FINANCIAL CONDUCT AUTHORITY

Feedback Statement

FS23/2

Decisions on US dollar LIBOR:

Feedback to CP22/21

May 2023

Contents

1.	Summary	3
2.	Feedback on publication of a synthetic LIBOR and its duration	6
3.	Feedback on methodology and legacy use	10

Annex 1
List of non-confidential respondents 16

Annex 2
Abbreviations used in this paper 17

Sign up for our **news and publications alerts**

See all our latest press releases, consultations and speeches.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Chapter 1

Summary

1.1 In November 2022, we consulted on proposals to use our powers under the Benchmarks Regulation (BMR) to:

- require LIBOR's administrator, ICE Benchmark Administration Limited (IBA), to publish the 1-, 3-, and 6-month US dollar LIBOR settings ('the 3 US dollar LIBOR settings') using a synthetic methodology for a temporary period until end-September 2024
- use the relevant CME Term SOFR Reference Rate plus the respective ISDA fixed spread adjustment as the methodology for a synthetic US dollar LIBOR
- permit all legacy contracts other than cleared derivatives to use a synthetic US dollar LIBOR

1.2 The Consultation closed on 6 January 2023. After having considered the responses, in conjunction with all other information available to us, we did not consider that any change to our proposals was required.

1.3 As a result, in April 2023, we announced our final decision, which is in line with the proposals on which we consulted, outlined above.

Who this affects

1.4 This Feedback Statement will be of interest to:

- LIBOR's administrator, IBA
- providers of component inputs for the 3 US dollar LIBOR settings under the changed, synthetic methodology
- regulated and unregulated users of the 3 US dollar LIBOR settings

The wider context

LIBOR transition

1.5 We, alongside the Bank of England, other regulators internationally, and industry working groups in the LIBOR currency jurisdictions, have been encouraging transition away from LIBOR to alternative Risk-Free Rates (RFRs).

1.6 We have been encouraging adoption of robust fallbacks, including – wherever practicable – their insertion into existing legacy LIBOR contracts, so that contracts continue to operate when LIBOR settings cease or become permanently unrepresentative.

1.7 On 31 December 2021, publication of 24 of 35 LIBOR settings ended. From that date, for 6 of the remaining settings we required IBA, LIBOR's administrator, to continue publication on a synthetic (and therefore unrepresentative) basis, to provide more time to complete transition. This applied to the 1-, 3- and 6-month sterling and yen LIBOR settings. The 3 synthetic yen LIBOR settings ceased permanently at end-2022; the 1- and 6-month synthetic sterling LIBOR settings ceased permanently at end-March 2023. We intend to require publication of 3-month synthetic sterling LIBOR until end-March 2024, after which it will also cease permanently.

US dollar LIBOR

1.8 The 1-week and 2-month US dollar LIBOR settings ceased at end-2021. The remaining 5 US dollar LIBOR settings – the overnight, 1-, 3-, 6- and 12-month settings – will cease to be published in their representative, panel-based form at end-June 2023, when the US dollar LIBOR panel ends. Use of these 5 settings in new contracts has been restricted since the start of 2022.

1.9 The Secured Overnight Financing Rate (SOFR), recommended by the US national industry working group – the Alternative Reference Rates Committee (ARRC) – as the replacement for US dollar LIBOR, is now the predominant reference rate used in US dollar markets, including in cash markets. We encourage market participants to continue to transition to robust risk-free or near-risk-free rates, and not to reintroduce weaknesses into the financial system by using fragile reference rates.

1.10 In the US, federal legislation (the Adjustable Interest Rate (LIBOR) Act (the US' LIBOR Act)) was enacted in March 2022 to establish a process to move contracts governed by US law that contain no, or unworkable, fallbacks, to alternative rates when the US dollar LIBOR panel ends.

1.11 The overnight and 12-month US dollar LIBOR settings will cease permanently after final publication on 30 June 2023.

1.12 In June 2022, we consulted on our assumption that the other 3 US dollar LIBOR settings could cease in an orderly fashion at end-June 2023 when the US dollar panel ends. Feedback to the Consultation indicated that a short additional period of publication beyond end-June 2023 on a synthetic basis may help market participants to remove the dependency of a relatively small but still material population of legacy contracts (mostly outside the US) referencing these LIBOR settings. Therefore, to ensure an orderly wind-down and in line with our objectives, we considered there was a case for requiring continued publication of the 3 US dollar LIBOR settings using a synthetic methodology, for a limited time, which we then consulted on in November 2022.

Equality and diversity considerations

1.13 Overall, we do not consider that our decisions materially impact any of the groups with protected characteristics under the Equality Act 2010. To the extent that there is any differential impact, we consider this to be justified, as we do not consider that there is

any less impactful way to achieve the objectives we intend to achieve through our use of the powers.

Next steps

1.14 On 1 July 2023, we will publish formal legal notices which will complete the implementation of the decisions announced on 3 April 2023.

1.15 We remind market participants that they must take all necessary steps to ensure that they understand how their contract terms interact with the winding down of LIBOR. It is up to parties to take their own legal advice on the exact wording of their contracts.

1.16 Market participants must continue to actively transition contracts that reference US dollar LIBOR, and not rely on the synthetic settings. Synthetic US dollar LIBOR is only a temporary bridge and is expected to cease at end-September 2024. Synthetic LIBOR settings will not continue simply for the convenience of those who could have transitioned their contracts but have not done so.

1.17 We also remind market participants that the synthetic 3-month sterling LIBOR setting is expected to cease at end-March 2024. Market participants using this rate must take the necessary action to prepare for this.

Chapter 2

Feedback on publication of a synthetic LIBOR and its duration

2.1 Our November 2022 Consultation proposed requiring publication of the 3 US dollar LIBOR settings to continue until end-September 2024, using a robust, synthetic, albeit technically unrepresentative methodology. Based on information available to us on transition progress, we considered it likely that a further 15 months, on top of the additional 18 months of panel bank US dollar LIBOR since the end of 2021, should allow the majority of the population of non-US law governed legacy contracts to transition away from LIBOR or reach maturity, and therefore secure an orderly transition.

2.2 We asked the market if they had any views or comments on our proposal to require continued publication of US dollar LIBOR for a temporary period until end-September 2024. In our response, we have addressed separately (i) views on a synthetic US dollar LIBOR after end-June 2023, and (ii) views on its duration until end-September 2024.

2.3 We received a total of 42 responses from within and outside the UK relating to this question. Respondents included wholesale investment banks, trade associations, national authorities, asset managers, multilateral development banks, corporates and professional services firms.

A synthetic US dollar LIBOR after end-June 2023

2.4 Out of the 42 responses, 38 supported publication of the 3 US dollar LIBOR settings in a synthetic form after end-June 2023, 1 was explicitly neutral (a national authority that had not identified significant exposures in its jurisdiction, and as such held no views on the publication of a synthetic rate), and 2 expressed no views or comments. Only 1 respondent expressed reservations about the publication of a synthetic LIBOR. They considered that, in conjunction with the US' LIBOR Act, it would bifurcate the interest rate environment and create ambiguity and potential for litigation. However, this respondent did acknowledge its potential usefulness for certain tough legacy contracts, and recommended publication for a shorter period, rather than expressly disagreeing with publication.

2.5 The reasons given for supporting publication of synthetic versions of the 3 US dollar LIBOR settings included minimising market disorder at end-June 2023, their widespread use in high volumes of contracts, and the success of synthetic sterling and yen LIBOR.

2.6 Four of the respondents that were supportive of the publication of a synthetic US dollar LIBOR did nevertheless flag the risk that it may slow down transition due to market participants becoming disincentivised to transition. One respondent flagged that the existence of a synthetic LIBOR would delay securities with ICMA 'type 2' fallbacks (ie those that are triggered only by cessation of the relevant LIBOR setting) from transitioning to those fallbacks. However, these points regarding the risk of slowing

down transition were not put forward as arguments against publication of a synthetic LIBOR, but only as a general comment or as an argument in favour of our proposed time-limited duration period (see below).

Duration of publication

2.7 On the question of whether end-September 2024 would be an appropriate cessation date for synthetic forms of the 3 US dollar LIBOR settings, out of the 42 respondents:

- 2 were neutral
- 23 broadly agreed with our proposed cessation date
- 11 raised reservations about the cessation date and/or recommended we should not commit to a cessation date at this stage
- 5 felt strongly that the proposed cessation date would not provide sufficient time to transition and/or recommended different cessation dates
- 1 requested a shorter publication period

2.8 The majority of respondents either explicitly supported our proposed cessation date or did not object to it. Support was shown either unconditionally or subject to us continuing to monitor exposures and review the appropriateness of the cessation date – and being prepared to amend it should new evidence suggest that it is necessary to do so. One of the reasons given for supporting cessation at end-September 2024 was the view that a 15-month publication period would provide sufficient time to transition, especially in light of the 18-month extension of panel bank US dollar LIBOR already provided after the end of 2021. Respondents also remarked on the helpfulness of providing clarity on the cessation date at an early stage, enabling the market to plan with certainty, and on a firm cessation date incentivising transition, by conveying to the market the temporary nature of synthetic LIBOR settings.

2.9 One respondent requested a shorter publication period, due to concern that the availability of a synthetic rate might disincentivise transition efforts.

2.10 About a quarter of respondents had reservations about whether our proposed cessation date provided sufficient time for all exposures to transition away from the 3 US dollar LIBOR settings, thus running the risk of some exposures remaining at the end of the publication period. Because of this risk, these respondents requested that we should not commit to a specific cessation date at this stage, but rather monitor exposures and keep the cessation date under review.

2.11 Five respondents went further and said that our proposed publication period would be too short to achieve an orderly transition. Some of these 5 respondents recommended alternative cessation dates: 1 requested publication of the synthetic US dollar LIBOR settings for at least 2 years, with an additional 3 years for particularly difficult-to-transition contracts; 1 recommended that we extend publication further for the 3-month US dollar setting only, as was the case for sterling LIBOR; 1 requested 'long term use' of synthetic US dollar LIBOR, with publication continuing for as long as reasonably needed.

2.12 There were some common themes in the arguments made by respondents who expressed concern that publication of synthetic forms of the 3 US dollar LIBOR settings until end-September 2024 may not provide sufficient time for the market to fully transition away.

2.13 Respondents made reference to the widespread use of US dollar LIBOR in contracts, both in terms of volumes (in particular by comparison with sterling LIBOR) and geographically, including jurisdictions where preparedness for LIBOR transition is less advanced and – due to low exposures to sterling or yen LIBOR – there is less experience of synthetic settings (including emerging markets). These factors are cited as potentially causing transition efforts to fail, due to one or more counterparties being unresponsive.

2.14 One asset class that was cited by respondents as particularly challenging to transition by end-September 2024 was bonds, due to the consent solicitation process and the typically high consent threshold for agreement to transition by the investors. One respondent claimed that even if the majority of bonds did transition by the proposed cessation date, the remainder would be sufficient to make cessation disorderly.

Our Response

2.15 Responses to our Consultation showed almost unanimous support for a synthetic US dollar LIBOR rate being published after end-June 2023. There was also substantial support for our proposed cessation date; the overarching theme from respondents who raised concerns was that it **may** be challenging for the market to transition **all** remaining exposure by the proposed timeline, with a subset of particularly challenging legacy contracts unlikely to transition in time.

2.16 Under the BMR, we have a statutory obligation to conduct reviews ahead of the cessation date. We will of course conduct these reviews at the appropriate times as required.

2.17 However, our current assessment that end-September 2024 provides sufficient time for cessation to be orderly is based on the information available to us, including information provided by firms in consultation responses and other engagement with us. We consider the evidence base for our assessment to be robust. Therefore, unless unforeseen and material events were to occur which significantly change the information and circumstances on which our assessment was based, we expect that our reviews will come to the same conclusion as our initial assessment. We therefore expect to follow the timeline we have indicated.

2.18 As we have said previously, when deciding whether and for how long to publish any synthetic setting, we need to balance the interests of LIBOR users who are not yet equipped for cessation against other interests, for instance the interests of users whose contracts contain cessation fallbacks (the operation of which is delayed by publication of a synthetic LIBOR), and those of LIBOR's administrator IBA, which is being required to publish an unrepresentative rate. We have also been clear that none of the synthetic settings will be continued simply for the convenience of those who could have taken action to transition but have not done so. As we said in our Consultation, we consider that it is possible for cessation to be orderly even if not every contract has transitioned

away or been equipped with a workable fallback, provided there is not sufficient scale of un-remediated contracts to pose a threat either to market integrity or to an appropriate degree of protection for consumers. Based on evidence currently available to us, we do not believe this will be the case at end-September 2024.

2.19 On balance, we maintain that providing a specific cessation date at this stage is beneficial to achieving an orderly cessation. This is consistent with previous feedback received to our June 2022 Consultation, where respondents requested a long notice period ahead of cessation, and with the 6 respondents to this Consultation who said that specifying a cessation date was useful in providing notice to the market and focusing transition efforts. It also assuages the concerns raised that the provision of synthetic settings may slow down transition, as it conveys clearly to the market the temporary nature of these settings.

2.20 In terms of the global and diverse use of US dollar LIBOR, we have used the channels available to us, such as the Financial Stability Board's (FSB's) Official Sector Steering Group (OSSG) and International Organization of Securities Commissions (IOSCO), to raise awareness of LIBOR transition across jurisdictions globally, including emerging markets.

2.21 In relation to bonds, no new arguments were put to us as to why the majority of bonds cannot transition by our proposed cessation date. We have not identified any single issuer with such a large volume of non-US law governed bond exposures that we consider it to be impossible for them to attempt consent solicitations on all such bonds within the extra time provided. This assessment is based on the estimates that have been provided to us by industry of the typical time required for this process. As explained above in paragraph 2.18, we do not agree that every exposure needs to transition in order for cessation to be orderly. Where consent solicitations are attempted but fail, parties are choosing to remain linked to a ceasing benchmark, and we expect that they have considered the implications of doing so, as we have been clear about the temporary nature of any synthetic rate from the outset.

Chapter 3

Feedback on methodology and legacy use

3.1 We received a total of 42 responses from within and outside the UK relating to our proposed methodology and legacy use for the 3 US dollar LIBOR settings (although not all respondents answered all of our questions). Respondents included wholesale investment banks, trade associations, regulatory authorities, asset managers, multilateral development banks, non-financial corporates and professional services firms.

3.2 Our Consultation proposed that a synthetic US dollar LIBOR should be calculated, for each of the 3 US dollar LIBOR settings, as the sum of the CME Term SOFR Reference Rate plus the ISDA fixed spread adjustment for the corresponding settings. Of the 42 responses we received, 39 respondents agreed with our proposal, and 3 responses were neutral or made no comment.

3.3 Our Consultation proposed to permit legacy use of the 3 synthetic US dollar LIBOR settings in all contracts except cleared derivatives (whether directly or indirectly cleared) – ie our 'legacy use' proposal. Thirty-four of 39 respondents supported our legacy use proposal; 3 were neutral; 1 expressed support for our proposal but said that they could not support one aspect of it (see paragraph 3.7 below); and 1 did not provide a clear response.

International consistency

3.4 Several respondents noted that we should ensure as much international consistency as possible between both the methodology and the permitted use of any synthetic US dollar LIBOR, and other jurisdictions' regulatory approaches. Seven respondents asked that the FCA engage and coordinate with international and overseas regulatory authorities, including those in the US and EU, to avoid bifurcation between markets.

3.5 Fifteen respondents noted that the proposed synthetic methodology is in line with replacement rates and spread adjustments under the US' LIBOR Act. Four respondents noted that it is in line with the ARRC's use case for term SOFR in cash products. Five respondents specifically commented that the proposed methodology is in line with the approach market participants are taking to transition cash products away from US dollar LIBOR.

Uncleared derivatives

3.6 Seven respondents noted that, under our proposed approach, legacy uncleared derivatives would be permitted to move onto the relevant synthetic US dollar LIBOR rate (the CME Term SOFR Reference Rate plus the ISDA fixed spread adjustment). However,

the fallback for uncleared derivatives in the US' LIBOR Act and the ISDA Protocol is SOFR compounded in arrears plus the ISDA fixed spread adjustment.

3.7 A few of these respondents noted the potential for the CME Term SOFR Reference Rate and SOFR compounded in arrears rate to differ, and the possible consequences of this for cross-jurisdictional contracts and potential regulatory arbitrage. Some of these respondents argued that our proposed approach would lead to an increased volume of one-way demand for derivatives referencing the CME Term SOFR Reference Rate. They stated that this would lead to a build-up of one-way term SOFR exposures – 'one-way risk' which might be difficult for dealers to manage. Although these respondents said that they agreed with our legacy use proposals, one did not support permitting legacy use of the 3 synthetic US dollar LIBOR settings for uncleared derivatives, as this did not align with the US' LIBOR Act's fallback for uncleared derivatives.

3.8 One of these respondents argued that this risk for dealers would result in them paying higher costs for term SOFR derivatives (compared to SOFR compounded in arrears derivatives). They noted that the potentially higher cost of entering into new term SOFR contracts for clients may disincentivise them from actively transitioning, as moving onto synthetic US dollar LIBOR, for as long as it is published, would provide a cheaper means of using the CME Term SOFR Reference Rate.

3.9 Another of these respondents noted that their preference was for all derivatives to transition to SOFR compounded in arrears. However, they were supportive of permitting legacy uncleared derivatives to use the synthetic US dollar LIBOR rate because those that do so would be small in number and may face obstacles to transition.

Interaction with the US' LIBOR Act

3.10 Some respondents asked for clarification on, or were concerned about, the interaction between a synthetic US dollar LIBOR and the US' LIBOR Act. One respondent who agreed with our approach said that one reason for this was because they understood loans to generally not be covered by the US' LIBOR Act (but see 3.21 below).

3.11 Another respondent noted that, ideally, they would prefer that no contracts governed by US law would move onto a synthetic US dollar LIBOR. However, they agreed with our approach of not specifically restricting use of synthetic US dollar LIBOR for US law-governed contracts, due to the nature of our powers under the BMR, as outlined at paragraph 3.23 below.

New use

3.12 One respondent stated that there should be international consistency in restrictions on the new use of US dollar LIBOR settings, and in particular that our approach should be in line with that of the US. They requested that we provide adequate notice if we change the scope of prohibited new use at a future point.

Other feedback

3.13 One market participant reportedly suggested that a synthetic US dollar LIBOR would require system changes that would only be needed for a temporary period. Seven others highlighted that a synthetic rate should continue to appear on the same screens and at the same time as panel bank US dollar LIBOR settings appear currently. Another said that, assuming that would be the case, then regardless of our chosen approach to permitting legacy use under the BMR, in practice it would be difficult for us to limit the use of the 3 synthetic US dollar LIBOR settings.

3.14 One respondent said that if we permit wide legacy use of the 3 synthetic US dollar LIBOR settings, then clients with contracts that mature between end-June 2023 and end-September 2024 may choose to remain on synthetic US dollar LIBOR rather than actively transition. Another respondent asked for clarity on our intentions regarding any changes to the permitted legacy use.

3.15 Among those who supported our proposals, a number of responses were explicitly positive about specific aspects of the proposals. The proposed methodology was described as robust, and several respondents welcomed the construction of the proposed methodology and the proposal on permitting legacy use being in line with our approach to the synthetic sterling and yen LIBOR settings.

Our response

3.16 Overall, the vast majority of consultation respondents agreed with both our methodology and legacy use proposals. After carefully considering all the feedback, we concluded that we did not consider that any change was required. As a result, our final decisions on methodology and legacy use are in line with the proposals on which we consulted.

International consistency

3.17 We agree with respondents on the importance of maintaining international consistency to avoid market fragmentation or unwanted risk. As outlined in paragraphs 3.57 to 3.66 of our November 2022 Consultation, we took account of the US' LIBOR Act when developing our proposals.

3.18 We recognise that the tools available for LIBOR transition may differ across jurisdictions (and may include supervisory, regulatory or legislative approaches). We continue to work closely with our international counterparts (including regulators in the US) both bilaterally and through the FSB's OSSG and IOSCO, with the aim that our approaches complement each other and avoid market fragmentation wherever practicable.

Uncleared derivatives

3.19 As we outlined at paragraphs 3.52 to 3.53 of our November 2022 Consultation , we expect that only a very small number of legacy uncleared derivatives will move onto synthetic US dollar LIBOR settings, as the vast majority of them will transition to SOFR compounded in arrears via the ISDA Protocol. However, again as outlined in our Consultation (at paragraphs 3.52 to 3.53), there is a small subset of uncleared derivatives with structural or explicit links to other LIBOR use such that transition must be to the same alternative rate, at the same time, in order to maintain the economic terms of the transaction. Given the complexity of attempting to delineate this subset, we concluded that permitting legacy use of the 3 synthetic US dollar LIBOR settings for all uncleared derivatives would be the best way to provide clarity and certainty for the market in a timely manner.

3.20 Counterparties to affected derivatives contracts are typically sophisticated firms that we consider should be able to adequately manage any of the potential risks arising from moving onto synthetic US dollar LIBOR, described in paragraphs 3.6 to 3.8 above. Moreover, these counterparties are not obliged to use synthetic US dollar LIBOR; they are merely permitted to do so, and it is open to them to transition away. We continue to encourage counterparties to actively transition any remaining uncleared derivative exposures, in readiness for the cessation of synthetic US dollar LIBOR, and to ensure that they have full control over the economic terms of these contracts. The ISDA Protocol remains open for market participants to adhere to should they wish.

Interaction with the US' LIBOR Act

3.21 As we said at paragraphs 3.57 to 3.59 of our November 2022 Consultation, the US' LIBOR Act provides a mechanism for contracts governed by US law to transition away from LIBOR to appropriate alternative rates when the US dollar LIBOR panel ends (and thus the relevant LIBOR setting either ceases or becomes unrepresentative), if they do not contain clear, workable fallback provisions. This includes both consumer and non-consumer loans.

3.22 As a result, there will be no direct legal conflict between the operation of synthetic US dollar LIBOR and the US' LIBOR Act. The only contracts governed by US law that may potentially move onto synthetic US dollar LIBOR are contracts that are generally not affected by the US' LIBOR Act, as they contain workable non-LIBOR fallbacks.

3.23 If the workable non-LIBOR fallback provisions written into the contracts described at 3.22 above are only triggered by LIBOR's cessation, then these contracts might use synthetic US dollar LIBOR for as long as it is published. We decided not to impose any specific restrictions on legacy contracts governed by US law using the 3 synthetic US dollar LIBOR settings. This is because, as explained at paragraphs 3.62 to 3.66 of our November 2022 Consultation, our powers to restrict use of synthetic US dollar LIBOR apply to contracts and market participants within scope of the BMR only. The scope of the BMR is determined not by jurisdiction, but by the type of contract and whether one or more parties to the contract is a 'supervised entity' as defined in the

BMR. We think that it is unlikely that many parties to US law contracts will be supervised entities and would thus fall within the scope of the BMR and be subject to a restriction on the use of synthetic US dollar LIBOR settings. Such a restriction would add extra complexity for market participants, because they would have to determine whether they or their counterparties are supervised entities. It would also increase the risk that some contracts could face legal uncertainty and the potential for litigation (for instance, if it is unclear whether parties are supervised entities, or if the prohibition applied and the contract terms were not clear on how the contract should operate in such circumstances).

3.24 The ARRC has published the LIBOR Legacy Playbook that discusses the interaction between the US' LIBOR Act and a potential synthetic US dollar LIBOR.

New use

3.25 New use of US dollar LIBOR was restricted under the BMR from end-2021, with limited exemptions. This aligned with supervisory guidance issued by US authorities and supported by the Financial Stability Board and IOSCO.

3.26 The 3 synthetic US dollar LIBOR settings will be permanently unrepresentative after the relevant LIBOR panel banks cease their contributions and we have designated these settings as Article 23A benchmarks under the BMR. (For more information on designation under the Article 23A of the BMR please see our overview of the Benchmarks Regulation and amendments under the Financial Services Act 2021). Among other things, this Article 23A designation has the effect of prohibiting **all** use (as defined by the BMR) by supervised entities other than legacy use specifically permitted by the FCA. Therefore, from 1 July 2023, all new use of synthetic US dollar LIBOR by supervised entities will be prohibited under the BMR. This will override the exemptions to the prohibition on use that we imposed, and consequently these exemptions will cease to apply. Our legacy use power only applies to legacy contracts and cannot be used to change the prohibition on new use for synthetic US dollar LIBOR.

Other feedback

3.27 We do not consider that permitting legacy use for a broad range of contracts should disincentivise active transition. As we set out in our March 2021 Dear CEO letter, we expect action on LIBOR transition to be front-loaded to deliver demonstrable progress against a risk-based prioritisation of contracts. We have been clear that we only intend to compel publication of the 3 synthetic US dollar LIBOR settings until end-September 2024 as a temporary bridge for contracts to transition to appropriate, robust alternative rates. We consider that this clarity will provide a strong incentive to market participants to actively transition their remaining contracts.

3.28 Regarding our ability to limit use of the 3 synthetic LIBOR settings, as set out at 3.26 above, use of these settings by supervised entities will be prohibited except where we explicitly permit legacy use to continue. Any use in contravention of the prohibition is a

breach of the BMR and the user may face regulatory action, regardless of the manner in which the 3 synthetic LIBOR settings are published. Moreover, continuing to use unrepresentative synthetic LIBOR settings in any contract, where appropriate and representative alternatives are available, is a conduct consideration which firms should take into account.

3.29 In response to the request for further clarity on our intentions regarding changes to permitted legacy use, we have clearly outlined our decision to permit legacy use of the 3 synthetic US dollar settings in all contracts except cleared derivatives (whether directly or indirectly cleared). We understand the market's desire for adequate notice of any changes to our decision about permitted legacy use. If we make any changes at a future point, we will seek to provide the market with such notice wherever possible.

3.30 When proposing the synthetic methodology, we took account of the factor in our 23D Statement of Policy to ensure there was least disturbance or disadvantage to affected parties. The CME Term SOFR Reference Rate has a similar forward-looking structure to panel bank LIBOR. This means that the synthetic methodology minimises the need for consequential (including system) changes to ensure contracts can continue to operate after the LIBOR panel ends.

3.31 We do not expect the change in the methodology to affect how and when US dollar LIBOR (in its synthetic form) is displayed on the relevant screen pages. We welcome the confirmation received from Bloomberg and Refinitiv that the 3 US dollar LIBOR settings will continue to be available on the same screens from the start of July 2023 as they will be at the end of June 2023.

Annex 1
List of non-confidential respondents

The International Capital Market Services Association (ICMSA)

The International Capital Market Association (ICMA)

Commonwealth Bank of Australia

SITA

Sumitomo Mitsui Banking Corporation – EMEA

UBS AG

Banco Bilbao Vizcaya Argentaria, SA

Morgan Stanley

Schroder Investment Management Limited

ING Bank

NatWest

Deutsche Bank

Goldman Sachs International

Credit Suisse

UK Finance

JP Morgan

Hong Kong Monetary Authority

The Loan Market Association (LMA)

Blackrock

Intesa Sanpaolo

Superintendencia de Bancos de Guatemala

Superintendencia de Banca, Seguros y AFPs del Peru.

European Bank for Reconstruction and Development (EBRD)

Annex 2

Abbreviations used in this paper

Abbreviation	Description
ARRC	Alternative Reference Rates Committee
BMR	Benchmarks Regulation
CME	CME Group
EU	European Union
FCA	Financial Conduct Authority
FSB	Financial Stability Board
IBA	ICE Benchmark Administration Limited
ICMA	International Capital Market Association
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
OSSG	Official Sector Steering Group
RFR	Risk-Free Rate
SOFR	Secured Overnight Financing Rate
UK	United Kingdom
US	United States
US' LIBOR Act	Adjustable Interest Rate (LIBOR) Act

All our publications are available to download from www.fca.org.uk.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Sign up for our **news and publications alerts**

Pub ref: 1-008036

© Financial Conduct Authority 2023
12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk
All rights reserved