

MEMO# 33640

July 2, 2021

LIBOR Update: FCA Consultation on Calculation Methodology for "Synthetic" Sterling and Yen LIBOR Rates

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TO: ICI Global Regulated Funds Committee
LIBOR Transition Working Group RE: LIBOR Update: FCA Consultation on Calculation Methodology for "Synthetic" Sterling and Yen LIBOR Rates

Last week, the UK Financial Conduct Authority (FCA) released a consultation on how to change the calculation methodology for UK sterling and Japanese yen LIBOR rates, which are expected to become unrepresentative after December 31, 2021.[\[1\]](#) The FCA expects that it will compel the ICE Benchmark Administrator (IBA) to continue to publish these LIBORs as synthetic rates after that time. The FCA notes it can only require the synthetic rates to be published for a period up to 12 months at a time.

The FCA is considering exercising its powers to compel synthetic rates for these currencies of LIBOR based on its estimates of outstanding tough legacy contracts and transactions. For example, the FCA estimates that, while 60 sterling LIBOR bonds have transitioned to a non-LIBOR rate through the consent solicitation process, there remain approximately 480 transactions that have not done so, with a total notional value around £90 billion. Similarly, the FCA estimates that there are at least 320 outstanding bond transactions in the UK and Japan that still reference yen LIBOR, with a total notional value of £90 billion. It anticipates that there may be difficulties in amending some of these bonds by the end of 2021, particularly as the amendment process requires high numbers of bondholders to consent.

As a result, the FCA seeks feedback on the methodologies it should use to compute synthetic sterling and yen LIBOR for contracts and transactions that will be tough legacy at the end of 2021.

For sterling LIBOR, the FCA proposes using forward-looking SONIA term rates plus the fixed spread adjustment determined by ISDA and published in the ISDA IBOR Fallbacks Supplement and Protocol. For yen LIBOR, it proposes using the forward-looking term rates published by QUICK Benchmarks for TONA plus the ISDA spread adjustment.[\[2\]](#)

The FCA particularly solicits comment on whether those proposed methodologies are

consistent with the following factors

- fair approximation of the value LIBOR;
- least disturbance or disadvantage to affected parties;
- market support on a fair way of calculating a replacement value for LIBOR;
- availability to the benchmark administrator of robust and transparent inputs;
- impact on the administrator; and
- appropriate length of time of publication.

ICI is not planning to comment on this consultation but encourages member firms to comment directly if you have feedback to provide. The FCA is soliciting comment by August 27, with an aim to communicate any final decision in Q4 2021.

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endnotes

[1] See CP21/19: Proposed decision under Article 23D BMR for 6 sterling and yen LIBOR settings (June 24, 2021), *available at* <https://www.fca.org.uk/publications/consultation-papers/cp21-19-proposed-decision-article-23d-bmr-6-sterling-yen-libor-settings>. The consultation specifically requests feedback on the calculation methodology for 1-month, 3-month and 6-month sterling and Japanese yen LIBOR settings.

[2] See ICI Memorandum No. 33161, *available at* <https://www.ici.org/memo33161> (discussing the fixing of the ISDA spread adjustment); ICI Memorandum No. 32857 <https://www.ici.org/memo32857> (discussing the ISDA Fallbacks Supplement and Protocol generally).