July 2021

What you need to know about IBOR transition

What is IBOR transition and how is AXA IM approaching it?

Background and overview

What is IBOR transition?

IBOR transition refers to the discontinuation of Interbank Offered Rates (IBORs) as the interest rate benchmark, and the move to using alternative 'risk free' benchmarks. Benchmarks currently in use include the London Interbank Offered Rate (LIBOR), and the Euro Overnight Index Average (EONIA).

Why are markets moving away from LIBOR?

Trigger 1: LIBOR manipulation
In 2012, the Financial Conduct Authority (FCA) began imposing fines on firms for the attempted manipulation of LIBOR. The firms involved have been fined over £757m for LIBOR and EURIBOR-related misconduct.

Trigger 2: Little transactional volume
Since the 2008 financial crisis, the number of panel banks reporting their funding rate has declined and the remaining banks that still submit a rate are reporting significantly fewer transactions. The absence of active underlying markets raises a serious question about the sustainability of LIBOR benchmarks, which are based upon these markets, and LIBOR is no longer seen as a robust representative of lending transactions.

Consequences
As a result, the Financial Stability Board provided its initial recommendations on IBORs in 2014, with the objective of avoiding certain risks relating to a lack of robustness, unreliability of methodologies and scarcity of data used for benchmark calculation. In 2017, the FCA and the Bank of England raised questions about the future sustainability of these rates, obtaining voluntary agreements from LIBOR panel banks to continue to make their daily submissions until the end of 2021, when all LIBOR settings will cease.

> **The latest FCA announcements mark the final chapter in the process that began in 2017, to remove reliance on unsustainable LIBOR rates and build a more robust foundation for the financial system**

Andrew Bailey,
Bank of England Governor, March 2021

How will the IBOR transition be phased out?

Discontinuation of LIBOR and EONIA rates

- On 31 May 2019, the European Money Markets Institute announced that the EONIA benchmark would be discontinued on 3 January 2022
- On 5 March 2021, the FCA has announced the dates that panel bank submissions for all LIBOR settings will cease, after which representative LIBOR rates will no longer be available:
  - LIBOR rates for sterling (GBP), the Swiss franc (CHF), Japanese yen (JPY) and euro (EUR) will be discontinued on 31 December 2021
  - US dollar (USD) LIBOR will be discontinued on 30 June 2023

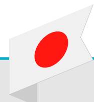
The recommended LIBOR and EONIA replacement rates, known as risk-free rates (RFRs), are alternative reference rates that have been developed or reformed for use instead of LIBOR rates. Regulators in the five LIBOR currency jurisdictions have published their preferred alternative reference rates as shown below:

- Sterling Overnight Index Average (SONIA) for LIBOR GBP
- Secured Overnight Financing Rate (SOFR) for LIBOR USD
- Swiss Average Overnight Rate (SARON) for LIBOR CHF
- Tokyo Overnight Average Rate (TONAR) for LIBOR JPY

EONIA will be replaced by the Euro Short Term Rate (€STR). From 2 October 2019 until EONIA's discontinuation on 3 January 2022, EONIA will be calculated as the €STR plus a spread of 8.5 basis points.

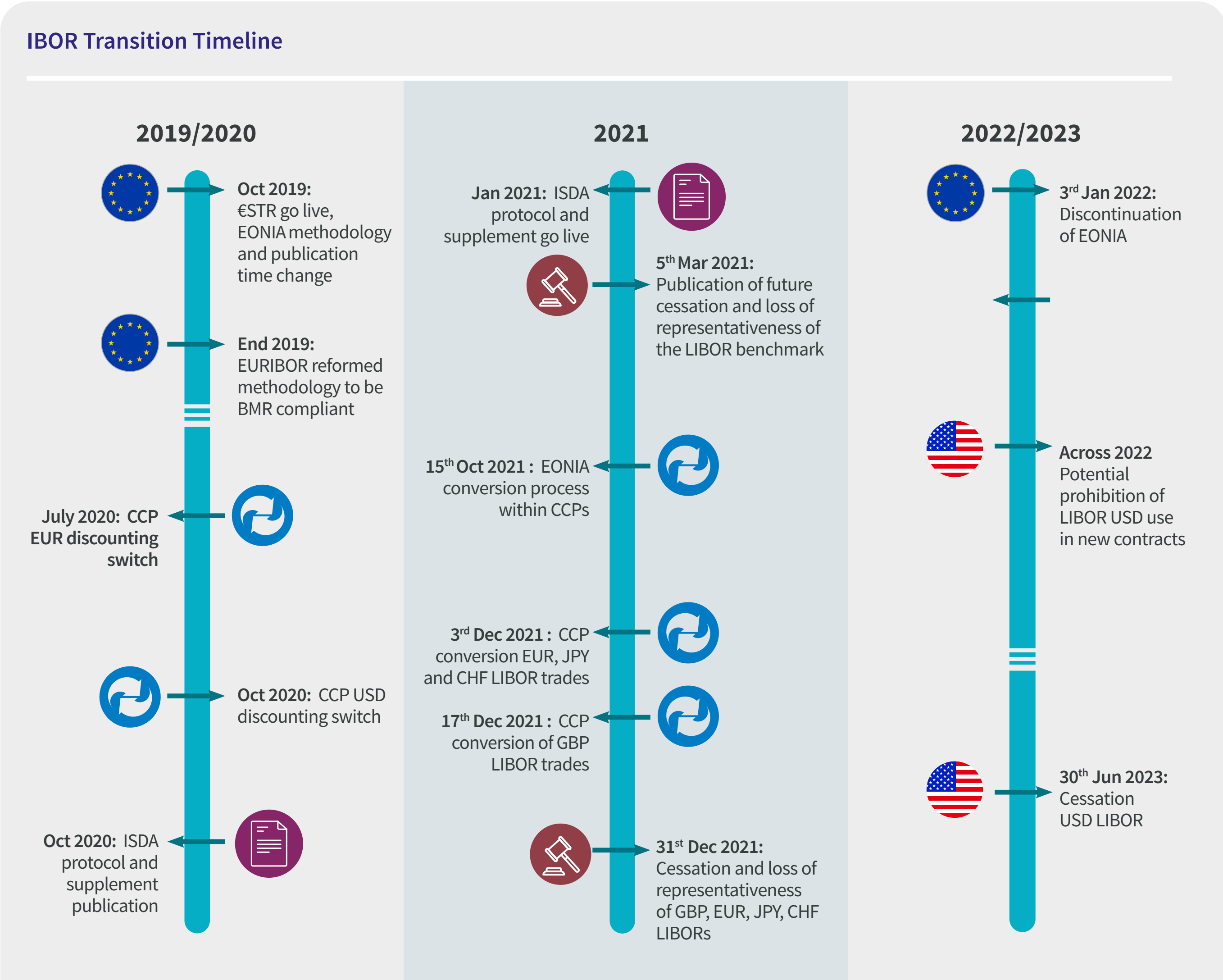
What are the recommended alternative rates?

The main alternative reference rates and their characteristics are described below:

Jurisdiction					
IBORs	**GBP LIBOR**	**USD LIBOR**	**Euro LIBOR, EONIA**	**CHF LIBOR**	**JPY LIBOR, JPY TIBOR, EUROYENTIBOR**
Working Group	Working Group on Sterling Risk-Free Reference	Alternative Reference Rates Committee	Working Group on Euro Risk-Free Rates	The National Working Group on Swiss franc Reference Rate	Study Group on Risk-Free Reference Rates
Alternative RFR	Reformed Sterling overnight index average (SONIA)	Secured overnight financing rate (SOFR)	Euro short-term rate (€STR)	Swiss average rate overnight (SARON)	Tokyo overnight average rate (TONA)
Rate administrator	Bank of England	Federal Reserve Bank of New York	ECB	SIX Swiss Exchange	Bank of Japan

Key milestones on the IBOR transition

In March 2021, Bank of England Governor Andrew Bailey stated that the latest FCA announcements marked the final chapter in the process which began in 2017 - to remove the reliance on unsustainable LIBOR rates and build a more robust financial system.



AXA IM's IBOR transition project

AXA IM has been preparing for this transition since 2019 and is committed to achieving the best possible outcomes, and least disruption, for clients and funds. The project is closely following market and regulatory developments to ensure that our approach aligns with best practice across the market. In addition, AXA IM continues to contribute to the RFR Working Group, the Cash Market Legacy Task Force and IBOR market consultations.

The AXA IM IBOR transition project is fully mobilised to:

- Monitor all market and industry evolutions announced by the relevant authorities.
- Maintain strong industry engagement and communication with both the authorities and our clients.
- Analyse the impact of the transition on our business with input from our investment, legal, operational, risk management as well as our communications teams and more.

The AXA IM IBOR transition project reports to six separate internal governance committees that oversee various working groups in addition to relevant entity boards and committees. These working groups aim to deliver the project smoothly and ensure AXA IM's readiness for the IBOR transition.

What steps has AXA IM taken so far?

Global transition: AXA IM has put in place a global IBOR inventory and interactive dashboard to monitor the transition of legacy products to ensure all new investments are in RFRs, or include robust fallback clauses.

Legal documentation repapering: AXA IM has identified several contracts impacted by the discontinuation of IBOR and has initiated work to amend them.

Systems and processes: AXA IM has identified the operational processes impacted by the IBOR transition and allocated resources to adapt its processes and systems to ensure operational readiness.

The next steps for AXA IM

- Finalise the transition of performance fees and benchmarks which reference LIBOR or EONIA before the end of 2021.
- Consider active transition on derivatives (where relevant), as per the regulators' recommendations.
- On a monthly basis continue to monitor the transition of cash products held within funds with portfolio managers, by monitoring potential liquidity depreciation and the development of potential legislative solutions to support the transition.
- Ensure the external funds in which we have invested have taken appropriate steps to manage the IBOR transition.
- Finalise the legal documentation repapering.
- Finalise the operational readiness for RFRs, LIBOR migration and potential tough legacy contracts or products, if any.

How is AXA IM managing the IBOR transition for our clients?

For AXA IM funds: Some of these reference LIBOR/EONIA as either a benchmark or in relation to performance fees. To change these benchmarks, AXA IM is seeking regulatory approval, and where required, approval from the investors in that fund. Where approval is not sought, investors are being provided with advance notification of the change. As the manager of the funds which may reference LIBOR/EONIA instruments, AXA IM will always strive to achieve the best outcome for our clients in managing IBOR risk.

The transition away from LIBOR and other IBORs is being carefully managed so the effect on our clients is as small as possible. Your dedicated AXA IM team will contact you in due course if there is a need to inform you of any impact related to this transition that is relevant to your portfolio. Of course, we remain available via phone or email should you have any questions.

AXA Investment Managers

Additional Resources:

1. ISDA – Benchmark Reform and Transition from LIBOR
2. European Central Bank – Interest rate benchmarks
3. FCA – Transition from LIBOR
4. Bank of England - Transition from LIBOR to risk-free rates
5. LCH and Benchmark reform

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Société de gestion de portefeuille titulaire de l'agrément AMF n°GP 92-08 en date du 7 avril 1992
S.A. au capital de 1 384 380 euros, 353 534 506 RCS Nanterre.