

FCA consults on proposed decision to require synthetic LIBOR for 6 sterling and Japanese yen settings

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We have published a consultation on our proposed decision to use one of our powers under the Benchmarks Regulation (BMR) that will be introduced by the Financial Services Act 2021. This power will enable us to require the LIBOR administrator, IBA, to change the benchmark's methodology. The consultation is a key step in ensuring an orderly wind down of LIBOR.

On 5 March 2021, we confirmed the dates the LIBOR panels will end. This includes the cessation of all sterling and Japanese yen LIBOR panels immediately after end-2021.

We said we would consult on using our new powers under the BMR to require the more widely used 1-month, 3-month and 6-month sterling and Japanese yen LIBOR settings to be determined under a changed methodology (ie on a 'synthetic' basis) after end-2021. For the 3 Japanese yen LIBOR settings, based on information currently available to us, we intend to compel their publication for 1 year only until end-2022, after which they will cease.

We propose to use our Article 23D(2) BMR powers to require a synthetic LIBOR to be calculated using a forward-looking term version of the relevant risk-free rate (ie SONIA for sterling and TONA for yen) and the fixed ISDA spread adjustment published for the purposes of the ISDA IBOR Fallbacks Supplement and Protocol for the respective LIBOR setting.

For sterling, there are 2 term SONIA reference rates (TSRRs) provided by Refinitiv and IBA. Both TSRRs are compliant with BMR requirements. We have selected the TSRR provided by IBA as a component for the specific purpose of a potential synthetic sterling LIBOR. More generally as part of the transition away from LIBOR in certain niche parts of the cash market, we consider that either TSRR could be suitable for limited usage as identified by the Working Group on Sterling Risk-Free Reference Rates. We welcome continued publication of both rates.

For yen, we have selected the Tokyo Term Risk Free Rate (TORF) provided by QUICK Benchmarks Inc (QBS) as a component for a potential synthetic yen LIBOR. TORF is recommended by the Japanese Cross-Industry Committee to help transition in the cash market and is the only forward-looking term RFR for yen. We are grateful to QBS for agreeing to make the TORF available to IBA.

Our proposed decision is in line with our policy framework for whether and how we would use the Article 23D(2) powers to ensure an orderly cessation of a critical benchmark. We consulted on this policy framework in November 2020 and published it in final form in March 2021.

This consultation on our proposed decision to use our 'methodology change' powers is open for 9 weeks. We will finalise our decision based on the feedback received. Where a synthetic LIBOR is implemented, we will also need to determine who will be permitted to use it. We have consulted separately on our proposed policy for how we would determine this. That consultation closed on 17 June 2021 and we are currently considering responses before publishing our final policy framework. We will aim to consult further in Q3 on a proposed decision on precisely what legacy use to allow for any synthetic sterling and yen LIBOR.

We intend to confirm our final decisions as soon as practicable in Q4.

We remind market participants that any synthetic LIBOR will be time limited and is intended as a safety-net only for contracts that cannot transition. We encourage market participants to continue active transition away from LIBOR wherever practicable and in line with relevant industry milestones, and not to delay their plans by waiting for a potential 'synthetic' solution.