MEMO# 26495

September 10, 2012

ICI and ICI Global Comment Letter on Wheatley Review of LIBOR

[26495]

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 48-12
INTERNATIONAL MEMBERS No. 35-12
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 49-12
SEC RULES MEMBERS No. 82-12 RE: ICI AND ICI GLOBAL COMMENT LETTER ON WHEATLEY REVIEW OF LIBOR

In connection with alleged misconduct relating to the London Inter-Bank Offered Rate (LIBOR) and other similar benchmarks, the UK Government has established an independent review into a number of aspects of the setting and usage of LIBOR. The "Wheatley Review," named for Martin Wheatley, the managing director of the FSA, is tasked with presenting policy recommendations to the UK Chancellor of the Exchequer by the end of September. [1]

ICI and ICI Global submitted a joint comment letter to the Wheatley Review. The letter is attached and summarized below.

The letter begins by noting that timetable the Review team has set to make recommendations on this important policy issue may be unrealistic, and urges the Review team to take the time necessary to gather and digest input, so that its policy recommendations are made only after full and careful consideration of the issues. The letter then offers the following views.

The letter states that strengthening the credibility of LIBOR, and restoring investor confidence in it, seems preferable to replacing LIBOR with a new benchmark. It explains that LIBOR has become fundamental to the financial system, and that it is unclear whether any alternative to LIBOR would be feasible. The letter notes that an alternative benchmark would have its own limitations, and migration to an alternative would entail its own risks as well as considerable practical hurdles and costs. While challenging in its own right, strengthening and reviving the credibility of LIBOR would avoid a number of operational challenges associated with replacing the benchmark.

The letter also offers several recommendations for making the LIBOR rate-setting process more fact-based and transparent, and improving governance and oversight of the process. First, it supports using available transaction data on bank borrowings to corroborate LIBOR submissions in those maturities and currencies where there is sufficient data to do so – e.g., for shorter term rates based on the U.S. dollar, Euro, and Sterling. As to maturities and currencies for which specific transaction data are less available, the letter recommends further study to determine whether these LIBOR rates should be maintained. With respect to governance and oversight, the letter supports the concept, set forth in the Discussion Paper, that banks participating in the LIBOR-setting process could be subject to a code of conduct. It notes, however, that that the effectiveness of such a code will in large part depend on the credibility of the oversight provided by the designated governing body, and urges careful consideration of the potential approaches to address the enforceability of the regime.

Mara Shreck
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Attachment

endnotes

[1] The Wheatley Review of LIBOR: initial discussion paper (Aug. 2012), available at http://hm-treasury.gov.uk/d/condoc_wheatley_review.pdf. See also speech by Martin Wheatley, The Wheatley Review – the future of Libor (Aug. 10, 2012), available at http://www.fsa.gov.uk/library/communication/speeches/2012/0810-mw.shtml.
