



## IBOR Transformation Australian Working Group

### MARKET STATEMENT

25 November 2021

*The IBOR Transformation Australian Working Group (ITAWG)<sup>1</sup> is aware of the challenges of IBOR transition and is encouraging the market-wide adoption of risk-free rates in place of LIBOR. In this regard, the ITAWG wishes to draw attention to regulatory expectations, and to strongly encourage Australian market participants, to reference SOFR in the USD leg of any cross-currency swaps wherever it is practicable to do so, without delay.*

United States financial markets authorities have provided clear supervisory guidance, endorsed by regulators in many other jurisdictions including Australia, that banks cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by 31 December 2021<sup>2</sup>. In addition, the Market Risk Advisory Committee (MRAC) of the Commodity Futures Trading Commission (CFTC), as part of its ‘SOFR First’ initiative<sup>3</sup>, recommended that interdealer trading conventions for cross-currency swaps between U.S. dollar, Japanese yen, sterling, and Swiss franc move to each currency’s risk-free rate (RFR) as of 21 September 2021. The ITAWG commends the SOFR First initiative and notes the generally successful switch in these cross-currency pairs to trading RFR to RFR.

Unlike markets in currencies directly impacted by LIBOR cessation, AUD will be a multi-rate market with BBSW remaining an important benchmark rate alongside the AUD risk-free-rate, AONIA (aka RBA cash rate). As a result, AUD/USD cross-currency swaps are likely to transition from BBSW/LIBOR to BBSW/SOFR or AONIA/SOFR. The ITAWG understands that major Australian banks in the cross-currency swap market are operationally ready to offer either pairing, but market activity is expected to be driven by end user preferences.

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<sup>1</sup> The IBOR Transformation Australian Working Group (ITAWG) is the national working group for considering the strategic issues facing Australia as the market is transformed by international developments with regard to IBOR transition, and leading work on domestic responses to the change.

<sup>2</sup> <https://occ.gov/news-issuances/news-releases/2020/nr-ia-2020-161a.pdf>. See also, <https://asic.gov.au/about-asic/news-centre/speeches/regulating-ficc-in-today-s-age-of-uncertainty/>

<sup>3</sup> [https://www.cftc.gov/media/6176/MRAC\\_SOFRFirstSubcommitteeRecommendation071321/download](https://www.cftc.gov/media/6176/MRAC_SOFRFirstSubcommitteeRecommendation071321/download)

While ex-LIBOR currencies are driving toward a preference for RFR/RFR pairings, the transition challenge faced by AUD is twofold:

- 1) with BBSW continuing as the predominant domestic benchmark, in the near term the market has less impetus to adopt AONIA/SOFR; and
- 2) the BBSW/SOFR pair is likely to be dominant in the near term but presents users with additional potential challenges inherent to an IBOR/RFR pairing.

Nevertheless, given Australia's integration in global cross-currency markets it is important to adjust in a timely way to the reality that trades should be referenced to SOFR, in line with supervisory expectations.

The ITAWG strongly encourages market participants to reference SOFR in the USD leg of any cross-currency swaps wherever it is practicable to do so, without delay and in any event by 31 December 2021.

*The IBOR Transformation Australian Working Group.*