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For Immediate Release

ISDA, AFME, ICMA, SIFMA and SIFMA AMG Launch Benchmark Transition Roadmap

NEW YORK, February 1, 2018 – The International Swaps and Derivatives Association, Inc. (ISDA), the Association of Financial Markets in Europe (AFME), International Capital Market Association (ICMA) and the Securities Industry and Financial Markets Association (SIFMA) and its asset management group (SIFMA AMG) have today launched a roadmap that highlights key challenges involved in transitioning financial market contracts and practices from interbank offered rates, or 'IBORs', to alternative risk-free rates (RFRs).

The benchmark transition roadmap aggregates and summarizes existing information published by regulators and various public-/private-sector RFR working groups in order to provide a single point of reference on the work conducted so far to select alternative RFRs and plan for transition. The analysis focuses on key IBORs in five currencies: euro, sterling, Swiss franc, US dollar and yen. Based on publicly available data, the roadmap estimates total outstanding notional exposure to the IBORs at over $370 trillion. Derivatives, syndicated loans, securitizations, business and retail loans, floating-rate notes (FRNs) and deposits are all significantly exposed to LIBOR and other IBORs.

The roadmap is the first part of a comprehensive analysis of the issues and potential solutions related to RFR transitioning for a wide spectrum of financial instruments. The Associations will shortly initiate a global survey of buy- and sell-side firms and infrastructure providers, which will feed into an in-depth report aimed at supporting industry interest rate benchmark transition planning efforts.

"The task of transitioning from the IBORs to new RFRs is immense, so the industry needs to start thinking about this now. Today's roadmap is aimed at raising awareness of the work conducted to date, and creating a central resource for interest rate benchmark transitions across market sectors. The next step is to gather feedback from all parts of the market through our global survey to identify all important issues and propose potential solutions for an orderly, efficient and harmonized transition," said Scott O'Malia, ISDA's Chief Executive.

"The challenge of transitioning from IBORs to alternative RFRs is a truly global issue that impacts all areas of finance. For the transition to be successful, it is essential that there is coordination across jurisdictions and asset classes. AFME members and their clients are active users of wholesale cash markets products that use various types of reference rates, such as securitizations, FRNs, mortgages, corporate and certain government bonds, as well as derivatives and other products. This report provides an excellent foundation and stocktake for future crucial work on the transition to new risk-free rates," said Simon Lewis, Chief Executive at AFME.

"Benchmark reform is a global issue for financial markets. ICMA is very pleased to be part of this important international initiative to provide input into the process across market sectors. The launch of the roadmap, which defines the issues involved, is the first step towards coordinating the transition in such a way as to avoid market fragmentation or disruption," said Martin Scheck, ICMA's Chief Executive.

"Our members are focused on the identification of challenges related to making any moves to new reference rates in a manner that protects the liquidity and resiliency of both cash and derivatives markets. This initiative will provide information and data that will help inform regulators and the market about both these challenges and begin the process of identifying potential paths forward," said Kenneth E. Bentsen, Jr., SIFMA president and CEO. "Global communication and coordination within our industry and with regulators is essential, and SIFMA and SIFMA AMG believe the roadmap and subsequent survey will be helpful in this way across the financial industry, to corporate end users, and to regulators. It is crucial to try to achieve some relative consistency across geographical regions, product segments and market participants to both avoid fragmentation of global markets and permit effective risk management."

The roadmap sets out a number of potential challenges that would need to be addressed when transitioning to RFRs, including market adoption of the new RFRs, valuation and risk management complexities, documentation issues, infrastructure requirements, and regulatory, tax and accounting implications. It also outlines the steps taken by the various public-/private-sector RFR working groups to resolve these challenges.

Background

- Interbank rates such as LIBOR, EURIBOR and TIBOR (known collectively as the IBORs) are floating rates based on IBOR contributor banks' average cost of unsecured funding in the interbank market for a given period in a given currency.
- Several reviews focusing on the IBORs have been published in recent years, starting with the Wheatley Review of LIBOR in the UK in September 2012.
- This was followed by a broader set of principles on benchmarks issued by the International Organization of Securities Commissions (IOSCO) in July 2013, and a further, more targeted report on interest rate benchmarks by the Financial Stability Board (FSB) in July 2014.

- The FSB's report noted that liquidity in the transactions underpinning certain of the IBORs has decreased to the extent that these rates are no longer sustainable across all relevant tenors. The FSB therefore recommended transitioning to alternative RFRs.
- Working groups have been set up in several jurisdictions, including the UK (the Working Group on Sterling Risk Free Reference Rates), US (the Alternative Reference Rates Committee), Switzerland (the National Working Group on Swiss Franc Reference Rates) and Japan (the Japanese Study Group on Risk Free Reference Rates), to bring together representatives from both the public and private sectors to determine the most appropriate RFRs in the relevant currencies. European policy-makers have also announced the launch of a similar public-/private-sector working group to consider a euro risk-free rate.
- The selected rates are reformed SONIA for sterling, SARON for Swiss franc, SOFR for US dollar and TONA for yen.
- In July 2017, the chief executive of the UK's Financial Conduct Authority (FCA), Andrew Bailey, announced that the FCA would no longer compel or persuade banks to provide submissions for LIBOR post-2021.
- The FCA's announcement has prompted the industry to begin focusing on transition strategies for new and legacy contracts. In the US, the Alternative Reference Rates Committee has proposed a paced transition plan, and intends to augment and expand that plan through additional proposals this year.

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About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 875 member institutions from 68 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org, Twitter: @ISDA

About AFME
AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU

About ICMA
ICMA is the trade association for the international capital market with over 530 member firms from 60 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, helping to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market. www.icmagroup.org

About SIFMA
SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the US, serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, DC, is the US regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

About SIFMA AMG
SIFMA's Asset Management Group (SIFMA AMG) brings the asset management community together to provide views on US and global policy and to create industry best practices. SIFMA AMG's members represent US and global asset management firms whose combined assets under management exceed $39 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.sifma.org/amg