

**MEMO# 29274**

August 21, 2015

## **ICE Consultation on Evolution of LIBOR**

[29274]

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 62-15  
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 21-15  
ETF ADVISORY COMMITTEE No. 20-15  
EQUITY MARKETS ADVISORY COMMITTEE No. 14-15  
FIXED-INCOME ADVISORY COMMITTEE No. 27-15  
ICI GLOBAL CAPITAL MARKETS UNION TASK FORCE  
ICI GLOBAL EXCHANGE TRADED FUNDS COMMITTEE No. 6-15  
ICI GLOBAL REGULATED FUNDS COMMITTEE No. 51-15  
ICI GLOBAL TRADING & MARKETS COMMITTEE No. 40-15  
INTERNATIONAL COMMITTEE No. 46-15  
INTERNATIONAL OPERATIONS ADVISORY COMMITTEE No. 23-15  
REGISTERED FUND CPO ADVISORY COMMITTEE  
SECURITIES OPERATIONS ADVISORY COMMITTEE RE: ICE CONSULTATION ON EVOLUTION OF LIBOR

ICE Benchmark Administration Limited (“ICE”) continued its process of evaluating enhancements to elements of ICE London Interbank offered rate (“LIBOR”) [\[1\]](#) with the publication of a Second Position Paper (“Paper”). In the Paper, ICE sets out for consultation a number of methodology parameters and other changes that are intended to strengthen the calculation methodology and governance of LIBOR. [\[2\]](#) The Paper also includes a proposed timetable for implementation.

The key aspects of ICE’s proposals for LIBOR remain unchanged. ICE proposes basing LIBOR on transactions where there is adequate activity, with a waterfall of methodologies for submissions so that LIBOR rates can be published in all market circumstances, even in times of market stress.

The waterfall model would include three levels of calculation methodologies as follows:

Waterfall Level	Waterfall Type	Waterfall Features
1	Transactions	<ul style="list-style-type: none"><li>• Volume Weighted Average Price (VWAP) of the bank’s eligible transactions</li></ul>

## 2 Data derived from transactions

- Historical transactions
- Interpolation
- Extrapolation (Parallel Shift)

## 3 Expert Judgement, appropriately framed

- Formula
- Framework

ICE proposes to anchor LIBOR in transactions wherever possible, while recognizing that the level of market activity is too low in some tenors to support an entirely transaction-based rate. Where there is adequate activity to base LIBOR on market transactions (Waterfall Level 1), ICE's proposal would standardize the parameters for eligible transactions, including expanding the range of counterparties to include large wholesale counterparties and expanding the range of eligible transactions. The expanded range of eligible transactions would include unsecured deposits, commercial paper, certificates of deposit, and additional floating rate notes. ICE is consulting on whether to base LIBOR on an average of transacted rates over a period of time and whether to change LIBOR's publication time. With respect to transaction-based rate submissions, ICE is consulting on an appropriate trade size threshold and number of trades. Under ICE's proposal, LIBOR will be a transacted rate with no adjustments for bid or offer rates.

Submitting banks would be able to use Waterfall Level 2 inputs only if the submitting bank has insufficient Level 1 transactional data. For the cascade of Level 2 inputs, ICE proposes using historical transactions and interpolation or extrapolation to fill gaps in the LIBOR curve. The ICE proposal would standardize the methodology prescribed for banks to submit a transaction-derived rate using interpolation, extrapolation, and rolling historical trades.

When a benchmark submitter has insufficient transactional data on which to anchor its submission, it would move to Waterfall Level 3 (Expert Judgment). ICE proposes giving banks the ability to review, and in certain cases adjust, their calculated rate if banks feel that it does not reflect the market (Expert Adjustments). Generally, ICE proposes framing Expert Judgment appropriately for market conditions whenever it remains necessary.

ICE also is proposing changes to the general LIBOR calculation methodology, definition, and publication details, as well as changes to the composition of LIBOR currency panels.

Comments are due October 16, 2015, and we understand that roundtables will be held in October and November. We do not intend to comment on this Paper. However, if you have any questions, please reach out to us directly. We do understand that ICE has expressed interest in hearing from any stakeholders. You can reach me at [lfrench@ici.org](mailto:lfrench@ici.org) or 202-326-5845 or Susan Olson at [solson@ici.org](mailto:solson@ici.org) or 202-326-5813.

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Counsel

### endnotes

[1] LIBOR is a benchmark rate produced for five currencies with seven maturities quoted for each – ranging overnight to 12 months, producing 35 rates each business day. See

<https://www.theice.com/iba/libor> (accessed Aug. 17, 2015).

[2] See ICE Benchmark Administration Limited, Second Position Paper on the Evolution of ICE LIBOR (July 31, 2015), available at [https://www.theice.com/publicdocs/ICE\\_LIBOR\\_Second\\_Position\\_Paper.pdf](https://www.theice.com/publicdocs/ICE_LIBOR_Second_Position_Paper.pdf). ICE's Second Position Paper includes a set of consultation questions, with feedback due by October 16, 2015. See ICE Benchmark Administration Limited, Second Position Paper on the Evolution of ICE LIBOR: Consultation Questions (July 31, 2015), available at [https://www.theice.com/publicdocs/ICE\\_LIBOR\\_Second\\_Paper\\_Questions.pdf](https://www.theice.com/publicdocs/ICE_LIBOR_Second_Paper_Questions.pdf). ICE published an initial Position Paper in October 2014. See ICE Benchmark Administration Limited, Position Paper on the Evolution of ICE LIBOR (Oct. 20, 2014), available at [https://www.theice.com/publicdocs/ICE\\_LIBOR\\_Position\\_Paper.pdf](https://www.theice.com/publicdocs/ICE_LIBOR_Position_Paper.pdf).

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