FINANCIAL CONDUCT AUTHORITY

FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks

05 March 2021

1. This statement announces the future cessation or loss of representativeness of the 35 LIBOR benchmark settings currently published by ICE Benchmark Administration (IBA), an authorised administrator, regulated and supervised by the FCA.

2. IBA notified the FCA, following the completion of its recent consultation and notices of future departure received from the majority of the panel banks for each LIBOR setting, that it intends to cease providing all LIBOR settings for all currencies, subject to any rights of the FCA to compel IBA to continue publication.

3. We have completed our assessments of the effect of panel bank departures on LIBOR's ability to represent the underlying market, and of how IBA intends to cease providing LIBOR, as required by the UK Benchmarks Regulation (BMR). We have decided not to require any panel banks to continue to submit to LIBOR beyond the dates from which they have notified their departure, or to require IBA to continue to publish LIBOR on the basis of panel bank submissions beyond such dates. We have no intention to use our proposed powers to compel IBA to continue to publish any of the following 26 LIBOR settings as 'synthetic' LIBOR (as described below). Therefore, these 26 LIBOR settings will permanently cease as we set out below.

   - Publication of all 7 euro LIBOR settings, all 7 Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12-month sterling LIBOR settings, and the 1-week and 2-month US dollar LIBOR settings will cease immediately after 31 December 2021.

   - Publication of the overnight and 12-month US dollar LIBOR settings will cease immediately after 30 June 2023.

4. We will consult on requiring IBA to continue to publish the 3 remaining sterling LIBOR settings (1-month, 3-month and 6-month) for a further period after end-2021 on a changed methodology (also known as a 'synthetic') basis using the proposed new powers the government is legislating to grant us under the BMR. Using our proposed powers in this way would be intended to protect consumers and market integrity by reducing disruption in markets where it is unlikely to be feasible to convert certain outstanding contracts that reference LIBOR to alternative reference rates.

5. We will consult on requiring IBA also to continue to publish the 1-month, 3-month and 6-month Japanese yen LIBOR settings after end-2021 on a synthetic basis, for one additional year. This proposed use of our powers would be intended primarily to protect market integrity by allowing more time for transition away from Japanese yen LIBOR to complete. We do not envisage using our proposed powers to compel IBA to continue to publish any Japanese yen LIBOR settings after end-2022, and publication of these settings will consequently cease permanently immediately after a final publication on 30 December 2022.

6. As the transition away from US dollar LIBOR progresses, we will continue to consider the case for using these proposed powers also to require continued publication on a synthetic basis of the 1-month, 3-month and 6-month US dollar LIBOR settings for a further period after end-June 2023, taking into account views and evidence from the US authorities and other stakeholders.

7. Where we decide to require IBA to continue the publication of any settings on a synthetic basis, the methodology we would propose to require LIBOR's administrator to use is as set out in our statements of policy described below. Although this methodology provides in our view a fair approximation of what panel bank LIBOR would have been beyond the end-dates for each of the panels, LIBOR settings published on this synthetic basis will no longer be representative of the underlying market and economic reality the setting is intended to measure as those terms are used in the BMR.

8. Consequently it is clear that these 9 LIBOR benchmark settings (1-month, 3-month and 6-month settings in each of sterling, Japanese yen and US dollar LIBOR) will no longer be representative of the underlying market and economic reality that such setting is intended to measure and that representativeness will not be restored, as set out below.

   - Immediately after 31 December 2021, the 1-month, 3-month and 6-month Japanese yen LIBOR settings and the 1-month, 3-month and 6-month sterling LIBOR settings will no longer be representative and representativeness will not be restored.

   - Immediately after 30 June 2023, the 1-month, 3-month and 6-month US dollar LIBOR settings will no longer be representative and representativeness will not be restored.

9. It follows that all 35 LIBOR settings will either cease to be provided by any administrator or no longer be representative immediately after the dates set out above.

10. We make this statement in the awareness that it will engage certain contractual triggers for the calculation and future application of fallbacks that are activated by pre-cessation or cessation announcements made by the FCA (howsoever described) in contracts, and in accordance with our 11 March 2020 statement on LIBOR contractual triggers.

11. The exercise of our proposed new powers to require continued publication on a synthetic basis is subject to the enactment of the Financial Services Bill by Parliament. Any decision to use them to require a methodology change for LIBOR settings will take into account evidence and views from market participants and our counterpart global authorities, and will be consulted upon in due course.

12. We have also published today our statements of policy in relation to some of the proposed new powers that the government is legislating to grant us under the BMR. The statements of policy provide more detail of the policy framework which explains why we have no intention to use our proposed powers to require continued publication on a synthetic basis for 26 of the LIBOR settings, will consult on using them for the remaining 3 sterling LIBOR settings and, for one additional year, the remaining 3 Japanese yen LIBOR settings, and will continue to consider the case for using them for the 3 US dollar LIBOR settings as described above. It also confirms our intentions with regard to the methodology we would propose to use for any settings published on a synthetic basis (i.e. a forward looking term rate version of the relevant Risk Free Rate plus a fixed

spread adjustment calculated over the same period and in the same way as the spread adjustment implemented in the IBOR Fallbacks Supplement and the 2020 IBOR Fallbacks Protocol published by the International Swaps and Derivatives Association).

13. We remind market participants that, although publication of certain LIBOR settings on a synthetic basis would be intended to assist legacy contract holders, new use of this synthetic LIBOR by UK regulated firms in regulated financial instruments would be prohibited under the BMR as amended by the Financial Services Bill currently being enacted by Parliament. Continued use by regulated firms in legacy financial instruments would also be subject to the FCA using its proposed powers to permit such use. We will consult later in 2021 on which legacy uses of synthetic LIBOR might be permitted.