

MEMO# 33570

June 3, 2021

LIBOR Update: Financial Stability Board and IOSCO Issue Statements on Benchmark Transaction

[33570]

June 3, 2021

TO: ICI Members

ICI Global Members

ICI Global Regulated Funds Committee

LIBOR Transition Working Group SUBJECTS: Financial Stability RE: LIBOR Update: Financial Stability Board and IOSCO Issue Statements on Benchmark Transaction

This week, the Financial Stability Board (FSB) and IOSCO issued a number of statements on benchmarks, with a goal to support a smooth LIBOR transition. As discussed below, the statements by financial stability policymakers generally urged market participants to accelerate the pace of their transition from LIBOR, and particularly from USD LIBOR.

FSB Statement on Use of USD LIBOR after End-2021 and IOSCO Statement on Benchmarks Transition

In a statement, the FSB indicates its full support for the guidance issued by the Federal Reserve and other US prudential regulators to banks advising that entering into new USD LIBOR contracts after end-2021 would create safety and soundness risks.[\[1\]](#) The FSB encourages all global market participants accordingly to discontinue new use of USD LIBOR-linked contracts as soon as practicable and no later than end-2021. The FSB also states that its members will be reiterating these expectations to regulated firms in their own jurisdictions as appropriate to support this objective.

Similarly, IOSCO issued a statement that continued reliance on LIBOR benchmarks, including USD LIBOR, poses risks to financial stability, market integrity, and investor protection. It advises that the use of LIBOR rates in new contracts should be ceased as soon as practicable and encourages all global market participants to discontinue new use of USD LIBOR-linked contracts no later than end-2021.

FSB Updated Global Transition Roadmap

The FSB issued an updated roadmap to global transition, building on its earlier roadmap of

the actions that firms with exposure to LIBOR should take before the rate ceases.^[2] The updates reflect the announcements made earlier this year by the LIBOR administrator confirming dates for LIBOR currencies and tenors to cease publication in their current forms. In line with those announcements, the roadmap advises firms to be prepared for most LIBOR currencies to cease by end-2021. Although USD LIBOR will not cease until June 2023, consistent with other FSB statements, the roadmap also advises firms to prepare to cease entering into new contracts using that rate by end-2021.

FSB Publications on the Use of Term Rates and Spread Adjustments

The FSB issued two further statements on the conventions for rates that are expected to replace LIBOR.

First, the FSB reviewed overnight risk-free rates, such as SOFR, that have been identified in many jurisdictions as LIBOR replacements.^[3] The FSB notes that overnight risk-free rates are robust because they are anchored in active, liquid underlying markets. However, it expresses concerns about the broad use of any term rates that may be derived from these overnight rates, particularly for derivatives, as those terms rates may not be as robust. The FSB recognizes that in some cases there may be a role for term rates, for example if use is limited largely to certain cash products rather than derivatives. Such limited uses would be compatible with financial stability.

Further, the FSB Official Sector Steering Group issued a statement that the spread adjustment that ISDA uses to derive its LIBOR replacement rates for derivatives can also be used as a spread adjustment for LIBOR replacement rates on cash products.^[4] As it is used by ISDA, the spread adjustment is added to an overnight risk-free rate in an effort to create a benchmark replacement rate that functions similarly to LIBOR. Use of the same spread adjustment in derivatives and cash products may promote homogeneity between those products and markets. The FSB notes its support follows extensive consultations with stakeholders on use of the ISDA spread adjustment both in derivatives and cash products.

Bridget Farrell
Assistant General Counsel

endnotes

^[1] See FSB Statement on Smooth and Timely Transition Away from LIBOR (June 2, 2021), available at <https://www.fsb.org/wp-content/uploads/P020621-4.pdf>. See also Statement on LIBOR Transition (Nov. 30, 2020), available at <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201130a1.pdf>.

^[2] See Global Transition Roadmap for LIBOR (June 2, 2021), available at <https://www.fsb.org/wp-content/uploads/P020621-1.pdf>. See ICI Memorandum No. 32838, available at <https://www.ici.org/memo32838>, regarding the FSB's earlier iteration of its roadmap.

^[3] See Interest Rate Benchmark Reform: Overnight Risk-Free Rates and Term Rates (June 2, 2021), available at <https://www.fsb.org/wp-content/uploads/P020621-2.pdf>.

[4] See FSB OSSG Supports Use of ISDA's Spread Adjustment in Cash Products (June 2, 2021), *available at* <https://www.fsb.org/wp-content/uploads/P020621-3.pdf>. ISDA's fallback language would provide a replacement benchmark rate for derivatives in the event of a permanent cessation of LIBOR or other IBORs. The replacement benchmark rate is a term adjusted risk-free rate for the relevant currency plus a spread, which is published by Bloomberg Index Services Limited. See ICI Memorandum No. 32857, *available at* <https://www.ici.org/memo32857>.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.