FINANCIAL STABILITY BOARD

19 November 2021

FSB Statement to Support Preparations for LIBOR Cessation

Most LIBOR panels will cease at the end of this year, with certain key USD settings continuing until end-June 2023 to support the rundown of legacy contracts[1] only. On 5 March 2021, ICE Benchmark Administration (IBA) and the UK Financial Conduct Authority (FCA) formally confirmed the dates that panel bank submissions for all LIBOR settings will cease, after which representative LIBOR rates will no longer be available. US Banking Supervisors as well as many other authorities in FSB jurisdictions have encouraged firms to cease new use of USD LIBOR as soon as practicable and in any event by 31 December 2021, subject only to some limited exceptional use to support an orderly transition. Firms should now be finalising preparations for the impact of cessation of all GBP, EUR, CHF and JPY LIBOR panels, and the 1-week and 2-month USD LIBOR settings, and to stop entering into new contracts that use USD LIBOR from the end of 2021.

Continued reliance of global financial markets on LIBOR poses risks to global financial stability. Transition away from LIBOR has been a multi-year international effort requiring significant commitment and sustained effort from both financial and non-financial firms to transition to overnight risk-free, or nearly risk-free, rates (RFRs) that are sufficiently robust for extensive use in global financial markets. The FSB welcomes the strong progress made over the years since the formation of its Official Sector Steering Group in 2013, particularly as regards the availability and liquidity of products referencing robust RFRs as alternatives to LIBOR.

Completion of the steps laid out in the FSB's Global Transition Roadmap[2] is now critical and market participants will need to act with urgency to ensure they are fully prepared by the end of the year.

1. Significant progress has been made in transitioning to Risk-Free Rates, but market participants still need to finalise preparations to cease new use of LIBOR by end-2021

There has been substantial progress in the adoption of RFRs in new derivatives contracts across all five of the LIBOR currencies and in ensuring transition mechanisms for legacy LIBOR derivatives contracts are in place. Firms now have certainty about the fixed spread adjustments to be used in contracts incorporating the fallbacks produced by the International

[1] Legacy contracts refer to transactions executed before January 1, 2022. See FRB's press release on 30 November *Federal Reserve Board welcomes and supports release of proposal and supervisory statements that would enable clear end date for U.S. Dollar (USD) LIBOR and would promote the safety and soundness of the financial system*.

[2] FSB (2021), *Global Transition Roadmap for LIBOR*, June.

Swaps and Derivatives Association (ISDA) which creates a clear economic link between LIBOR and selected RFRs and provides clarity for market participants seeking active transition of LIBOR referencing contracts that expire after end-2021. Various jurisdictions have successfully implemented initiatives to promote convention changes away from LIBOR to RFRs.

Although progress has been made, market participants will need to act swiftly to ensure that they meet the timelines set out in the FSB's Roadmap. It has been repeatedly emphasised that the continuation of some USD LIBOR tenors through 30 June 2023 is intended only to support the maturity of legacy contracts.

Considering the significant use of USD LIBOR globally, the FSB continues to believe it is particularly important to reinforce the message and timeline from supervisors globally to ensure there is no interruption to new business and financing. Firms should cease the use of USD LIBOR for new financial instruments and other contracts as soon as practicable and no later than the end of 2021. Instead, new products will need to reference RFRs or other robust alternatives to LIBOR. FSB members, including Canada, the EU, Hong Kong, India, Japan, Mexico, Singapore, Switzerland and the UK[3,4] have reiterated these expectations to regulated firms in their own jurisdictions as appropriate to support this objective. The FSB, through its Official Sector Steering Group and the Standing Committee on Supervisory and Regulatory Cooperation, will continue to monitor progress on ceasing new use of USD LIBOR and provide support for action taken by home authorities in all LIBOR currencies to promote a smooth transition.

The FSB recognises the widespread use of USD and other LIBORs in emerging markets and developing economies (EMDEs) and therefore considers engagement with EMDEs to be a key part of LIBOR transition globally. In September, the FSB held a workshop to share best practice with, and receive feedback from, FSB Regional Consultative Group ("RCG") members from around the world. The FSB, and its RCGs, continues to stand ready to support completion of a smooth transition in EMDE markets.

2. Transition should be primarily to overnight RFRs, the most robust benchmarks available, to avoid reintroducing the weaknesses of LIBOR

To ensure financial stability and not reintroduce the vulnerabilities seen with LIBOR, benchmarks which are used extensively must be especially robust. Transition will only reduce vulnerabilities if it addresses the core weakness of LIBOR – the lack of deep and liquid underlying markets. The FSB therefore continues to encourage adoption of overnight RFRs where appropriate as the most robust available alternatives to LIBOR. There are benefits to both financial institutions and end-users of moving from LIBOR to overnight RFRs, compounded in arrears, where possible, to be able to hedge directly in the most liquid derivative markets and

3 Available at: Canada, EU, Hong Kong, India, Japan, Mexico, Singapore, Switzerland, UK

4 The FCA has also published a consultation and its final decision to restrict new use of USD LIBOR after end-2021.

align with market standard product sets for new business, as well as to provide the most robust reference rate for the future.

The FSB recognises that in some cases there may be a role for RFR-derived term rates and has set out the circumstances where the limited use of RFR-based term rates would be compatible with financial stability. In line with this, the Alternative Reference Rates Committee in the U.S. recently formally recommended forward-looking SOFR term rates as an additional tool for the transition from USD LIBOR, while also laying out its recommendations related to the limited scope of use for that rate. In the UK, the Working Group on Sterling Risk Free Reference Rates recommended[5] the market adopt a broad-based transition to SONIA compounded in arrears, with use of term SONIA reference rate being limited. This was reinforced in a standard published by the FICC Markets Standards Board considering selected use cases for term SONIA reference rates in sterling markets where there is a robust rationale to meet specific needs. Some other jurisdictions have also set out recommendations related to the use of such rates.

It is crucial that potential alternative rates to LIBOR are especially robust and reflect credible underlying markets underpinned by a sufficient volume of transactions. The FSB highlights the recent Statement on Credit Sensitive Rates by the Board of the International Organization of Securities Commissions (IOSCO). Ongoing adherence of reference rates to the IOSCO Principles for Financial Benchmarks is critical for successful transition from LIBOR. IOSCO will closely watch market developments in this respect.

3. Active transition of legacy contracts remains the best way for market participants to have control and certainty over their existing agreements

Authorities in the UK and Japan have taken steps for the temporary publication of "synthetic" versions of GBP and JPY LIBOR to support legacy contracts where there is no realistic ability to renegotiate or amend the contract to reference an alternative benchmark before the discontinuation of the relevant LIBOR panels. The FCA, the regulator of ICE Benchmark Administration which is the administrator of LIBOR, confirmed[7] in September that in order to help legacy GBP and JPY LIBOR contracts which cannot transition to risk-free rates ahead of the LIBOR panels ending, it will require ICE Benchmark Administration to publish the 1-, 3- and 6-month GBP and JPY LIBOR settings on a synthetic basis for the duration of 2022. In the UK, these six LIBOR settings will be prohibited for use in new contracts within scope of the Benchmarks Regulation (BMR) by supervised firms. Following its consultation, the FCA has confirmed its decision to allow legacy contracts that cannot be transitioned by end-2021, except cleared derivatives, to use these 6 synthetic LIBOR rates. In Japan, the Financial

[5] Available at: Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives

[6] Available at: Statement on Credit Sensitive Rates

[7] Available at: Further arrangements for the orderly wind-down of LIBOR at end-2021

Services Agency and the Bank of Japan stated[8] that the use of JPY LIBOR settings on a synthetic basis should be limited to legacy contracts that cannot feasibly be transitioned.

In the European Union, the European Commission has published two Implementing Acts, designating spread-adjusted SARON-based replacement rates[9] for CHF LIBOR and spread-adjusted €STR-based replacement rates[10] for EONIA. Upon permanent cessation of CHF LIBOR and EONIA at the end of this year, these designated rates will replace respective references which do not contain adequate contractual provisions to address LIBOR's or EONIA's permanent cessation, and which are governed by the law of one of the EU Member States or by the law of a third country where that law does not provide for the orderly wind-down of a benchmark.

The FSB emphasises that active transition remains the best way to have control and certainty over contract terms, and provides a permanent solution and the ability to move to overnight RFRs, compounded in arrears. Synthetic LIBOR will not be published indefinitely and is a temporary bridging solution only. Synthetic LIBOR is being made available to support those legacy LIBOR linked contracts[11] that mature beyond end-2021, it should not be directly or indirectly referenced in any new contracts. 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.

Conclusion

With only a few weeks remaining to the end of 2021, it is now critical that market participants act urgently to complete any remaining steps set out in the FSB's Global Transition Roadmap[12], with global and national financial regulators closely monitoring progress. The FSB emphasises that the continuation of some key USD LIBOR tenors through to 30 June 2023 is intended only to allow legacy contracts to mature, as opposed to supporting new USD LIBOR activity.

The FSB will continue to monitor the final steps in completing LIBOR transition over the coming months. Post end-2021, the FSB will monitor the effort to continue reducing the stock of legacy contracts which are using synthetic LIBOR rates, any continuing new issuance of USD LIBOR contracts post end-2021, and the size and resolution of legacy contracts referencing USD LIBOR that are due to mature after end-June 2023. The FSB will review these issues in mid-2022 and assess the implications for any further supervisory and regulatory cooperation that may be required.

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8 Available at: Response to the announcement on the end date of LIBOR panel publication and the announcement on the intention to consult on the publication of synthetic yen LIBOR

9 Available at: EUR-Lex (Document C(2021)7488)

10 Available at: EUR-Lex (Document 32021R1848)

11 The 1-, 3- and 6-month GBP and JPY synthetic LIBOR settings will be published for the duration of 2022. For the 1-, 3- and 6-month JPY settings, the FCA does not intend to renew the requirement, and publication will therefore cease at end-2022.

12 FSB (2021), *Global Transition Roadmap for LIBOR*, June.