



# International Indicators of Interest Rates

## Recent Innovations and Initiatives of the Regulators

29 September 2016

- Why financial benchmarks matter
- Timeline of international benchmarks reform
- 2016 progress report
- RUB indices in the context of international reform agenda

Large benefits can accrue to the financial markets, government and private sectors from having credible financial benchmarks. These include:

- Greater pricing transparency and consistency in the pricing of all indexed linked assets and liabilities
- The development credit and capital efficient interest rate derivatives
- The extension of floating rate assets and liabilities without exposure to interest rate risk (can help reduce liquidity / refinancing risk)
- The development of capital markets and term financing
- Can help central banks monitor transmission of their monetary policy

# Timeline of international benchmarks reform



European Bank  
for Reconstruction and Development



**2007 crisis:**  
Libor-OIS spread explosion

**July 2013:**  
IOSCO publishes report on 'Principles for financial benchmarks'

**2015:**  
Interim report on implementation of July 2014 FSB recommendations

**July 2017:**  
Final report?



**2009:** Libor manipulation scandal

**July 2014:** FSB recommendations on interest rate benchmarks

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**Recommending multi-benchmark approach: IBOR+ and Risk Free Rates**

**July 2016:** progress report on implementation of July 2014 FSB recommendations

Multi-benchmark approach:

## ***IBOR+***

There should be a strengthening in existing IBORs and other reference rates based on unsecured bank funding costs by underpinning them to the greatest extent possible with transactions data. These enhanced rates are termed “IBOR+”.

## ***Risk-free rates***

Steps should be taken to develop alternative RFRs, given that there are certain financial transactions, including many derivatives transactions, that are better suited to reference rates that are closer to risk-free.

## ***International work on IBORs:***

**Regulation:** The administrators for the three major interest reference rates – EURIBOR, LIBOR and TIBOR – have taken action to regulate the IBOR administrators (Euribor by FSMA, Libor by FCA, Tibor by JFSA).

**Reform plans** being developed to strengthen the existing benchmarks through adapting their methodology to underpin the rates with transaction data to the extent possible.

- Proposal for *widening the scope of eligible transactions*
- *Waterfall* methodology considered for Libor and Tibor

**Transition:** objective of seamless transition to IBOR+ by H12017

Benchmark administrators and market participants from **other jurisdictions**, including Australia, Canada, Hong Kong, Mexico, Singapore and South Africa, had also taken steps towards reforming the existing rates in their own jurisdiction, given the importance of these rates to their domestic markets and their role as international financial centres.

## Developments on Risk Free Rate (RFR) benchmarks:

Work has focused on either **overnight unsecured or secured rates**, as these markets have been identified as having the most significant underlying transactions:

- **In the US**, the **Overnight Bank Funding rate (OBFR)** and some form of **overnight Treasury GC repo rate** are the prime RFR candidates. *The OBFR began being published in March 2016* and is calculated using federal funds transaction data as well as certain overnight Eurodollar transaction data
- **In Europe: EONIA** is already considered to be a viable and actively used unsecured overnight RFR. The working group is exploring the feasibility of a transactions-based **repo benchmark** (New Repo Index).
- **In Japan**: the uncollateralised overnight call rate (the Tokyo Overnight Average Rate, **TONAR**) is the prime candidate, with the **GC repo** rate the secondary candidate
- **In England**, the BoE, has taken on the administration of the **SONIA** benchmark with a view to reforming SONIA to include bilateral and brokered transactions in the calculation of the benchmark, using a new data collection as its source. The working group is currently working on a **gilt repo** alternative secured overnight RFR candidate.

**Transition:** *paced* focusing on new transactions or '**big bang**' seeking to change existing trades?

# RUB benchmark timeline in the context of the international benchmark reform timeline



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**2010: Ruonia**  
**2011: ROISfix**

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# RUB indices in the context of international reform agenda



European Bank  
for Reconstruction and Development

- Ruonia and ROISfix created before the FSB recommendations on RFR !
- International recommendations on multi-benchmark approach applicable to Russia:
  - ‘many derivatives transactions are better suited to reference rates that are closer to risk-free’