

MEMO# 32950

November 30, 2020

LIBOR Update: Extension of USD LIBOR and Further Information from UK Financial Conduct Authority on UK Tough Legacy Solution

[32950]

November 30, 2020 TO: ICI Members

ICI Global Members

Derivatives Markets Advisory Committee

ICI Global Regulated Funds Committee

LIBOR Transition Working Group SUBJECTS: Compliance

Financial Stability

Operations RE: LIBOR Update: Extension of USD LIBOR and Further Information from UK Financial Conduct Authority on UK Tough Legacy Solution

We wanted to provide an update on public statements from the ICE Benchmark Administration (ICE) and Federal Reserve Board (FRB) about the future of USD LIBOR and from the UK Financial Conduct Authority (FCA) regarding the use of proposed powers under the UK Financial Services Bill.

Extension of USD LIBOR through June 30, 2020

ICE, which is appointed by the FCA as the administrator of LIBOR, announced that it will issue a consultation on extending the discontinuation date for USD LIBOR to June 30, 2023.[\[1\]](#) As you may recall, ICE previously had announced a consultation on discontinuing the euro, sterling, Swiss franc, and yen LIBORs on December 30, 2021.[\[2\]](#)

Acknowledging ICE's announcement, the FRB, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency noted that extending the publication of USD LIBOR until June 30, 2023 would allow most legacy USD LIBOR contracts to mature before LIBOR experiences disruptions.[\[3\]](#)

The agencies also cautioned, however, that banks entering into new contracts that use USD LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks. Therefore, they encouraged banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. The agencies outlined the limited circumstances that they would consider to be appropriate

for a bank to enter into new USD LIBOR contracts after that time, particularly:

- i. transactions executed for purposes of required participation in a central counterparty auction procedure in the case of a member default, including transactions to hedge the resulting USD LIBOR exposure;
- ii. market making in support of client activity related to USD LIBOR transactions executed before January 1, 2022;
- iii. transactions that reduce or hedge the bank's or any client of the bank's USD LIBOR exposure on contracts entered into before January 1, 2022; and
- iv. novations of USD LIBOR transactions executed before January 1, 2022.

The proposed eighteen-month extension on the publication of USD LIBOR also received support from policymakers.^[4] Notably, Securities and Exchange Commission Chairman Jay Clayton issued a statement that the extension establishes a “pragmatic, market-oriented path for managing the transition” while he encouraged registrants to “pro-actively” transition away from LIBOR.^[5]

UK FCA Statement on Use of Powers under UK Financial Services Bill

The UK FCA issued a statement on the power it expects to receive under the proposed UK Financial Services Bill^[6] to prevent UK supervised entities to continue to use a type LIBOR once ICE has confirmed its intention to discontinue that LIBOR type. The FCA announced that it will issue a consultation on the use of this power in Q2 2021 but does not envisage using this power before the end of 2021.

Bridget Farrell
Assistant General Counsel

endnotes

^[1] ICE Benchmark Administration to Consult on Its Intention to Cease the Publication of One Week and Two Month USD LIBOR Settings at End-December 2021, and the Remaining USD LIBOR Settings at End-June 2023 (Nov. 30, 2020), *available at* <https://ir.theice.com/press/news-details/2020/ICE-Benchmark-Administration-to-Consult-on-its-Intention-to-Cease-the-Publication-of-One-Week-and-Two-Month-USD-LIBOR-Settings-at-End-December-2021-and-the-Remaining-USD-LIBOR-Settings-at-End-June-2023/default.aspx>.

^[2] See ICI Memorandum No. 32928, *available at* https://www.ici.org/my_ici/memorandum/memo32928.

^[3] Statement on LIBOR Transition (Nov. 30, 2020), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201130a1.pdf>.

^[4] See, e.g., Federal Reserve Board welcomes and supports release of proposal and supervisory statements that would enable clear end date for U.S. Dollar (USD) LIBOR and would promote the safety and soundness of the financial system (Nov. 30, 2020), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201130b.htm>;

FCA response to IBA's proposed consultation on intention to cease USD LIBOR (Nov. 30, 2020), *available at* <https://www.fca.org.uk/news/statements/fca-response-iba-proposed-consultation-intention-cease-us-dollar-libor>.

[5] See Chairman Jay Clayton, Statement on Developments Related to LIBOR Transition (Nov. 30, 2020), *available at* <https://www.sec.gov/news/public-statement/clayton-libor-2020-11-30>.

[6] See ICI Memorandum No. 32855, *available at* https://www.ici.org/my_ici/memorandum/memo32855.

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