



The LIBOR Transition Risk-free Rate (RFR) Publication

ACG Information Exchange TF

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Risks

**Benchmark rates
(e.g. LIBOR)**

The broken trust

What's next?

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2012

Conflict of Interests

+USD 583 billion

94

I. Why RFR?

The Fall of LIBOR



[July Issue of The Economist]



Public Trust in LIBOR Corroded by the Rigging Scandal

- The London inter-bank offered rate (LIBOR)
- Since 1980s, globally used as a credible benchmark for the pricing of loans and derivatives
 - LIBOR = Cost of borrowing = Huge impact on profits and losses
 - If LIBOR goes up, your mortgage goes up.
- In 2012, numerous big banks found to have manipulated LIBOR rates to their advantage
 - Barclays, Citigroup, Deutsche Bank, JPMorgan Chase, Royal Bank of Scotland, and many others.



① LIBOR Phase-out

- Completely phased out by June 30, 2023
- One-week and two-month USD LIBOR phased out by December 31, 2021

② Transition to Alternative Benchmarks (e.g. RFR)

- Regulators around the world to develop credible risk-free rates.

World-wide Transition to RFRs

Nation	RFR	Administrator
US	SOFR ¹⁾	Federal Reserve Board (FRB)
UK	SONIA ²⁾	Bank of England (BOE)
Europe	ESTR ³⁾ Enhanced EURIBOR ⁴⁾	European Central Bank (ECB) European Money Markets Institutes (EMMI)
Japan	TONA ⁵⁾ Enhanced TIBOR ⁶⁾	Bank of Japan (BOJ) Japanese Bankers Association (JBA)

1) Secured Overnight Financing Rate
2) Sterling Overnight Index Average
3) Euro Short-Term Rate

4) Euro Interbank Offered Rate
5) Tokyo Overnight Average Rate
6) Tokyo Interbank Offered Rate

- **Search for the most robust benchmark to replace LIBOR** and overcome the shortcomings of LIBOR
- **Calculation to be based on actual prices** of underlying transactions, not estimates that may be subject to biases
- Underlying **trading volume to be large** enough to ensure statistical accuracy



+USD 583 billion
to be recalculated
with a new rate
from 2022!

- ① **Overnight repo rates** to be adopted as RFR in Korea
- ② **KSD** selected as **an administrator to calculate and publish RFRs based on the overnight repo rates** of sovereign bonds and monetary stabilization bonds

II. Why KSD?

The Rise of RFR

2019. 6

RFR Enhancement TF launched by FSC¹⁾ and BOK

TF Structure

- ① **RFR Development Unit**
- ② Regulatory Enhancement Unit
- ③ Market Engagement Unit
- ④ LIBOR Risks Management Unit

- **KSD** is one of the 38 participants **responsible for determining how to calculate and publish RFR.**

- Operation Group: Financial Supervisory Services (FSS), BOK, KSD
- Advisory Group: Korea Institute of Finance (KIF), Korea Capital Market Institute (KCMI)
- Market Participant Group: 13 banks and 13 non-banking financial institutions

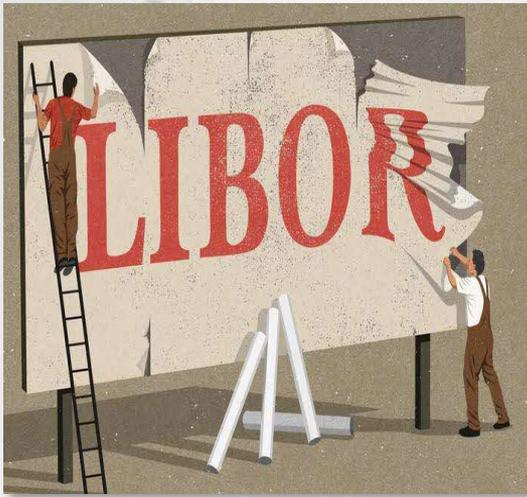
After two years of extensive research

2020. 11

Repo Rate Selected as RFR in Korea with KSD as Administrator



- 26 market participants voted to select **repo rates for sovereign bonds and monetary stabilization bonds as RFR.**
- **KSD to be the first CSD in the world in charge of RFR calculation and publication**



Completion of Calculation/Validation/Publication Processes

- RFR to be thoroughly calculated and validated before publication
- KSD to remain independent and highly accountable **with strict internal control and prevention of conflicts of interests**

→ Highly transparent and reliable RFR free from errors

KSD to Publish RFR from 3Q2021 Onwards

- RFR to be calculated and validated by e-SAFE of KSD
- **Test running** of RFR publication system **during July and September**
- RFR to be published in a dedicated **website from Oct 2021 onwards**

2012

Conflict of Interests

+USD 583 billion

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2012, the year of LIBOR rigging

Conflict of Interests of banks

+USD 583 billion to be recalculated

94 days to go for LIBOR Transition

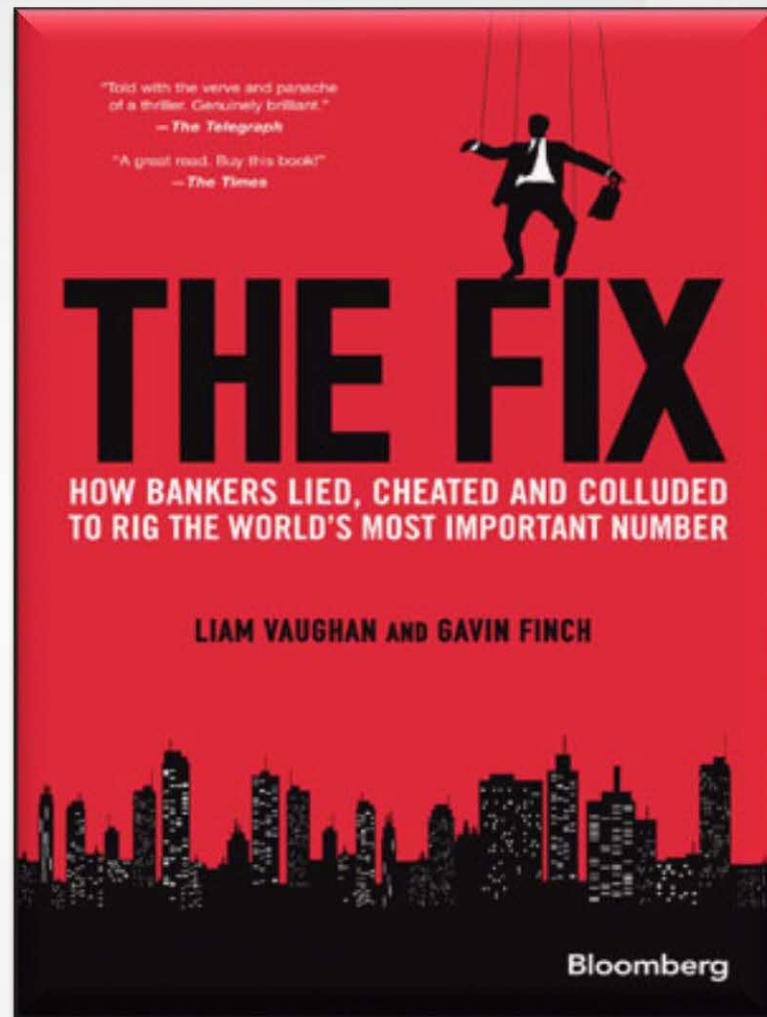
Briefing

Jul 7th 2012 edition >

The LIBOR scandal

The rotten heart of finance

A scandal over key interest rates is about to go global



Thank You

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