

Further arrangements for the orderly wind-down of LIBOR at end-2021

Press Releases | First published: 29/09/2021 | Last updated: 29/09/2021

The sterling, Japanese yen, Swiss franc and euro LIBOR panels are ceasing on 31 December 2021. Today, the FCA is confirming that to avoid disruption to legacy contracts that reference the 1-, 3- and 6-month sterling and Japanese yen LIBOR settings, it will require the LIBOR benchmark administrator to publish these settings under a 'synthetic' methodology, based on term risk-free rates, for the duration of 2022. These 6 LIBOR settings will be available only for use in some legacy contracts, and are not for use in new business.

Today's publications also include a consultation paper on the FCA's proposed decision on which legacy contracts can use these synthetic LIBOR rates.

'Synthetic' LIBOR

ICE Benchmark Administration currently publishes 35 LIBOR settings covering sterling, US dollar, Japanese yen, Swiss franc and euro. As set out in the FCA's 5 March announcement, publication of 24 of these settings will cease at end-2021. We expect that 5 US dollar settings (overnight, and 1-, 3-, 6- and 12-month) will continue to be published based on the current 'panel bank' LIBOR methodology, and on a representative basis, until end-June 2023.

Today, the FCA published notices confirming its decisions to compel the continued publication of the remaining 6 sterling and Japanese yen LIBOR settings for a limited time period after end-2021, using a 'synthetic' methodology. This is to help ensure an orderly wind-down.

The synthetic rate has been chosen by the FCA to provide a reasonable and fair approximation of what panel bank LIBOR might have been in the future. The synthetic rates will no longer, however, be 'representative' as defined in the Benchmarks Regulation (BMR).

The FCA has confirmed the methodology it will require LIBOR's administrator to use for calculating these 'synthetic' rates, following its consultation proposals, as:

- forward-looking term versions of the relevant risk-free rate (ie the ICE Term SONIA Reference Rates provided by ICE Benchmark Administration for sterling, and the Tokyo Term Risk Free Rates (TORF) provided by QUICK Benchmarks Inc., adjusted to be on a 360 day count basis, for Japanese yen), plus
- the respective ISDA fixed spread adjustment (that is published for the purpose of ISDA's IBOR Fallbacks for the 6 LIBOR settings).

These 6 LIBOR settings will become permanently unrepresentative of their underlying markets from 1 January 2022. The first non-representative publication under their 'synthetic' methodology will be on 4 January 2022.

A significant majority of respondents to the FCA's consultation proposals supported this approach. The FCA will shortly publish a detailed Feedback Statement on responses received.

Use of synthetic LIBOR in legacy contracts

The FCA will decide and specify before year-end which legacy contracts are permitted to use these synthetic LIBOR rates. The FCA has published a consultation on its proposed decision today. At least for the duration of 2022, the FCA is proposing to permit legacy use of synthetic sterling and Japanese yen LIBOR in all contracts except cleared derivatives. Clearing houses plan to transition all cleared sterling, Japanese yen, Swiss franc and euro LIBOR contracts to risk-free rates by end-2021.

The FCA encourages firms to respond to its consultation by 20 October. The FCA will confirm its final decision on permitted legacy use as soon as practicable after the consultation closes.

Market participants have made good progress in actively transitioning contracts in line with the Working Group on Sterling Risk-Free Reference Rates' recommended end-Q3 target. But the proposals today recognise that it will not be practicable to convert all outstanding sterling and Japanese yen LIBOR contracts by year-end. The FCA and PRA will continue to monitor firms' efforts to remove any remaining dependencies on LIBOR across all asset classes, both leading up to and after end-2021.

Users of LIBOR should continue to focus on active transition rather than relying on synthetic LIBOR. Synthetic LIBOR will not be published indefinitely. The FCA must review the use of its power to require publication of a ceasing benchmark at least annually (up to a maximum period of 10 years). For the 3 Japanese yen settings, the FCA does not intend to renew the requirement, and publication will therefore cease at end-2022. The FCA will also consider progressively restricting continued permission to use synthetic LIBOR in legacy contracts if this would help maintain progress towards an orderly cessation, and thereby support its objectives to protect consumers or market integrity. This may be necessary if, for example, work to reduce the stock of outstanding legacy LIBOR contracts does not continue.

US dollar transition

The FCA also continues to monitor progress in US dollar LIBOR transition.

The consultation published today sets out the FCA's proposed decision to prohibit most new use of US dollar LIBOR after end-2021, in line with US guidance and existing FCA and PRA supervisory expectations.

The decisions to require publication of some sterling and Japanese yen LIBOR settings on a synthetic basis are not determinative of any future decisions in respect of US dollar LIBOR from end-June 2023.

Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, commented: 'Market participants have made huge progress in moving away from LIBOR. Today's publications confirm some important details of how LIBOR will now be brought to an end. New use of sterling, Japanese yen, Swiss franc, euro, and – with only limited exceptions, US dollar – LIBOR will have to stop at end-2021. The publication of a 'synthetic' rate for some sterling and Japanese yen LIBOR settings for a limited period will give market participants a bit more time to complete transition of legacy contracts. We encourage firms to use that time well.'

Notes to editors

1. Since July 2017, when the FCA announced its intention that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after end-2021, global authorities have strongly encouraged market participants to transition from LIBOR to alternative rates and prepare for LIBOR cessation. In order to ensure an orderly wind-down of LIBOR, the FCA has been given new and enhanced powers, including powers to require a methodology change for a critical benchmark, such as LIBOR, and to compel its publication for a limited time period. The FCA has launched multiple consultations and published Statements of Policy on the use of its powers.

2. The 24 LIBOR settings that will cease at end-2021 are the spot next/overnight, 1 week, 2- and 12-month sterling and Japanese yen settings, the 1 week and 2 month US dollar settings, and all Swiss franc and euro settings. The 1-, 3- and 6-month sterling and Japanese yen LIBOR settings will continue on a ,synthetic' but unrepresentative basis for a time-limited period. The remaining 5 US dollar LIBOR settings will continue on a representative ,panel bank' basis until end-June 2023, when the US dollar panel will cease.
3. The 6 sterling and Japanese yen LIBOR settings that will continue to be published under a ,synthetic' methodology after year-end will become Article 23A benchmarks (under the BMR) on 1 January 2022.
4. Under the changed methodology for the 3 Japanese yen ,synthetic' LIBOR settings, TORF will be adjusted as $TORF * (360/365)$ to account for day count differences between Japanese yen LIBOR as it is currently determined under the ,panel bank' methodology and TORF.
5. The Government introduced the Critical Benchmarks (References and Administrators' Liability') Bill to Parliament on 8 September 2021. This legislation is designed to address any remaining risks to contractual certainty, or of disputes, in respect of legacy contracts referencing ,synthetic' LIBOR rates after end-2021.
6. Alongside today's consultation, the FCA has also published Statements of Policy for its legacy use and new use restriction powers, and a Feedback Statement, following its policy consultation published in May 2021.
7. See all news, statements, speeches and publications on LIBOR.