

MEMO# 29799

March 29, 2016

ICE Adopts Roadmap for Evolution of LIBOR

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TO:

DERIVATIVES MARKETS ADVISORY COMMITTEE No. 11-16
EQUITY MARKETS ADVISORY COMMITTEE No. 11-16
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 8-16
ETF ADVISORY COMMITTEE No. 8-16
FIXED-INCOME ADVISORY COMMITTEE No. 12-16
INTERNATIONAL COMMITTEE No. 21-16
INTERNATIONAL OPERATIONS ADVISORY COMMITTEE No. 10-16
REGISTERED FUND CPO ADVISORY COMMITTEE
SECURITIES OPERATIONS ADVISORY COMMITTEE
ICI GLOBAL CAPITAL MARKETS UNION TASK FORCE
ICI GLOBAL EXCHANGE TRADED FUNDS COMMITTEE No. 2-16
ICI GLOBAL REGULATED FUNDS COMMITTEE No. 23-16
ICI GLOBAL TRADING & MARKETS COMMITTEE No. 13-16

RE:

ICE ADOPTS ROADMAP FOR EVOLUTION OF LIBOR

ICE Benchmark Administration Limited (“ICE”) concluded its evaluation of enhancements to elements of ICE London Interbank offered rate (“LIBOR”) [\[1\]](#) with the publication of a Roadmap that outlines evolutionary reforms to reduce the risk profile of LIBOR and create the conditions for more banks to participate. [\[2\]](#) The Roadmap, which ICE will implement this year, outlines a set of measures to anchor LIBOR in transactions from a broader range of market participants. These reforms include the following:

- Incorporating transaction data into the LIBOR methodology to the greatest extent possible;
- Publishing a single, clear, and comprehensive LIBOR definition;

- Creating a structure that ensures LIBOR can adapt appropriately to changing market conditions; and
- Conducting a feasibility study on transitioning the calculation of LIBOR to ICE, using transaction data to deliver an even more robust and sustainable rate.

The key aspects of ICE's Roadmap for LIBOR largely mirror the proposals ICE outlined in its Second Position Paper. [\[3\]](#) The Roadmap bases LIBOR on transactions where there is adequate activity and includes a waterfall of methodologies for submissions to ensure that panel banks always make a submission regardless of activity levels on a particular day.

The waterfall model includes three levels of calculation methodologies as follows:

Waterfall Level

Waterfall Type

Waterfall Features

1

Transactions

- Volume Weighted Average Price (VWAP) of the bank's eligible transactions

2

Transaction-derived data

- VWAP of adjusted historical transactions
- Interpolation
- Extrapolation (Parallel Shift)

3

Expert Judgment

- Using a documented methodology for basing submissions on transactions in related markets, committed quotes, indicative quotes, and other market observations

ICE received consultation feedback that panel banks should provide ICE only with trade data, with the aim of reducing the need for subjective decisions and expert judgment by the panel banks. ICE intends bank submissions to be non-subjective and fully transaction-based wherever feasible. ICE also is looking into the feasibility of transitioning the calculation of LIBOR to ICE, which could increase the number of banks which submit data, further enhancing the benchmark's robustness.

ICE intends to anchor LIBOR in transactions wherever possible. Where there is adequate activity to base LIBOR on market transactions (Waterfall Level 1), ICE's Roadmap standardizes 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 includes unsecured deposits, commercial paper, and certificates of deposit. With respect to transaction-based rate submissions, ICE has set an appropriate trade size threshold and number of trades.

Where the level of market activity is too low to support an entirely transaction-based rate, submitting banks will be able to use Waterfall Level 2 inputs. The Roadmap calls for using historical transactions and interpolation or extrapolation to fill gaps in the LIBOR curve where sufficient Waterfall Level 1 transactional data is unavailable for a currency and tenor. The Roadmap also sets a maximum number of LIBOR submission days for which a bank can use historical transactions and standardizes the methodology prescribed for banks to submit a transaction-derived rate using interpolation, extrapolation, and rolling historical trades.

When a benchmark submitter has insufficient Waterfall Level 2 transactional data on which to anchor its submission, it will move to Waterfall Level 3 (Expert Judgment). The Roadmap requires any bank using Expert Judgment to use procedures that the bank and ICE have approved. The Roadmap also sets forth the allowable inputs that a bank may use in an Expert Judgment submission. Finally, the bank must accompany an Expert Judgment submission with supporting evidence and full documentation of its rationale.

ICE intends to develop a mechanism for allowing adjustments to submissions in circumstances where an exceptional and unpredictable event has triggered severe market dislocation. ICE will publish any further details of any proposed mechanism before its adoption.

If you have any questions, you can reach me at linda.french@ici.org or (202) 326-5845.

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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 March 21, 2016).

[2] See ICE Benchmark Administration Limited, Roadmap for LIBOR (March 18, 2016), available at https://www.theice.com/publicdocs/ICE_LIBOR_Roadmap0316.pdf.

[3] See ICI Memo 29274, ICE Consultation on Evolution of LIBOR (August 21, 2015), available at https://www.ici.org/my_ici/memorandum/memo29274.