

MMCG UPDATE ON MONEY MARKET BENCHMARKS

26TH SEPTEMBER 2017

CORPORATE & INSTITUTIONAL
BANKING
GLOBAL MARKETS



BNP PARIBAS

The bank for a changing world

UPDATE ON MONEY MARKET BENCHMARKS

Andrew Bailey: Chief Executive of the FCA

- While significant improvements have been made to LIBOR since April 2013, the absence of active underlying markets raises a serious question about the sustainability of the LIBOR benchmarks that are based upon these markets.
- Panel bank support to sustain LIBOR until end-2021 will enable a transition that can be planned and executed smoothly.
- Work must begin in earnest on planning the transition to alternative reference rates that are based firmly on transactions.
- “UK and European legislation does give us the power to compel banks to contribute to LIBOR where necessary... But we do not think it right to ask, or to require, that panel banks continue to submit expert judgements indefinitely. Indeed, the powers available to us under European Benchmark Regulation, do not allow us to compel indefinitely.”
- End 2021 the target to end the usage of Libor in UK (but ICE announced it intends to continue publication)



THE RFR PATH AND HOW TO DISCONTINUE THE IBOR

- Both the UK and the FED have engaged to prepare the replacement of LIBOR over the last 2-3 years
- FED and BOE led workgroups have laid the foundations, and managed to choose their RFR
 - ARCC has chosen a secured rate the SOFR as the preferred RFR
 - BOE work group has chosen to consolidate SONIA, which is an unsecured rate
- Both are implying that the Main Reference rate for markets could be based on an O/N rate
- Both BOE and FED have clearly indicated that they would like to find incentives to help the market to transfer its LIBOR based products (IRS, Futures...) to RFR based products
- How to transfer the existing contracts / trades into a RFR + Margin?
 - Main idea shared in US seems to be:
 - To freeze the OIS-BOR spread market on a date agreed in advance
 - To provide all market participants an official price for any Forward Date in the future to replace LIBOR by OIS + Margin



ECB ANNOUNCEMENT

- ECB to create a new MMSR based Unsecured Overnight Rate to complement the private sector existing ones
- That new rate could be used as a backstop to private sector benchmark rates
- ECB, Belgium FSMA, EU Commission, and ESMA to create a new working group to identify and adopt the Euro area RFR or Risk Free O/N Rate

<http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr170921.en.html>

http://www.ecb.europa.eu/explainers/tell-me-more/html/benchmark_rates_qa.en.html

http://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr170921_1.en.html



DISCLAIMER

Legal Notice: This document is CONFIDENTIAL AND FOR DISCUSSION PURPOSES ONLY; it constitutes a marketing communication and has been prepared by a Sales and Marketing function within BNP Paribas and/or its subsidiaries or affiliates (collectively “we” or “BNP Paribas”). As a confidential document it is submitted to selected recipients only and it may not be made available (in whole or in part) to any other person without BNP Paribas’ written consent.

This document is not a recommendation to engage in any action, does not constitute or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision. To the extent that any transaction is subsequently entered into between the recipient and BNP Paribas, such transaction will be entered into upon such terms as may be agreed by the parties in the relevant documentation.

The information contained in this document has been obtained from sources believed to be reliable, but there is no guarantee of the accuracy, completeness or suitability for any particular purpose of such information or that such information has been independently verified by BNP Paribas or by any person. None of BNP Paribas, its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy or completeness of the information, or any opinions based thereon, contained in this document and it should not be used in place of professional advice. Additional information may be provided on request, at our discretion. Any scenarios, assumptions, historical or simulated performances, indicative prices or examples of potential transactions or returns are included for illustrative purposes only. Past performance is not indicative of future results. Investors may get back less than they invested. BNP Paribas gives no assurance that any favourable scenarios described are likely to happen, that it is possible to trade on the terms described herein or that any potential returns illustrated can be achieved. This document is current as at the date of its production and BNP Paribas is under no obligation to update or keep current the information herein. In providing this document, BNP Paribas offers no investment, financial, legal, tax or any other type of advice to, and has no fiduciary duty towards, recipients. Certain strategies and/or potential transactions discussed in this document may involve the use of derivatives which may be complex in nature and may give rise to substantial risks, including the risk of total or partial loss of any investment or losses without limitation and which should only be undertaken by those with the requisite knowledge and experience. BNP Paribas makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for recipients’ financial needs, circumstances or requirements. Recipients must make their own assessment of strategies, securities and/or potential transactions detailed herein, using such professional advisors as they deem appropriate. BNP Paribas accepts no liability for any direct or consequential losses arising from any action taken in connection with or reliance on the information contained in this document even where advised of the possibility of such losses.



DISCLAIMER

As an investment bank with a wide range of activities BNP Paribas may face conflicts of interest and you should be aware that BNP Paribas and/or any of its affiliates may be long or short, for their own account or as agent, in investments, transactions or strategies referred to in this document or related products before the material is published to clients and that it may engage in transactions in a manner inconsistent with the views expressed in this document, either for their own account or for the account of their clients. Additionally, BNP Paribas may have acted as an investment banker or may have provided significant advice or investment services to companies or in relation to investments mentioned in this document. The information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction where (a) the distribution or use of such information would be contrary to law or regulations, or (b) BNP Paribas or a BNP Paribas affiliate would become subject to new or additional legal or regulatory requirements. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

This document is intended for, and is directed at, (a) Professional Clients and Eligible Counterparties as defined by the European Union Markets in Financial Instruments Directive (2004/39/EC) (“MiFID”), and (b) where relevant, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, and at other persons to whom it may lawfully be communicated (together “Relevant Persons”). Any investment or investment activity to which this document relates is available only to and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or its content.

This document is being communicated by BNP Paribas London Branch, 10 Harewood Avenue, London NW1 6AA; tel: +44 (0)20 7595 2000; fax: +44 (0)20 7595 2555 (www.bnpparibas.com). Incorporated in France with Limited Liability. Registered Office: 16 boulevard des Italiens, 75009 Paris, France. 662 042 449 RCS Paris. BNP Paribas London Branch is lead supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR). BNP Paribas London Branch is authorised by the ECB, the ACPR and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas London Branch is registered in England and Wales under no. FC13447. © BNP Paribas 2017. All rights reserved.

