



REGULATORY WATCH

NEWSLETTER

Asia Pacific

IBOR TRANSITION – WHY
BANKS IN ASIA SHOULD ACT NOW

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Banks regulated by the EU, dealing with European clients or using EU benchmarks will be impacted by the BMR regulation. They hence will have to finalize their benchmark transition by December 2021, which is the new official deadline.

Moreover, the MAS and the HKMA have recently shown their determination to move forward faster on IBOR transitioning for local Asian benchmarks.

Time is running out. Banks operating in APAC should actively start devising their benchmark transitioning strategy and assess business and operational impacts. They also should monitor regulatory developments actively. This will help leaping ahead of the competition and avoiding potential bottlenecks when the deadline approaches.

WHAT IS IBOR TRANSITION AGAIN?

As a result of the LIBOR manipulation scandal, central banks and benchmark supervisors in the major world currencies have begun replacing overnight benchmarks with new alternative rates as early as 2017. The new selected alternative benchmarks will offer more guarantees in terms of robustness, reliability and transparency. They should also be less prone to manipulation.






Jurisdiction	Working group	Alternative RFR	Rate administration	Secured vs unsecured	Description
	Working Group on Sterling Risk-Free Reference Rates	Reformed Sterling Overnight Index Average (SONIA)	Bank of England	Unsecured	<ul style="list-style-type: none"> Fully transaction-based Encompasses a robust underlying market Overnight, nearly risk-free reference rate
	Alternative Reference Rates Committee	Secured Overnight Financing Rate (SOFR)	Federal Reserve Bank of New York	Secured	<ul style="list-style-type: none"> Fully transaction-based Encompasses a robust underlying market (bilateral and triparty repo)
	Working Group on Risk-Free Reference Rates for the Euro Area	Euro Short-Term Rate (ESTER)	TBC	Unsecured	<ul style="list-style-type: none"> Daily money market reporting from 52 largest euro area banks
	The National Working Group on CHF Reference Rates	Swiss Average Rate Overnight (SARON)	SIX Swiss Exchange	Secured	<ul style="list-style-type: none"> Secured rate that reflects interest paid on interbank overnight repo CHF repo transaction in the interbank market
	Study Group on Risk-Free Reference Rates	Tokyo Overnight Average Rate (TONAR)	Bank of Japan	Unsecured	<ul style="list-style-type: none"> Fully transaction-based benchmark for the robust uncollateralized overnight call rate market Calculated and published on a daily basis

Figure 1: New risk-free reference (RFR) rates in each principal jurisdiction

The second phase of reform will concern term rate benchmarks, with transitions scheduled to take place within the next 3 years. This modification of large-scale rate benchmarks underlines the particularly critical dimension of interbank refinancing markets for the international financial system.

FOCUS ON HONG KONG AND SINGAPORE

Having significant FX swap activity and a tremendous USD Libor linked exposure, the Asian market will be pressured to adopt alternative reference rates (ARRs). Based on the Financial Stability Board recommendations, the five LIBOR currency areas (US, Euro Area, Japan, the UK and Switzerland) have already taken steps to identify alternative reference rates (ARRs) for the LIBOR currencies. As FSB members, Hong Kong and Singapore have set up Working Groups to engage relevant stakeholders in identifying an appropriate ARR for HIBOR (Hong Kong) and SIBOR (Singapore).

Moreover, the Hong Kong and Singapore authorities have recently shown their determination to move forward faster on IBOR transitioning for local Asian benchmarks.

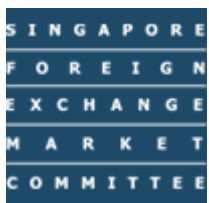
In March 2019, the Hong Kong Market Authority (HKMA) has



published a letter to all Authorized firms to ask them to start to make preparation for the transition to ARR. The Treasury Market Authority (TMA) is considering the HKD Overnight Index Average (HONIA), a nearly risk-free overnight interbank funding rate based solely on transaction data as the HIBOR's transition rate. Additionally, the TMA has recently published a consultation paper on April 2019 on ARR for HIBOR to collect feedbacks from the market participants.



Singapore is a leading market in shifting the way in which benchmarks are calculated. The ABS Benchmarks Administration Co Pte Ltd and the Singapore Foreign Exchange Market Committee (ABS-SFEMC) issued a public consultation in December 2017 to seek feedback on proposals to enhance the Singapore Interbank Offered Rate (SIBOR) and finalized its proposals to improve SIBOR in July 2019. The improved version of the SIBOR using the waterfall methodology computation should be implemented in H2 2019. In parallel, the Monetary Authority of Singapore (MAS) introduced a financial benchmarks regulatory regime to benchmarks administrators and submitters on 8 October 2018 where manipulation of any financial benchmark in Singapore will be associated to criminal and civil sanctions.



BMR : A HARD HEADLINE IN 2021 THAT WILL IMPACT ASIA

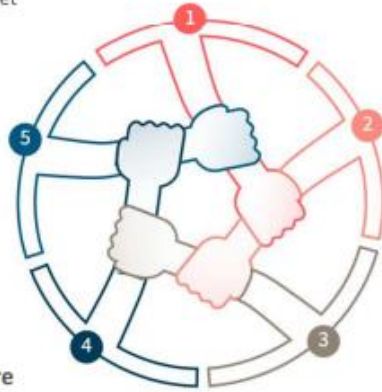
Banks operating in the APAC region and booking deals in Europe or dealing with European clients will be impacted by the BMR regulation. They hence will have to use BMR compliant benchmarks by December 2021, which is the new official regulation deadline. As a result, benchmark transition projects for banks in Asia should become a priority. Tasks will include for instance review of product contracts, modification of risk models and set-up of new booking processes.

An increased risk management awareness

- Increased operational risks during the transition phase and the need for comprehensive mapping of impacted activities
- Carry out an indispensable hedge against interest rate risks and analyze the impact of spreads between the current and new benchmarks on the balance sheet

Commercial impacts

- Define a relevant client communication strategy to identify the key business impacts of the IBOR transition



An exhaustive review of contracts

- Organize the contract amendments by identifying the costs of the transition and the related operational risks
- All products impacted by the IBOR transition will need to be identified

Operations and Infrastructure

- Anticipate the impacts of the transition on processes and systems such as trade data repositories, data providers, core retail and commercial banking systems

Governance

- Set up a project team that is concerned by market developments as new benchmarks are being validated
- Coordinate internally the team in charge of the transition
- Communicate proactively with counterparties, suppliers and retail & corporates clients

Figure 2: Key impacts of BMR and IBOR transition

HOW CAN AUREXIA HELP YOU?

Aurexia can help your organization:

- Identify which benchmarks and products within your organization will be impacted by IBOR transition and BMR
- Clarify business, compliance and process impacts
- Set your priorities and define a project roadmap

Have a good
read!



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