FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8477
press@fsb.org

Ref: 9/2023
27 April 2023

FSB Statement to encourage final preparations for the USD LIBOR transition

The finish line for US dollar (USD) LIBOR transition at end-June 2023 is now less than three months away. There has been significant progress made to date, and market participants must continue to act in order to ensure an orderly transition and to support the foundations necessary for a sustainable and stable financial system going forward. Given the limited time ahead, the FSB stresses that it is critical that market participants act expeditiously to ensure that their legacy contracts are prepared to transition by end-June 2023.

The FSB also emphasises the ongoing importance of market participants choosing to use robust reference rates in their contracts, as it is essential that the financial system is anchored in these robust reference rates that reflect deep, credible, and liquid underlying markets.

Transition of legacy contracts ahead of end-June 2023

There has been significant progress so far, and important work needs to be done to complete USD LIBOR transition globally. The FSB encourages market participants to complete the transition of any remaining USD LIBOR-linked contracts now, in order to avoid a 'pile-up' towards end-June 2023 that could introduce operational risks and wider market disruption.

The USD LIBOR panel will cease at end-June this year. On 5 March 2021, ICE Benchmark Administration (IBA) and the UK Financial Conduct Authority (FCA) formally confirmed that panel bank submissions for overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR settings will cease as of end-June 2023, immediately after which representative LIBOR rates will no longer be available.

The FSB report published in December 2022 noted positive progress in transitioning legacy contracts. Progress was particularly notable in FSB jurisdictions, with the report acknowledging important work still to be done and highlighting potential for further progress elsewhere, where awareness of USD LIBOR transition is relatively low.[1] The report noted that over 90% of USD LIBOR exposures are in derivatives, which can be addressed through adherence to the ISDA Protocol and CCP conversion events. The FSB continues to encourage wide adoption of the ISDA protocol and engagement with CCP conversion processes as critical mechanisms for

[1] A similar observation was highlighted in FCA (2022) *Consultation on 'synthetic' US dollar LIBOR and feedback to CP22/11*, November, which noted the potentially slower transition in USD LIBOR lending agreements in developing countries.

ensuring orderly transition of the derivatives market.[2] Between now and end-June 2023, firms with remaining USD LIBOR exposures should take the steps set out in the FSB's Global Transition Roadmap and maintain the momentum in transitioning to robust reference rates.

Market participants should be acting now to remediate legacy LIBOR contracts. Such action can help reduce uncertainty upon the end of the USD LIBOR panel and avoid unintended outcomes, and can help avoid operational risk in the event of a pile up of outstanding contracts.

For contracts referencing USD LIBOR that cannot be otherwise amended to have a clearly defined and practicable benchmark replacement, federal legislation (the LIBOR Act) has been enacted in March 2022 in the United States for contracts under US law. Under the LIBOR Act, references to overnight, 1-, 3-, 6-, 12-month USD LIBOR in these contracts will be replaced, by operation of law, with a SOFR-based benchmark replacement identified by the Federal Reserve Board (FRB).[3]

To help address outstanding legacy contracts that are not covered under the United States federal legislation and may require a short period of extra time to complete transition, the UK FCA, has announced that it will require continued publication of the 1-, 3- and 6-month USD LIBOR settings following the end of the USD LIBOR panel, using a robust, unrepresentative synthetic methodology based on the CME Term SOFR Reference Rate and the ISDA fixed spread adjustment. The FCA will permit use of the synthetic settings in all legacy contracts except cleared derivatives. The FCA intends that publication of these synthetic USD LIBOR settings will cease on 30 September 2024.[4] These decisions are consistent with its consultation of market participants in November 2022.[5]

The FSB reminds market participants that they should not rely on the availability of synthetic LIBOR rates in place of active transition of legacy contracts. Any synthetic LIBOR provides only a short-term, temporary bridge to alternative robust reference rates. Market participants need to continue to take active steps to address existing legacy contracts in preparation for the permanent cessation of USD LIBOR rates.

For synthetic sterling LIBOR, the FCA has announced its intention that the remaining 3-month setting will cease at end-March 2024.[6] The FSB reminds those market participants who still have remaining legacy contracts referencing 3-month sterling LIBOR to take necessary steps to ensure that they are prepared for its permanent cessation.

Use of Robust Reference Rates

Firms should continue to transition activity to robust reference rates, including the Secured Overnight Financing Rate (SOFR) for the USD, to support a sustainable transition and to promote financial stability.

Since December 2019, supervisors across various FSB jurisdictions have issued guidance and rules on ceasing new use of USD LIBOR by end-2021.[7] Market participants have taken steps to

2 LCH and CME intend to convert cleared USD LIBOR referencing derivatives in H1 2023.

3 FRB (2022) *Regulation Implementing the Adjustable Interest Rate (LIBOR) Act*, December.

4 FCA (2023) *FCA announces decision on synthetic US dollar LIBOR*, April.

5 FCA (2022) CP22/21: Consultation on 'synthetic' US dollar LIBOR and feedback to CP22/11, November (cit).

6 FCA (2023) FCA announces decision on synthetic US dollar LIBOR, April (cit). Further, 1- and 6-month synthetic sterling LIBOR have ceased as of 31 March 2023.

7 FSB (2019), *FSB Progress Report on Reforming Major Interest Rate Benchmarks*, December.

stem the flow of new LIBOR exposures and to support the deep and liquid markets referencing risk-free or nearly risk-free reference rates (RFRs), which provide more robust foundations for interest rate markets.

Globally, there has been strong progress in the transition away from USD LIBOR to SOFR to date. Adoption of SOFR, the Alternative Reference Rates Committee's (ARRC) recommended replacement for USD LIBOR, has been significant. In both cash and derivatives markets, SOFR is now the predominant reference rate.

As the FSB has noted, it is essential that the transition is anchored in RFRs that are robust and underpinned by deep, credible and liquid markets to avoid the vulnerabilities experienced with LIBOR. The FSB has recognised that term RFRs may be a useful transition tool but has emphasised the need for their use to remain limited in order to avoid diminishing the underlying RFR market which, in turn, would undermine the construction of Term RFRs.[8] The FSB is aware that certain administrators of term RFRs have placed restrictions on use within their licensing agreements. For example, the FSB welcomes the recommendation from the Canadian Alternative Reference Rate (CARR) working group and the administrator of term CORRA to restrict the rate's use in financial contracts through its licensing agreement to the use cases recommended by CARR.[9]

The FSB continues to encourage all administrators of these rates to strongly consider matching their licensed scope of use to the recommendations of the official sector and National Working Groups.

To support a globally consistent shift away from USD LIBOR to robust alternatives, IOSCO has also launched a one-time review of 'credit sensitive rates' (CSRs) and SOFR term rate alternatives to USD LIBOR that present themselves as compliant with IOSCO's Principles for Financial Benchmarks. The aim of the review is to assess how these benchmarks align with IOSCO Principles 6, 7 and 9 relating to design, data sufficiency and transparency, and whether such rates provide users with robust and reliable benchmarks and sufficient information to enable them to assess their suitability. The recent period of market stress underscores the potential fragility of the wholesale unsecured funding markets that underpin CSRs and reinforces the importance of this review. IOSCO's review is expected to be finalised by June 2023.

Notes to editors

International cooperation through the FSB has been vital to the success of LIBOR transition to date and will continue to play a key role in ensuring an orderly wind-down of USD LIBOR in the remaining months ahead.

The FSB's Official Sector Steering Group (OSSG) has served as a forum for cooperation among authorities that have leading roles in interest rate benchmark reforms and transition preparedness.

The OSSG is currently led by co-chairs John C. Williams, President of the Federal Reserve Bank of New York and Nikhil Rathi, Chief Executive Officer of the UK Financial Conduct Authority.

---

8 FSB (2021), *Interest rate benchmark reform: Overnight risk-free rates and term rates*, June.

9 The Canadian Overnight Repo Rate Average (CORRA) is the Canadian RFR. CORRA, or Term CORRA where appropriate, will replace the Canadian Dollar Offered Rate (CDOR) as the primary interest rate benchmark in Canada with the ceasing of CDOR's publication on June 28, 2024.

John Williams made the following statement: "*When we undertook this effort a decade ago, we knew that transitioning off of a fundamentally flawed and deeply embedded reference rate like LIBOR would be complicated and require significant effort. Our goals were to both avoid the very serious disruptions that could have occurred with a disorderly end to LIBOR and provide a stronger foundation for the financial system by replacing LIBOR with a much more robust reference rate. Through the many years of hard work and collaboration between the public and private sectors in the United States and around the world, we are approaching the last milestone in this work.*

As we enter the final stage of the LIBOR transition, the official sector has been clear that market participants should already be prepared for the end of June 2023. They should have plans to remediate legacy contracts with new reference rates. As we think about the future, it is important to remember the lessons of the past and maintain a robust reference rate environment."

Nikhil Rathi made the following statement: "*In 2017, my predecessor Andrew Bailey set out the serious issues regarding the lack of active underlying markets for LIBOR. Since then, there has been significant progress in the transition away from LIBOR to more robust risk-free or near risk-free reference rates, including SOFR and SONIA. I would like to thank all FSB members, and financial market participants around the world, for their continued efforts to ensure the success of this process.*

We are now at the final leg of transition. At the end of June this year, the USD LIBOR panel will cease. As we prepare for this milestone, I remind financial market participants to maintain their focus, especially considering the global importance of USD LIBOR. They should continue to actively transition any remaining USD LIBOR contracts, as synthetic USD LIBOR is only a temporary bridge to alternative robust reference rates."

Jean-Paul Servais, Chair of IOSCO, noted: *"IOSCO underscores the importance of a solid transition from LIBOR to alternative rates, which must not replicate the same weaknesses as LIBOR. As part of its benchmark transition efforts, IOSCO is currently reviewing alternative benchmarks to USD LIBOR, including "Credit Sensitive Rates", that present themselves as in adherence to the IOSCO Principles for Financial Benchmarks."*

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.