

Call to action: LIBOR discontinuation on the horizon



We do not think markets can rely on LIBOR continuing to be available indefinitely.

Work must therefore begin in earnest on **planning transition** to alternative reference rates that are based firmly on transactions...

The answer to the...question – **what happens to legacy contracts**, i.e. those still existing at end-2021, and still referencing LIBOR...depends on the preparations that users of LIBOR make in either **switching contracts from the current basis** for LIBOR or in **ensuring that their contracts have robust fallbacks in place** that allow for a smooth transition if current LIBOR did cease publication.



– Andrew Bailey, FCA Chief Executive, July 2017

LIBORs are used extensively with a total associated notional volumes ~USD 240TN across wholesale and retail products

Notional volumes by reference rates and indicative concentrations

Order of magnitude³ - (USD TN)






		USD-LIBOR	GBP-LIBOR	EURO-LIBOR	JPY-LIBOR	CHF-LIBOR
Notional volume		175–185	30	< 2	30	5
By asset class						
Syn. loans	<i>Syn. loans</i>	High	Medium	Low	Medium	Low
	<i>Corporate business loans</i>	Medium	Low	Low	Medium	Low
Bus. loans	<i>Other business loans</i>	Medium	Low	Low	Low	Low
	<i>CRE/Commercial mortgages</i>	High	Low	Low	Low	Low
	<i>Retail mortgages</i>	High	Low	Low	Medium	Medium
	<i>Credit cards</i>	Low	Low	Low	Low	Low
Retail loans	<i>Auto loans</i>	Low	Low	Low	Low	Low
	<i>Consumer loans</i>	Low	Low	Low	Low	Low
	<i>Student loans</i>	Low	Low	Low	Low	Low
FRNs¹	<i>FRNs¹</i>	High	Medium	Low	Medium	Low
Securitisation	<i>RMBS</i>	High	Medium	Low	Low	Low
	<i>Other (CMBS / ABS / CLO)</i>	Medium	Low	Low	Low	Low
	<i>IR Swaps</i>	High	High	Low	High	High
OTC Derivs	<i>FRAs</i>	High	High	Low	Medium	High
	<i>IR Options</i>	High	High	Low	Medium	Low
	<i>X-currency swaps</i>	High	High	Low	High	Medium
	<i>IR Options</i>	High	High	Low	Low	Low
ETD²	<i>IR Futures</i>	High	High	Low	Medium	Medium
Deposits	<i>Deposits</i>	Low	Low	Low	Low	Low
Prevalent term		1M / 3M	1M / 3M / 6M	3M / 6M	3M / 6M	3M / 6M
% roll off after 5Y		70%	60%	N/A	N/A	N/A

Key: High >\$1 TN Medium >\$100BN<x<\$1 TN Low <\$100 BN

1. Floating rate notes 2. Exchange traded derivatives 3. Updated from 2013 survey with 2016/2017 data where available (for selected figures)

The industry has defined alternative rates for the post-LIBOR world, with the approach varying across jurisdictions

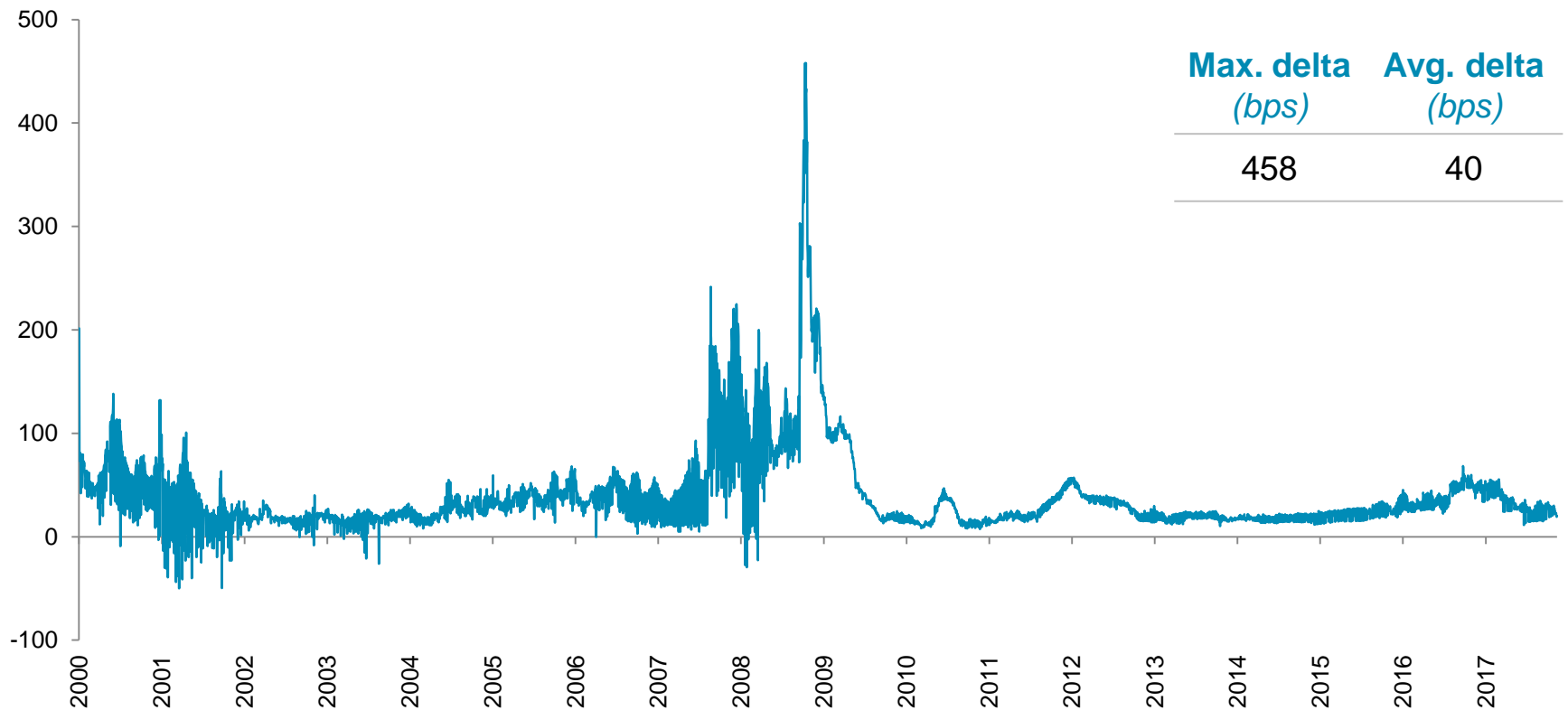
Alternative reference rates definition

Currency LIBOR	Alternative rate	Administrator	Nature	Data / transactions source	O/N rate available	Term rate available ⁸	Working Group
 ➔	SOFR ¹	Federal Reserve Bank of New York	Secured	Tri-party repo, FICC GCF repo, FICC bilateral treasury repo	✗ <i>Target 2018</i>	✗ <i>Under consideration</i>	Alternative Reference Rates Committee (ARRC)
 ➔	Reformed SONIA ²	WMBA <i>Transitioning to Bank of England</i>	Unsecured	Unsecured overnight Sterling transactions negotiated bilaterally and brokered in London by WMBA ⁶	✓	✗ <i>Under consideration</i>	Working Group on Sterling Risk-Free Rates
 ➔	SARON ³	SIX Exchange	Secured	CHF repo transactions in the interbank market ⁷	✓	✗ <i>Under consideration</i>	National Working Group on Swiss Franc Reference Rates
 ➔	TONAR ⁴	Bank of Japan	Unsecured	Data provided by money market brokers	✓	✗ <i>Under consideration</i>	Study Group on Risk-Free Reference Rates
 ➔	Under discussion ⁵	TBD	TBD	TBD	-	-	<i>Newly established</i>

1. Secured Overnight Financing Rate; 2. Sterling Overnight Index Average – reformed SONIA will be available April 2018; 3. Swiss Average Rate Overnight; 4. Tokyo Overnight Average Rate 5. EMMI concluded in February 2018 that EONIA’s compliance with European Benchmark Regulation by January 2020 “cannot be warranted” 6. Wholesale Markets Brokers’ Association; 7. As well as indicative quotes posted on SIX Repo trading platform 8. As of February 2018
Source: Working Groups, Oliver Wyman analysis

Spread between LIBOR and the replacement rates could be significant over time, especially for replacement rates that are secured (e.g., U.S.)

Spread between 3M USD LIBOR and 3M Treasury bills 2000-2017, bps



Source: Thomson Reuters, Oliver Wyman analysis. 3M Treasury bills used as proxy for a secured 3 month borrowing rate.

Current timelines for alternative rate development differ across currencies which creates uncertainty in rate adoption and transition

