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May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

24 January 2020

Dear CEO

Benchmark Administrator Supervisory Strategy

As announced in our Approach to Supervision document the FCA has established 'portfolios' of firms with similar business models and your firm has been allocated to the benchmarks portfolio for its benchmark administration activities. Many firms in this portfolio are new to regulation. It is important that you understand how the FCA views the harms that firms in the portfolio could present. If your firm also performs other regulated activities you may also be supervised in other portfolios.

This letter sets out our view of the potential for harm as well as the underlying drivers that benchmark administrators could pose to their customers and the markets in which they operate. You should consider the degree to which these are present in your firm and your approach to addressing them. This letter is being sent to all firms in the benchmarks portfolio.

Our view of harm and key drivers of harm in the portfolio

We see three main ways in which benchmark administrators could harm consumers or markets:

- Customers receive sub-standard quality benchmarks, for example because of calculation errors or benchmarks being manipulated. This harm may be caused by benchmarks which are poorly designed, have poor quality input data, lack sufficient surveillance or where conflicts of interest are not managed appropriately.
- Disruption to the market from poorly managing the cessation or recalculation of benchmarks or a lack of operational resilience at firms. This can particularly affect users where they are not clear on how administrators will cease or recalculate benchmarks or there is a lack of alternative benchmarks. Harm arising from poor operational resilience can be exacerbated where the benchmark administrator is reliant on a third party to provide critical services.
- Customers paying excessive fees and charges resulting from high costs of switching, complex licensing arrangements and a preference from customers to use established benchmarks. This harm could be increased if competitor firms find accessing data from underlying markets harder or more expensive.

Our Areas of Focus

The harms that we set out above can arise from inherent characteristics such as conflicts of interest in business models, market structures or cultural factors at firms. Over the next two years, we will engage and work with you where necessary to continue to develop our understanding of firms in this portfolio and continue to identify factors which can lead to harm, particularly focussing on the areas below.

1) Sub-Standard Quality

Good governance and controls are essential to the provision of high quality benchmarks that enjoy market confidence. Input data controls, including market abuse systems and controls, are integral to this and we expect you to regularly review your governance and controls to ensure their robustness. We will also undertake our own review over the next two years which will include on-site visits.

The transparency of information provided in Benchmark Statements allows users to understand the characteristics of benchmarks they use or intend to use. We expect firms to publish good quality statements shortly after authorisation. We intend to undertake our own review of Benchmark Statements and assess their compliance with the EU Benchmark Regulation. We will contact you if we have reviewed your Statements and believe that improvements are necessary.

The provision of clear recalculation and cessation policies is one of the main ways users can receive transparent and accurate information about their benchmarks. We expect you to regularly review your recalculation and cessation policies and ensure that the information is clear and meets users' needs. Discretion in a recalculation policy can lead to a conflict of interest and we expect this to be recognised and mitigated where it arises. We will review a sample of recalculation and cessation policies to ensure transparent and accurate information is provided to users and provide feedback where we deem improvements to be necessary.

The sector relies on third parties and outsourcing arrangements to provide technology and input data as well as deliver their benchmarks to clients. Such arrangements often include unregulated entities and those based abroad. We expect you to oversee any outsourced arrangements to the same standard as activity undertaken within your firm, to minimise the risk of market disruption.

Operational disruption can threaten the viability of individual firms or cause harm to consumers and other market participants in the financial system. Firms need to therefore consider these risks when assessing the appropriate levels of resilience. We expect all firms to ensure there are appropriate controls around the confidentiality, integrity and availability of data in their organisation, which are regularly reviewed and tested. We will engage with the larger firms in the portfolio regarding their operational resilience and share the findings more widely with the whole portfolio if there are wider lessons to be learned. We also expect you to report any material operational incidents to us under Principle 11.[1]

[1] https://www.fca.org.uk/publication/research/technology-cyber-resilience-questionnaire-cross-sector-report.pdf

2) Excessive Fees and Charges

Views collected as part of the Wholesale Sector Competition Review[2] and the Asset Management Market Study[3] indicate that competition may not be working well in the provision of benchmarks. Users reported high costs of switching benchmarks as well as a lack of suitable alternatives as drivers of market power (although this will be more significant for some benchmarks than others). Where this is the case, firms may be able to charge users higher prices than they otherwise would, which can reduce net returns to investors. In addition, some benchmark administrators operate across different segments of the value chain. This could lead to competition concerns if those firms restrict access to data inputs or charge more for them to other benchmark administrators who compete with them.

As set out in the FCA's Business Plan 2019/20[4], we have previously identified concerns in the access and use of data in wholesale financial markets. To understand the harms relating to the way data in wholesale markets is purchased and used, we are planning a Call for Input on Access to Data in Wholesale Markets. We will use the Call for Input to better understand the issue and determine whether any remedial action is necessary.

3) Other areas of focus

The Senior Managers and Certification Regime (SM&CR) will be extended to benchmark administrators from December 2020, with the aim of improving senior management accountability. This presents an opportunity for all firms to reflect on their standards of governance and to implement any necessary improvements. We encourage you to respond to the current Consultation Paper here about how the rules should work for benchmark administrators.

The UK government has committed to the UK leaving the EU with a Withdrawal Agreement on 31 January 2020. When that happens, the UK will enter an implementation period during which it will negotiate its future relationship with the EU. The implementation period is due to operate until 31 December 2020. During this time EU law would continue to apply in the UK and passporting would continue. We expect you to consider how the end of the implementation period will affect you and your customers, and what action you may need to take to be ready for 1 January 2021. For information on Brexit, including what the implementation period will mean, visit our website. We will update our pages after exit.

You should prepare for LIBOR to cease after the end of 2021. If you administer benchmarks which reference LIBOR or LIBOR related products, or use LIBOR in the operation of your business, you will need to make changes to transition to alternative rates and communicate with your users.

[2] https://www.fca.org.uk/publications/feedback-statements/fs15-2-wholesale-sector-competition-review-2014-15
[3] https://www.fca.org.uk/publications/market-studies/asset-management-market-study
[4] https://www.fca.org.uk/publications/corporate-documents/our-business-plan-2019-20

This letter does not provide an exhaustive list of the harms in the portfolio or the work that we intend to undertake as our priorities may change to reflect our understanding of the growing number of firms within this population. We also expect you to be actively identifying the risks and harm that arises from your business and, where these are material, informing us.

Next steps

Should you have any further queries in relation to the content of this letter, please write to us at benchmarkssupervision@fca.org.uk.

We recognise there may be occasions when your firm faces urgent issues and in such circumstances, please contact Nick Miller, the Head of the Asset Management Department, on 0207 066 0602 or at nick.miller@fca.org.uk or Chris Simon, the Manager of the Benchmarks Supervision Team, on 0207 066 2962 or at christopher.simon@fca.org.uk.

Yours faithfully

Marc Teasdale

Director of Wholesale Supervision

Supervision - Investment, Wholesale & Specialists Division