

Bloomberg

NIBOR Alternative Working Group

August 2018

LIBOR Latest

- **UK FCA has announced that it aims to abandon LIBOR by 2021**
 - Unsustainable due to a lack of transactions underpinning the data. It is now more of a theoretical rate.
 - Move towards a transactions-based rate
 - Unveiling of SONIA in April 2018
 - Risk-free alternative to LIBOR for sterling derivatives
 - Reflects banks' overnight funding rates in the sterling unsecured market.



Other jurisdictions

- **USA**

- SOFR (Secured Overnight Financing Rate)
- Based on the cost of overnight repos that use Treasuries as collateral
- Fannie Mae issues \$2.5bln & World Bank issues \$1bln floating rate notes tied to SOFR in August 2018

- **EU**

- EONIA
- ESTER (similar to UK SONIA)
- Unsecured rate

- **Switzerland**

- Have been working on a replacement to CHF LIBOR since 2000, but market expressed a preference not to change.
- Currently working on an alternative e.g. SARON (Swiss Average Rate Overnight)

- **Japan**

- TONAR (Tokyo Overnight Average Rate)
- Uncollateralized overnight call rate – transaction based rate provided by money market brokers



Previous consultations with Alternative Rate working groups

- The Wheatley Review of LIBOR
- Fed ARRC Outreach/Communications working group
- Fed ARRC Market Structure Working Group
- Fed ARRC Paced Transition Working Group
- ISDA Benchmark Fallbacks Spread Calculation and Term Fixing Technical Group
- ISDA GBP/EUR/CHF Benchmark Working Group
- ISDA Interest Rates Legal Group
- ISDA Interest Rates Steering Committee
- ISDA Rates Market Infrastructure Group
- ISDA USD Benchmark Working Group
- Bank of England Working Group on Sterling Risk-Free Reference Rates

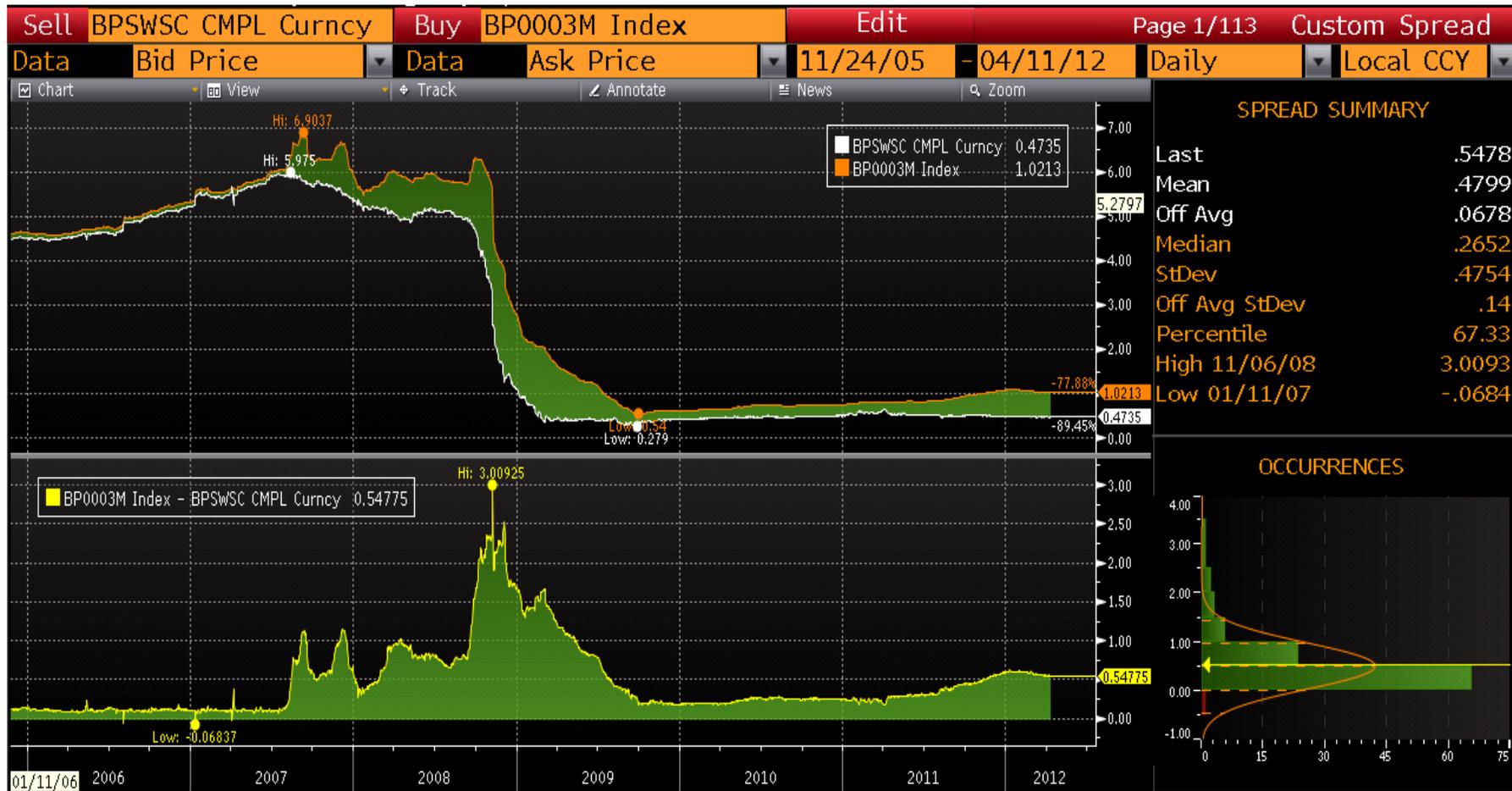
Bloomberg engagement with HM Treasury and Wheatley Commission

- Provision of understanding and analysis of underlying problems to HM Treasury of LIBOR prior to establishment of Wheatley Commission
- Design of potential replacement for LIBOR based on SONIA and SONIA IRS curve plus credit spreads generated from traded prices in the GBP credit market

LIBOR Problems highlighted during presentations

- Post crisis lack of interbank deposits
- No reliable and transparent method of generating/estimating credit rates
- Difficulty in interpreting market expectations of short-term rate movements
- Impossibility of generating accurate cost of borrowing rates required for products reliant upon such rates

Was it ever thus?



5-16 bps = Mean +/- 2sd

Challenges

- **Lack of domestic OIS market**
 - **Hard to get market participants to move away from existing rate**
 - A third of respondents think SOFR will be adopted as primary benchmark rate over the next several years*
 - 78% of respondents think US LIBOR will continue to be used after 2021*
- *Based on a poll of 99 respondents at Bloomberg's "SOFR and Beyond" panel event in June 2018*
- **Hard to get data**
 - To calculate an unsecured funding rate, it may be necessary to calculate overnight rates on banks', insurers' and asset managers cash deposits.
 - Data may be stored in individual banks' systems with no central database.

How Bloomberg could help with NIBOR

**We are currently in the exploratory stage and the following suggestions do not reflect firm commitments*

- **Knowledge sharing**
 - Previous experience working with other IBOR replacement groups
- **Data collection & distribution of new proposed alternative**
 - Execution:
 - We already have regulated execution platforms in either O/N transactions or term swap trading (SEF).
 - We are also the first Dealer to Client SEF to offer SOFR swaps trading
 - Capture large amounts of transaction data
 - Broaden transactions & dissemination beyond banks & corporations
- **Official calculation agent**
 - Removes conflict of interest of banks' calculating new rate
 - Established benchmark provider e.g. Bloomberg Barclays Indices (FI), BFIX (FX)

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