

ISDA Consultation on IBOR fallbacks

19 December 2018



IBOR Fallbacks: Market Consultation on Approaches to Term and Spread Adjustments

- Per the request of the FSB OSSG in 2016, ISDA is currently undertaking work to amend the 2006 ISDA Definitions to implement fallbacks for EUR LIBOR, EURIBOR and certain other IBORs (USD, GBP, JPY and CHF LIBOR, JPY and Euroyen TIBOR, CDOR, BBSW and HIBOR).
- On July 12, 2018, ISDA launched a market consultation (of ISDA members and non-members) to inform final decisions regarding the approaches to term and spread adjustments for derivatives fallbacks.
- It is necessary to address these issues because the fallback RFRs are overnight and risk-free (or nearly risk-free) whereas the relevant IBORs have term structures and incorporate a bank credit risk premium and a variety of other factors (*e.g.*, liquidity, fluctuations in supply and demand).
- This consultation covered GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW.
- ISDA will launch supplemental consultations covering EURIBOR and EUR LIBOR. This is anticipated to take place following publication of ESTER.

IBOR Fallbacks: Preliminary Results

- On November 27, 2018, ISDA published a statement summarizing the preliminary results of the consultation.
- Preliminary results:
 - ISDA received 152 responses from 164 entities, with responses coming from a wide variety of market participants.
 - Overwhelming majority of respondents preferred the “**compounded setting in arrears**” rate for the term adjustment.
 - A significant majority preferred the “**historical mean/median approach**” for the spread adjustment.
 - The majority of respondents preferred to use the same term and spread adjustment across all benchmarks covered by the consultation (and potentially other benchmarks).
- Based on this feedback (and subject to the ongoing work and ultimate decision of the ISDA Board Benchmark Committee), ISDA expects to proceed with developing fallbacks based on the **compounded setting in arrears rate** and the **historical mean/median approach** to the spread adjustment for all of the benchmarks.
- ISDA intends to publish additional information – including an anonymized and aggregated summary of responses to the consultation – by the end of December.
- Before implementing any changes to its standard documentation, ISDA will publish the final approach for review and comment. ISDA expects that this will occur sometime during the first half of 2019.