Press release

Press enquiries:
Basel +41 76 350 9096
press@bis.org

Ref no: 42/2014

22 July 2014

Reforming Major Interest Rate Benchmarks

The FSB is publishing today proposals, plans and timelines for the reform and strengthening of existing major interest rate benchmarks and for additional work on the development and introduction of alternative benchmarks.

The major interest reference rates (such as LIBOR, EURIBOR, and TIBOR, collectively the "IBORs") are widely used in the global financial system as benchmarks for a large volume and broad range of financial products and contracts. The cases of attempted market manipulation and false reporting of global reference rates, together with the post-crisis decline in liquidity in interbank unsecured funding markets, have lowered confidence in the reliability and robustness of existing benchmark interest rates. Uncertainty surrounding the integrity of these reference rates represents a potentially serious source of vulnerability and systemic risk. Against this background, in February 2013, the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks and plans for reform to ensure that those plans are consistent and coordinated, and that interest rate benchmarks are robust and appropriately used by market participants.

The FSB has today published the review of major interest rate benchmarks and the plans for reform. The review was carried out by a high-level Official Sector Steering Group (OSSG) of regulators and central banks, drawing on two main strands of work:

- A review of the standards and principles for sound benchmarks, including an assessment of the major interest rate benchmarks against the internationally agreed and endorsed IOSCO Principles for Financial Benchmarks. The FSB is very grateful to IOSCO for conducting such a review, which is today published as a stand-alone Annex 2 to the FSB report[1].
- A report by private sector experts asked to identify additional benchmark rates and to analyse the transition issues arising in the event of a move to an alternative rate. The OSSG established a Market Participants Group (MPG) to take this forward. The FSB

[1] See also the press release from IOSCO at http://www.iosco.org

is very grateful to the MPG for their report, which is today published as a stand-alone Annex 3 to the FSB Report.

The OSSG has assessed the feasibility and viability of the reformed and alternative benchmark rates proposed by the MPG, taking account of the market structure, institutions, and the legal and regulatory framework within different currency areas.

Based on the recommendations of the subgroups set up to cover each of these currency areas[2], and the input from the MPG and IOSCO, the report sets out concrete proposals, plans and timelines for the reform and strengthening of existing benchmarks and for additional work on the development and introduction of alternative benchmarks.

While each currency area faces particular conditions that affect the specific recommendations, and which imply that there will be some heterogeneity in implementation, the FSB supports a multiple-rate approach to the reform of major interest rate benchmarks in line with the recommendations of the MPG. The main elements are:

- Strengthening existing IBORs and other potential reference rates based on unsecured bank funding costs by underpinning them to the greatest extent possible with transaction data (the MPG terms such enhanced rates “IBOR+”);
- Developing alternative, nearly risk-free rates. Members believe that there are certain financial transactions, including many derivative transactions that are better suited to reference rates that are closer to risk-free.

To implement the approach, the currency groups will work with and guide the private sector to implement new designs and methodologies for IBOR+; and, where currently absent, identify and develop viable near risk-free rates supported by robust methodologies.

Specific timelines are set out in the report for implementing the recommendations. In particular, in relation to IBOR+, by end-2015, administrators should have publicly consulted on any recommended changes, while currency groups will work to develop transition strategies and address any legal obstacles and risks. In respect of risk free rates, where suitable, central banks and supervisory authorities should encourage the industry or work with the administrators to implement at least one IOSCO-compliant risk-free rate by Q2 2016.

The FSB has mandated the OSSG to monitor and oversee the implementation of the benchmark reforms set out in the report. The FSB will transmit this report to the G20.

Notes to editors

The Official Sector Steering Group is co-chaired by Martin Wheatley (Chief Executive Officer, UK Financial Conduct Authority) and Jerome Powell (Member, Federal Reserve Board of Governors). Governor Powell took over responsibility as Co-Chair from former Governor Jeremy Stein in June 2014.

The Market Participants Group was chaired by Darrell Duffie, Professor of Finance at Stanford University. The Vice-Chair was Stephen O’Connor, the Chair of the International Swaps and Derivatives Association (ISDA).

[2] Euro, British pound, Swiss franc, U.S. dollar, and Japanese yen – together with a global currency subgroup.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote 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 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its 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.financialstabilityboard.org.