FSB FINANCIAL STABILITY BOARD

Press release

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FSB encourages broad and timely adherence to the ISDA IBOR Fallbacks Protocol

The Financial Stability Board (FSB) welcomes the announcement today by the International Swaps and Derivatives Association (ISDA) of the forthcoming launch of its IBOR Fallbacks Protocol (the Protocol) and IBOR Fallbacks Supplement (the Supplement) for IBOR-linked derivative contracts. The FSB strongly encourages widespread and early adherence to the Protocol – by all affected financial and non-financial firms – which will be a major driver of transition for derivatives in all LIBOR currencies and a critical step in benchmark transition ahead of end-2021.

LIBOR transition is a G20 priority and remains an essential task that will strengthen the global financial system. The FSB reiterates its view that firms across all jurisdictions should continue their efforts to reduce reliance on IBORs where appropriate and, in particular, remove remaining dependencies on LIBOR by the end of 2021. As part of this, market participants are encouraged to understand the fallback arrangements that would apply if a permanent discontinuation of an IBOR or other interest rate benchmark occurred, and to ensure these arrangements are robust enough to prevent potentially serious market disruption in such an event. The Protocol and ISDA fallback language will create a readily available avenue to adopt fallbacks into most derivatives contracts and replace IBOR exposures with risk-free rate linked alternatives, once fallbacks have been triggered.

The FSB's Official Sector Steering Group (OSSG) has engaged regularly with ISDA during the significant programme of work that it has undertaken since July 2016 to strengthen the robustness of derivatives markets as part of global benchmark reforms. The fallbacks and related triggers that will be implemented via the Protocol and Supplement are based on a series of open consultations by ISDA that have resulted in broad market consensus. The FSB encourages adherence to the Protocol as a tangible step that can be taken by both financial and non-financial firms to avoid disruptions in covered derivatives contracts if the IBOR they currently reference is discontinued or, in the case of LIBOR, becomes non-representative. Widespread adoption of the Protocol will be necessary to ensure it is effective in mitigating risks at a system-wide level. Any market participants who choose not to do so for some or all of their relevant trades will need to take robust alternative steps, such as closing out these positions or appropriate bilateral amendments, to avoid the risk of disruption.

Andrew Bailey, Governor of the Bank of England and Co-Chair of the Official Sector Steering Group, said "Finalisation of the ISDA Protocol is an important step in addressing the stock of legacy Libor-linked contracts ahead of end-2021. I would like to thank ISDA for its work on ensuring markets now have a robust and trusted fallback for trillions of dollars of derivative contracts."

"ISDA's Protocol is another important milestone in the movement off of LIBOR," said John C. Williams, New York Fed President and CEO, and Co-Chair of the Official Sector Steering Group. "It's vitally important that firms quickly sign onto the Protocol to ensure that existing derivatives contracts are equipped with strong fallbacks."

The FSB and OSSG Co-Chairs thank ISDA for its work to deliver this critical step in benchmark transition.

Notes to editors

The FSB set out in 2014 a series of recommendations for strengthening key interbank offered rates (IBORs) in the unsecured lending markets, and for promoting the development and adoption of alternative nearly risk-free reference rates, where appropriate. The FSB and member authorities, through the FSB Official Sector Steering Group (OSSG) chaired by Andrew Bailey (Governor, Bank of England) and John C. Williams (President and CEO, Federal Reserve Bank of New York), are working to implement and monitor these recommendations. The FSB published its most recent annual progress report in December 2019 on implementation of the recommendations.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Vice Chairman, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.