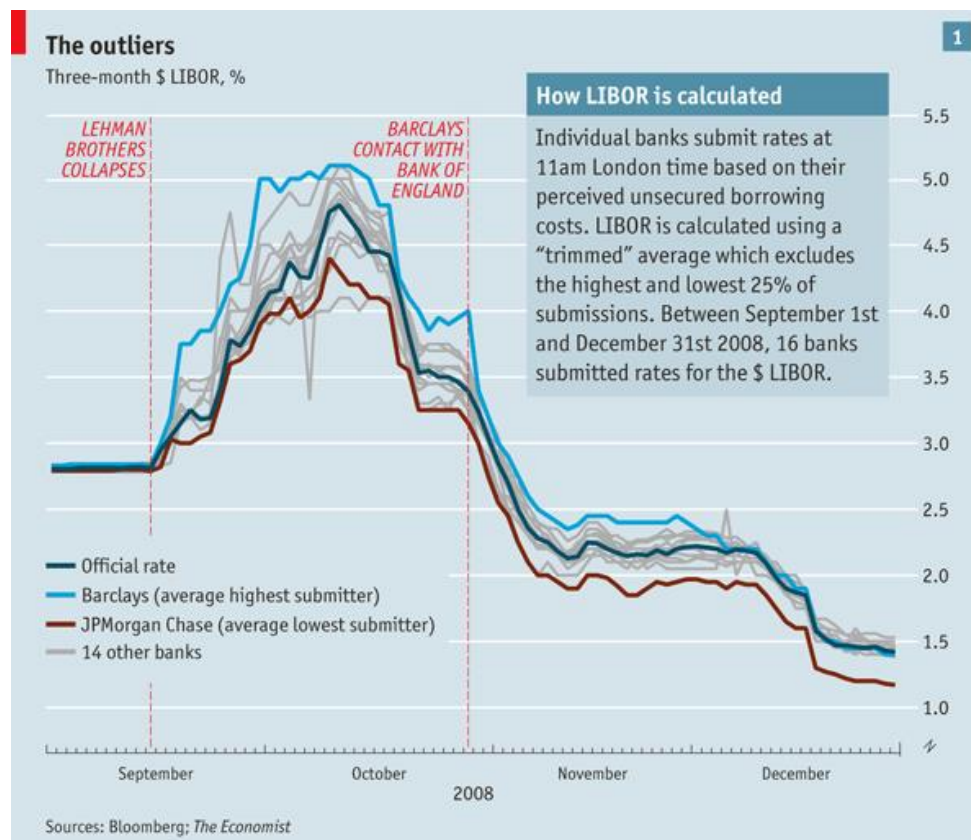
THE NOTIONAL AMOUNT OUTSTANDING
OF
LIBOR-LINKED CONTRACTS

80%

THE PART OF THE OVER THE
COUNTER AND EXCHANGE-TRADED
DERIVATIVES IN THE LIBOR-LINKED
CONTRACTS

HOW IS LIBOR DETERMINED

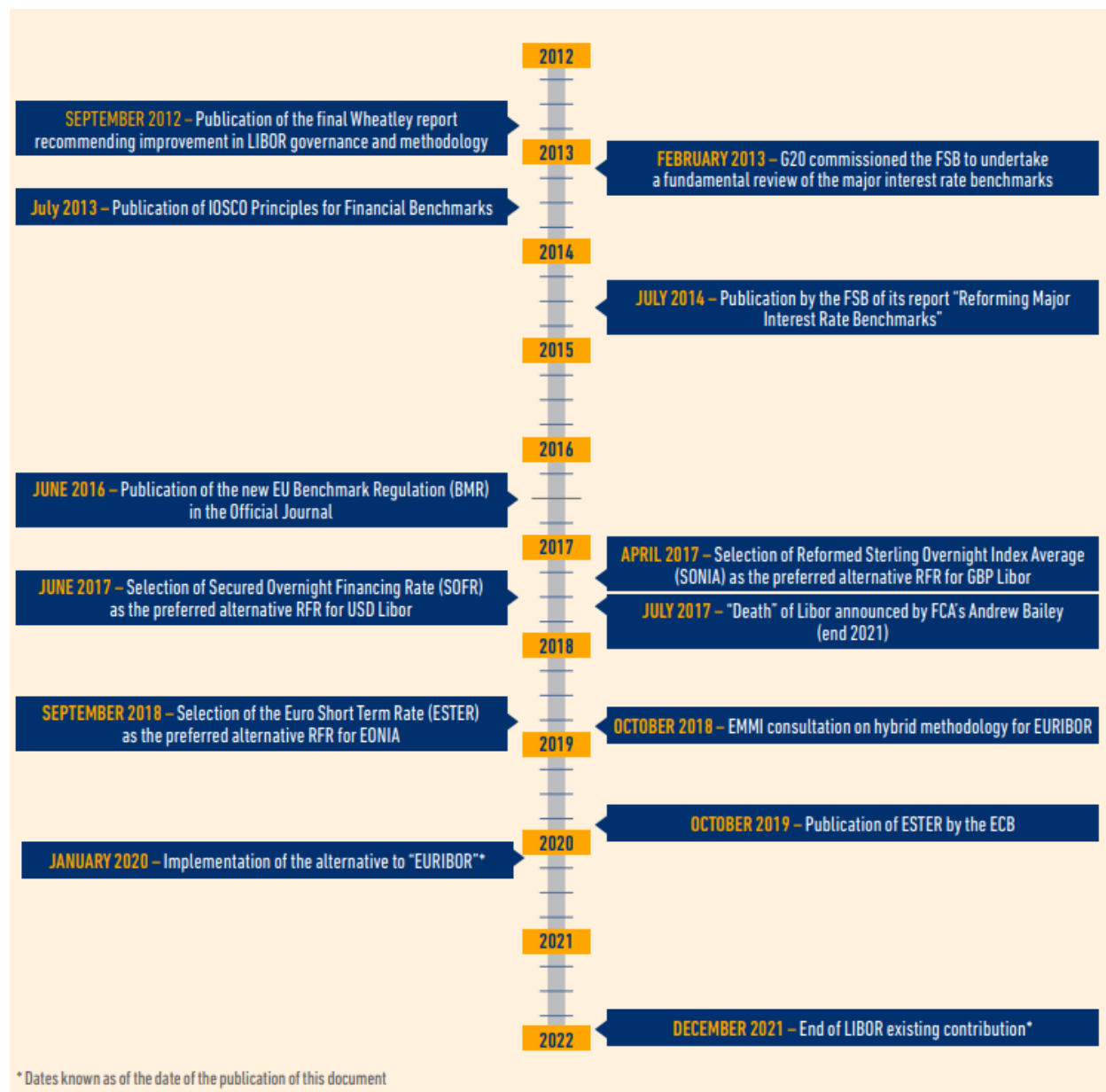
- Submission process
- 18 individual banks submit rates at 11 am London time on their unsecured financing costs



LIBOR manipulation

Fundamental review of the major benchmarks

EU Benchmark regulation (BRM) LIBOR “death”








WHAT'S NOW?



NEW BENCHMARK RATES TO DEFINE

- 5 alternatives so far

CURRENCY	PREFERRED ALTERNATIVE RATE	ADMINISTRATOR	NATURE	DATA/ TRANSACTIONS SOURCE	O/N RATE AVAILABLE	TERM RATE AVAILABLE ⁷	WORKING GROUP
	SOFR ¹	Federal Reserve Bank of New York	Secured	Tri-party repo, FICC GCF repo, FICC bilateral treasury repo	✓	✗ Planned 2021	Alternative Reference Rates Committee (ARRC)
	Reformed SONIA ²	Wholesale Markets Brokers' Association (WMBA) Transitioning to Bank of England	Unsecured	Unsecured overnight sterling transactions negotiated bilaterally and brokered in London by WMBA	✓	✗ Under consideration	Working Group on Sterling Risk-Free Rates
	SARON ³	SIX Exchange	Secured	CHF repo transactions in the interbank market ⁶	✓	✗ Under consideration	National Working Group on Swiss Franc Reference Rates
	TONAR ⁴	Bank of Japan	Unsecured	Data provided by money market brokers	✓	✗ Under consideration	Study Group on Risk-Free Reference Rates
	Under discussion ⁵	European Central Bank	TBD	TBD ⁷	TBD	TBD	Working Group on Euro Risk-Free Rates

1. Secured Overnight Financing Rate; 2. Sterling Overnight Index Average; Reformed SONIA will not be available until April 2018; 3. Swiss Average Rate Overnight; 4. Tokyo Overnight Average Rate; 5. EMMI concluded in Feb 2018 that EONIA's compliance with European Regulation by Jan 2020 "cannot be warranted"; 6. As well as indicative quotes posted on SIX Repo trading platform; 7. Contenders include the Euro Short-Term Rate (ESTER), the GC Pooling Deferred Rate, and the RepoFunds Rate. ESTER is the new wholesale unsecured overnight bank borrowing rate, which the ECB will produce before 2020

Source: Oliver Wyman analysis, Brinknews.com

FOCUS ON THE SOFR

- The SOFR has been selected in 2017 by the Alternative Reference Rates Committee (ARRC), group convened by the Federal Reserve in 2014

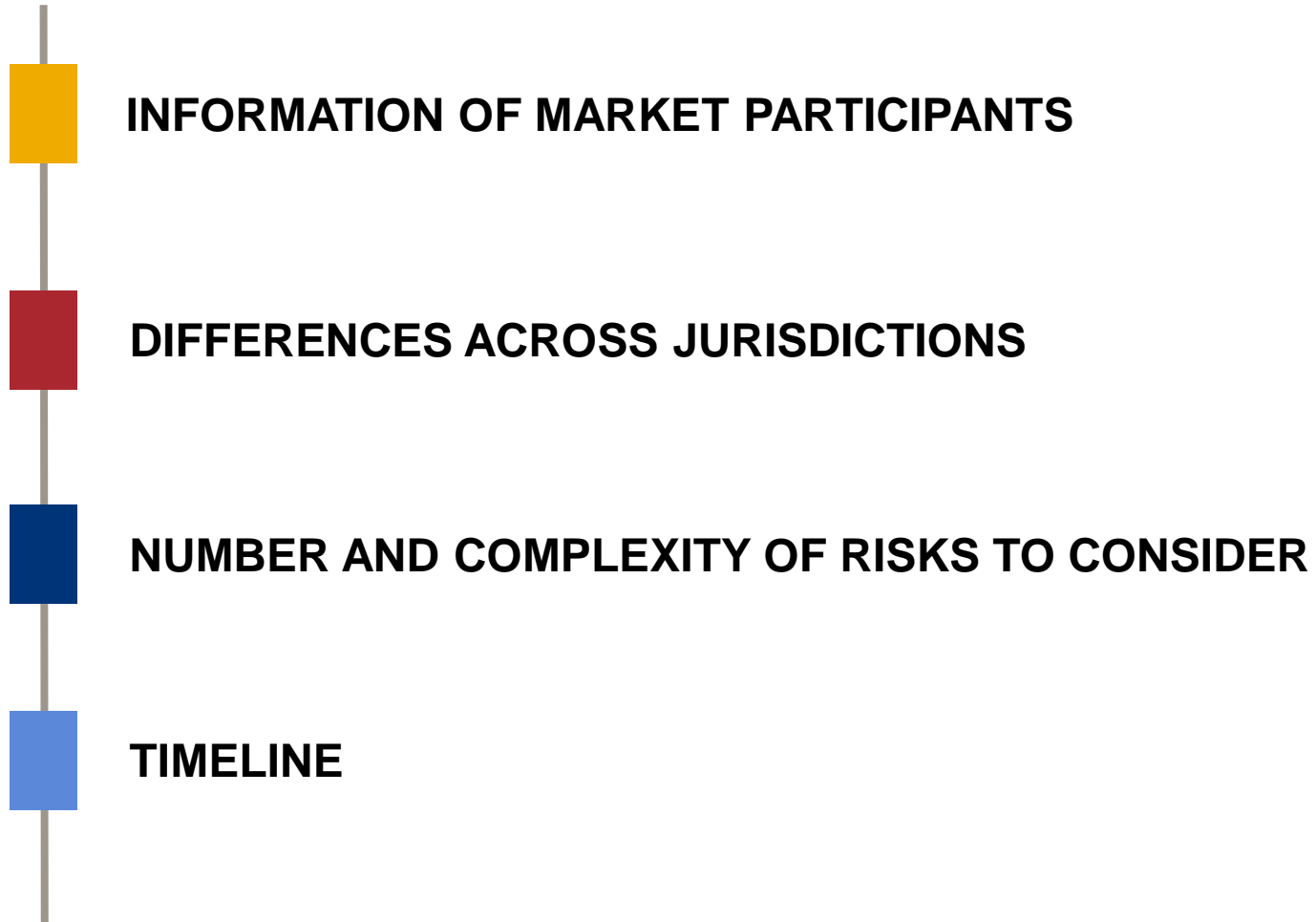


MAIN CHALLENGES





MAIN CHALLENGES



LEGAL

CONDUCT

OPERATIONAL

VALUATION

MODEL

REGULATORY

ACCOUNTING

GUIDELINES FROM THE SEC

- Staff Statement on LIBOR Transition published by the SEC in July 2019

