



# IBOR Transformation Australian Working Group

## MARKET STATEMENT

4 April 2022

### USE OF INTEREST RATE BENCHMARKS IN AUSTRALIA

A critical step in the shift in global interest rate markets towards more robust foundations was reached on 31 December 2021, as most LIBOR settings were published for the final time. Since then, 24 LIBOR settings are no longer available. Six 'synthetic' GBP and JPY LIBOR settings are available for the duration of 2022 but only for legacy use. Five USD LIBOR settings are available until mid-2023, although regulators required the use of USD LIBOR in new contracts to cease from 1 January 2022 - with limited exceptions<sup>1</sup>.

Across USD, GBP, EUR, JPY and CHF markets, participants are adopting alternative risk-free reference rates – Risk Free Rates<sup>2</sup> (RFRs), such as SOFR in USD and SONIA in GBP markets.

While LIBOR has a definitive end-date, not all interest rate benchmarks that reflect bank funding costs - 'IBORs' – are expected to discontinue. IBORs that will remain for the foreseeable future include, for example, EURIBOR and Hong Kong's HIBOR, as well as Australia's local credit-based benchmark BBSW<sup>3</sup> which remains robust.

This means that unlike for LIBOR, regulators in Australia aren't advocating a wholesale transition from BBSW to referencing the risk-free rate. In Australia's case, this is the cash rate, also known as AONIA.

Instead, Australia is taking a multi-rate approach whereby market participants should choose the reference rate that best suits the particular product and situation. Therefore, the market is likely to see a shift towards referencing AONIA across certain products. These may include, among others:

- the cross-currency swaps market, where LIBORs and EURIBOR have been replaced by the respective RFR – we refer to our November statement in this regard;
- multi-currency lending facilities and other financial contracts, to align RFR usage across currencies;

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<sup>1</sup> Joint Media Release by RBA, APRA and ASIC, 4 June 2021.

<sup>2</sup> The Financial Stability Board has recommended since 2014 a transition towards risk free rates (RFRs) that are based on actual transactions in liquid markets.

<sup>3</sup> ASX is responsible for the calculation, publication and oversight of BBSW, calculated by [ASX Benchmarks](#)

- fallback provisions for BBSW referencing contracts, including securities eligible as collateral in the Reserve Bank’s market operations<sup>4</sup>;
- products referencing 1-month BBSW, where the RBA has stated that users should give careful consideration to using alternative benchmarks given the lack of liquidity in this market<sup>5</sup>.

Market participants may therefore need to make suitable preparations in order to accommodate AONIA's increasing use.

*IBOR Transformation Australian Working Group.*

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<sup>4</sup> RBA Media Release number 2021-20, Robust Fallbacks Required for BBSW Securities, 13 September 2021

<sup>5</sup> For example, speech by Christopher Kent, 'The End of Libor and the Australian Market', 18 March 2021