

**MEMO# 32599**

July 14, 2020

# **LIBOR Update: Updates from the Financial Stability Board, Bank of England, and Federal Reserve Bank of New York**

[32599]

July 14, 2020 TO: ICI Members

ICI Global Members

LIBOR Transition Working Group SUBJECTS: Compliance  
Financial Stability

Operations RE: LIBOR Update: Updates from the Financial Stability Board, Bank of England, and Federal Reserve Bank of New York

We wanted to provide an update on recent developments on LIBOR transition from the Financial Stability Board, Bank of England, and Federal Reserve Bank of New York.

## **Financial Stability Board Report to the G20**

On July 9, the Financial Stability Board (FSB) released results of its survey of banking and financial regulators in multiple jurisdictions and issued recommendations related to LIBOR transition.[\[1\]](#) Overall, the FSB concluded that global financial markets' continued reliance on LIBOR poses risks to global financial stability. The survey results confirmed that without adequate preparation, the LIBOR discontinuation would have a significant negative impact on financial institutions in a number of jurisdictions.

From a microprudential perspective, LIBOR transition risks may arise from operational, legal, prudential, conduct, hedging and accounting perspectives, according to the FSB. The uncertainty about the future of LIBOR could also increase macroprudential risk from heightened volatility or disorderly functioning in LIBOR-referenced markets. Major transition challenges include the need to develop further products referencing alternative reference rates and increasing liquidity in these products. In that regard, the FSB noted the work ISDA has been doing to transition derivatives contracts to alternative rates but remarked that the transition for cash products has been less advanced.

The FSB noted that most jurisdictions that use LIBOR in their financial systems have developed strategies and monitoring to address transition. The FSB also identified areas where stronger cross-border coordination and cooperation would be helpful, including

timing and best practices for transition.

The FSB recommended that regulators promote awareness of LIBOR cessation and associated risks, support transition efforts by establishing milestones and roadmaps, and promote industry-wide coordination for best practices for transition. The FSB also advised that regulators undertake this work alongside working groups and industry associations and coordinate internationally to monitor transition progress.

As part of their ongoing work, the FSB, in collaboration with other international organizations, will provide metrics on LIBOR exposure and transition progress as well as monitor the impact of COVID-19 on LIBOR transition.

## **Statements from the Bank of England and Federal Reserve Bank of New York**

On July 13, officials from the Bank of England and Federal Reserve Bank of New York delivered remarks on the current challenges of LIBOR transition and what steps market participants should take to prepare for 2021.[\[2\]](#)

Bank of England Governor Andrew Bailey advocated for the market to move from LIBOR to robust risk-free rates.[\[3\]](#) He stated that it remains in the interests of financial markets and their customers that the pool of contracts referencing LIBOR is shrunk to an irreducible minimum ahead of LIBOR's expected cessation, leaving behind only those contracts that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended. For these "tough legacy" contracts, the UK is considering legislation that would allow the Financial Conduct Authority to offer a regulatory solution. Bailey, however, cautioned parties to tough legacy contracts against relying on that regulatory solution as doing so will cause parties to give up economic control of the contract. He advised that parties would be better placed by renegotiating the terms of their contracts themselves.

The President of the Federal Reserve Bank of New York (NY Fed), John Williams, also discussed the pace of progress from LIBOR to SOFR in US markets.[\[4\]](#) Williams noted the work of the Alternative Reference Rate Committee (ARRC) to provide best practices and recommended milestones. Williams mentioned that key areas of focus going forward include addressing the challenges associated with tough legacy contracts and finalizing the ARRC-recommended spread adjustments for contracts transitioning to SOFR.

Williams and Bailey also highlighted the need for the derivatives market to transition to risk-free rates to ensure the development of a forward-looking term rate for all market participants. Tom Wipf, Chair of the ARRC, however, recommended that market participants resist waiting for those term rates to develop. He stated that he had been hopeful that the derivatives market would have had more SOFR liquidity at this time to provide the basis for the ARRC to develop a robust term rate.[\[5\]](#) Until that SOFR derivatives market develops, however, Wipf recommended that the majority of market participants use the SOFR averages or index published by the NY Fed instead of waiting for term rates. Likewise, Williams suggested that market participants consider if term rates are necessary in all circumstances. He stated that the transition from LIBOR presented an opportunity to better align rate conventions with the particular needs of contracts, rather than just deferring to LIBOR.

**endnotes**

[1] See Supervisory issues associated with benchmark transition (Jul. 9, 2020), *available at* <https://www.fsb.org/wp-content/uploads/P090720.pdf>.

[2] A webcast of the Bank of England and New York Federal Reserve Bank event is *available at* <https://www.youtube.com/watch?v=iyNUMdg2i3k>.

[3] See Andrew Bailey, LIBOR: entering the endgame (Jul. 13, 2020), *available at* <https://www.bankofengland.co.uk/speech/2020/andrew-bailey-speech-as-part-webinar-hosted-by-the-boe-and-the-frb-of-ny-libor-entering-the-endgame>.

[4] See John Williams, 537 Days: Time is Still Ticking (Jul. 13, 2020), *available at* <https://www.newyorkfed.org/newsevents/speeches/2020/wil200713>.

[5] Wipf anticipated that the central counterparty discounting events later this year will help increase liquidity in the SOFR derivatives market.