Winding down 'synthetic' sterling LIBOR and US dollar LIBOR

Consultation Paper
CP22/11*

June 2022

How to respond

We are asking for comments on this Consultation Paper (CP) by **24 August 2022**.

You can send them to us using the form on our website at: https://www.fca.org.uk/publications/consultation-papers/cp22-11-winding-down-synthetic-libor-us-dollar-libor

Or in writing to:

Benchmarks Policy
Financial Conduct Authority
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London E20 1JN

Email:
cp22-11@fca.org.uk

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1 Summary

Why we are consulting

1.1 On 5 March 2021, we announced the dates that panel bank submissions for all LIBOR settings would end. These were end-2021 for the sterling, Japanese yen, Swiss franc and euro panels, and end-June 2023 for the US dollar panel.

1.2 In September 2021, we published notices confirming our decisions to compel the continued publication of the 1-, 3- and 6-month sterling LIBOR settings for a limited time after end-2021, using a 'synthetic' methodology. This was to help mitigate the risk of widespread disruption to legacy LIBOR contracts which had not transitioned by or at end-2021, when the sterling panel ended.

1.3 We have been clear that synthetic LIBOR is only temporary. All the synthetic rates will be ceased in due course. We can compel continued production of these rates for up to 1 year at a time, for a maximum period of 10 years. Once outstanding contracts that still reference a particular LIBOR setting have had sufficient time to transition to an alternative benchmark – or to make provision to do so upon cessation of the LIBOR setting – it may no longer be appropriate for us to require continued publication of that setting.

1.4 We have said previously that we will seek views on retiring 1-month and 6-month synthetic sterling LIBOR at the end of 2022, and on when to retire 3-month synthetic sterling LIBOR. The information currently available to us suggests that the 1- and 6-month settings could be retired without prohibitive disruption. The position for the 3-month setting is less clear, given its use in mortgages (see 3.23 to 3.27 below). We recognise there are potential difficulties converting mortgages where lenders require active consent from retail borrowers. These borrowers may not be familiar with LIBOR transition, and may be reluctant to respond to letters and communications from the lender.

1.5 As we have said before, we will not compel the administrator of LIBOR to continue to publish LIBOR rates for the convenience of those who could take action to convert their contracts, but have not done so.

1.6 For US dollar LIBOR, we will need over the months ahead to assess whether the remaining settings can be wound down in an orderly fashion when the panel ends on 30 June 2023, and, if not, whether a synthetic US dollar LIBOR rate might be appropriate for certain contracts that are not within scope of LIBOR-related federal legislation (see 2.8 and 4.4). With just 12 months to go, it is important that we understand whether there are any insurmountable barriers to the smooth transition of such outstanding contracts to alternative rates before or upon the cessation of the panel (whether these be legal, operational, or other barriers), and if so, the size and nature of any exposures that market participants expect may remain at that point.

Who this applies to

1.7 We expect that this consultation will be of interest to:

- regulated and unregulated users of the remaining synthetic sterling LIBOR and US dollar LIBOR settings, including consumers, and relevant trade associations, both within and outside the UK
- service providers for LIBOR-linked contracts and/or users of LIBOR, such as lawyers, agents, advisers and third-party administrators
- the administrator of LIBOR, and possibly the administrators of other benchmarks
- other stakeholders with an interest in the orderly wind down of LIBOR, for example international authorities

What we are consulting on

1.8 This consultation seeks views on progress towards completing transition away from the 1-, 3- and 6-month sterling LIBOR settings and is intended to help inform our review of our compulsion decisions later this year. It will close on 24 August 2022.

1.9 Taking account of the time needed for us to analyse and consider fully the responses we receive as well as other relevant evidence, and to ensure we have time to follow up with respondents on any specific issues raised, it may be several weeks before we announce a final decision. Market participants have told us previously that they would value having a period of notice before the cessation of synthetic sterling LIBOR. To ensure adequate notice, **we are seeking views on ceasing the requirement to continue publication of the 1- and 6-month sterling LIBOR settings at the end of March 2023 instead of end-December 2022**.

1.10 This consultation also seeks information relating to US dollar LIBOR. We want to understand the size and nature of remaining exposures where transition is not already provided for either by the contract (for example under International Swaps and Derivatives Association (ISDA) language or protocols) or by legislation (for example federal legislation recently passed in the US), and market participants' plans to transition these exposures before end-June 2023. We are also seeking views on any challenges or issues that might result from the publication of any US dollar LIBOR settings on a synthetic basis. We have said previously that we will consider the case for requiring continued publication on a synthetic basis of the 1-, 3- and 6-month US dollar LIBOR settings. However, we have also made clear that market participants should not rely on a synthetic US dollar LIBOR rate being available after 30 June 2023.

Next steps

1.11 We are seeking responses to this consultation by 24 August 2022.

1.12 You can respond using one of the forms described on page 2 'how to respond'.

1.13 Later this year we will review our decisions to compel continued publication of the 1-, 3- and 6-month sterling LIBOR settings and notify the market of the outcome. We will take account of feedback received to this consultation.

1.14 In due course we will also need to assess whether we should require continued publication of US dollar LIBOR on a synthetic basis when the US dollar LIBOR panel ends on 30 June 2023. We will take account of feedback received to this consultation.

1.15 We also remind market participants that the synthetic yen LIBOR settings will cease at end-2022, and market participants using these rates must take the necessary action to prepare for this.

2 The wider context

LIBOR transition

2.1 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). Overnight SONIA compounded in arrears is now the foundation of sterling interest rate markets and is used across a wide range of products.

2.2 We have also been encouraging adoption of robust fallbacks into all new and, wherever practicable, legacy LIBOR contracts, so that they continue to operate when LIBOR settings cease or become permanently unrepresentative.

2.3 On 31 December 2021, publication of the following 24 LIBOR settings ended:

- all euro and Swiss franc LIBOR settings
- the overnight/spot next, 1-week, 2-month and 12-month sterling and Japanese yen LIBOR settings
- the 1-week and 2-month US dollar LIBOR settings

2.4 For the 1-, 3- and 6-month sterling and Japanese yen LIBOR settings, we required ICE Benchmark Administration (IBA), the administrator of LIBOR, to continue publication on a synthetic (and unrepresentative) basis from end-2021. This was to give the holders of certain legacy contracts more time to complete transition.

2.5 New use of synthetic LIBOR settings is prohibited under the Benchmarks Regulation (BMR). Use of these settings in legacy contracts is also prohibited, except for classes or types of legacy contracts that we specifically permit to use them. For sterling and yen, we have, initially at least, permitted use in all legacy contracts except cleared derivatives. We can change the scope of the permission, though we would give reasonable notice if we were to do so.

2.6 We will review our decisions to require continued publication of these synthetic settings later this year. However, we have been clear that we do not intend to compel production of the synthetic yen settings beyond 2022.

2.7 Of the estimated £30tn sterling LIBOR exposures outstanding at the beginning of 2021, our current estimates suggest that less than 1% remain on synthetic sterling LIBOR. This consultation seeks views on how quickly these remaining exposures can be transitioned, to help inform our review of the sterling LIBOR settings.

2.8 Five US dollar LIBOR settings will continue to be calculated using panel bank submissions until end-June 2023. Their use in new contracts has been restricted since the start of 2022, and market participants are progressing their work to convert outstanding legacy contracts. On 15 March 2022, US federal legislation was signed into law which enables certain contracts governed by US law to move to alternative rates when the US dollar LIBOR panel ends.

2.9 In due course, we will need to assess whether we should require continued publication of US dollar LIBOR on a synthetic basis when the US dollar LIBOR panel ends at the end of June 2023. We expect that feedback to this consultation will help inform our assessment. Given the wide use of US dollar LIBOR globally, we strongly encourage market participants from outside the UK, as well as those in the UK, to respond to this consultation.

How it links to our objectives

2.10 The FCA's statutory objectives require us to:

- secure an appropriate degree of protection for consumers
- protect and enhance the integrity of the UK financial system

2.11 A disorderly end to any LIBOR setting could impact adversely the integrity of the UK financial system and/or harm consumers. This consultation seeks views on how best we can avoid this and instead achieve an orderly wind down of LIBOR.

Equality and diversity considerations

2.12 We have considered the equality and diversity issues that may arise from the content of this Consultation Paper.

2.13 Overall, we do not consider that it materially impacts any of the groups with protected characteristics under the Equality Act 2010. We will continue to consider the equality and diversity implications during the consultation period, and when making any future decisions.

2.14 In the meantime, we welcome your input on this in your responses to this consultation.

Information we use to inform our decision-making

2.15 When making decisions relating to the orderly wind down of LIBOR we will take account of relevant data and information available to us. This includes information presented to us by market participants and their representatives, the administrator of LIBOR, LIBOR users, national working groups and overseas authorities – including information and data supplied to us in consultation responses. Where we do not have precise information, we will apply assumptions and estimates based on the information that is available.

3 Synthetic sterling LIBOR

What we are seeking views on

3.1 We are seeking views on:

- whether the 1- and 6-month sterling LIBOR settings can cease in an orderly fashion at end-March 2023
- when it will be possible for the 3-month sterling LIBOR setting to cease in an orderly fashion

Data and assumptions

3.2 We have collected data and developed initial assumptions for each asset class affected by the end of synthetic sterling LIBOR. Our assumptions are set out below.

Derivatives

3.3 In the sterling derivatives market, transition away from LIBOR is largely complete. Clearing houses transitioned cleared derivatives referencing sterling LIBOR in Q4 2021. The ISDA IBOR Fallbacks Protocol also provides an easy mechanism by which uncleared derivatives can transition away from LIBOR. Most uncleared derivatives moved to SONIA on 4 January 2022 through the protocol mechanism.

3.4 We consider that most of the remaining contracts should be transitioned by end-March 2023, either through insertion of robust fallbacks, or active transition. Derivatives are bilateral contracts with clearly identifiable counterparties. These counterparties are typically sophisticated firms. We consider that the additional time provided by synthetic LIBOR should have provided sufficient time for outstanding sterling LIBOR derivatives to be amended.

3.5 As we have said previously, we are aware that a small percentage of uncleared derivatives are structurally or explicitly linked to cash products, often because they are part of more complex structures. Given the need to match cashflows in these structures, it is likely that these derivatives will not be transitioned until the linked cash product, or the rest of the structure, is transitioned.

3.6 We have not attempted to distinguish these in our data as we do not consider that the impact on these contracts when the relevant sterling LIBOR setting ceases would create any additional adverse effect on consumers or market integrity. We consider any such adverse effect would arise from the impact of cessation on the relevant cash product or broader structure of which the derivative is part. These products and structures are considered below.

Bonds

3.7 We have assumed that sterling LIBOR bonds issued after end-2017 have fallbacks designed for the permanent discontinuation of LIBOR, following Andrew Bailey's speech on the future of LIBOR in July 2017. We understand that market practice had evolved by then to a point where alternative fallback language was available and commonly used. This language envisages the issuer appointing an independent adviser to select (or to advise the issuer in the selection of) an alternative or replacement rate and spread adjustment. We understand that bonds written before this either do not contain fallbacks, or, where they do, such fallbacks were designed primarily to deal with a short-term unavailability of the benchmark. In the event of a permanent cessation, these fallbacks may have the effect of moving the bond to a fixed interest rate.

3.8 Bonds can be transitioned away from LIBOR via a successful consent solicitation process. In the sterling bond market, we have seen many successful consent solicitations, enabling transition from sterling LIBOR to compounded SONIA.

3.9 For contracts governed by English law, this process typically requires 75% of noteholders' consent (based on a quorum of noteholders holding 75% or two thirds of the outstanding principal amount, or 25% or one third of the outstanding amount in the case of an adjourned, ie subsequent, meeting). Stakeholders have advised that the consent solicitation process typically takes around three months.

3.10 We consider that it should be possible for consent solicitations to be completed by end-March 2023 for all bonds linked to sterling LIBOR settings.

3.11 Based on experience to date, we think consent solicitation exercises to amend sterling LIBOR bonds have a good prospect of success. There is an established market consensus on fair replacement rates, and we have not identified any incentives for bondholders to withhold their consent to transition to these rates. On the contrary, the temporary nature of synthetic LIBOR provides a strong incentive to consent to transition. Issuers and their agents have the means to notify bondholders of consent solicitation exercises, and bondholders can and should take steps to ensure that requests to consent are prioritised and routed to appropriate decision-makers. In summary, it is not clear to us that there are insurmountable barriers to issuers undertaking and investors participating in consent solicitation exercises. Those that fail to do so appear to be choosing to remain linked to a ceasing benchmark and so presumably are equipped to deal with the consequences.

3.12 There may also be other mechanisms available to remove dependency on LIBOR eg buy backs or call options.

Securitisations

3.13 We have made broadly the same assumptions for securitisations as for bonds. For example, we have assumed that securitisations issued after end-2017 have robust fallback or other conversion mechanisms available (such as a negative consent process).

3.14 However, we acknowledge that there are additional complexities with some securitisations. It may take longer to get to a position where a consent solicitation (or negative consent process) can succeed due to, for example, ensuring that any LIBOR-linked underlying assets and/or embedded swaps also have clear transition arrangements in place, or securing approval of the changes from rating agencies.

In some cases, consent is needed from noteholders of tranches that are not linked to LIBOR and who are therefore not affected directly by the changes. Our assumptions have been adjusted to reflect these complexities.

3.15 We consider that transition of retained and privately placed securitisations is more straightforward given there are very few noteholders and established relationships between the originator and investors.

Syndicated loans

3.16 In the sterling syndicated loan market, many contracts have been converted to SONIA through multi-lateral renegotiation efforts.

3.17 We understand that most remaining sterling LIBOR syndicated loan contracts require a degree of lender consent to move to an alternative fallback rate. So, while it is possible to amend these contracts, in September 2021 we acknowledged that it may be difficult to amend all outstanding contracts by end-2021, particularly the more complex multi-currency, large syndicated loans.

3.18 We have not identified any barriers to transition that we consider cannot be overcome by end-March 2023. We consider that the additional time provided by the synthetic sterling LIBOR settings should be sufficient for the remaining syndicated loans to have moved to alternative rates by then. Some firms have told us that private finance initiative (PFI) loans can take longer to transition as they often require consent from local authorities. We understand these loans typically reference 6-month sterling LIBOR. However, we consider that 15 months of synthetic sterling 6-month LIBOR will have provided sufficient time for the relevant approval processes, such as Board meetings, to take place and for local authorities to provide the necessary consent.

3.19 We are also aware that there are some distressed and/or defaulted loans that will not transition. As lenders are no longer receiving payments in respect of these loans and have effectively written them off in part or in full, we do not consider that their failure to transition will cause material additional disruption.

Bilateral loans

3.20 In the sterling bilateral loan market, many contracts have been converted to SONIA through bilateral renegotiation or use of existing contractual terms.

3.21 We understand that generally there is less standardisation of contract terms in the bilateral loan market compared with the syndicated loan market. Many bilateral loans provided on standard (short) form documentation contain no fallback and the consent of both borrower and lender is required to amend them. Data available to us suggest that some loans can be amended unilaterally by the lender, but we have assumed these have already been moved to a more robust replacement rate (or will do so when LIBOR ceases permanently).

3.22 As with syndicated loans, we previously acknowledged that it may have been difficult to amend all outstanding bilateral loan contracts in the time available before end-2021. However, as with syndicated loans, we have not identified any barriers to transition that we judge to be insurmountable. We consider that the additional time provided by publication of the synthetic sterling LIBOR settings should be sufficient for the remaining bilateral loans to move to alternative rates. We recognise there may be PFI loans, or distressed/defaulted loans, that are bilateral rather than syndicated, however we consider that the same assumptions set out at 3.18 and 3.19 above apply.

Mortgages and other consumer lending

3.23 In the sterling mortgage market, we identified a small proportion of mortgages using LIBOR. In the UK, the vast majority of these use 3-month LIBOR, although we were made aware of a very small number using 1-month LIBOR. Of the estimated 200,000 outstanding UK residential and buy-to-let mortgages we originally identified, we understand at least 80% (by number of contracts) have now transitioned to alternative rates.

3.24 Of the UK mortgage contracts still referencing sterling LIBOR, we think that over a third may have robust fallback mechanisms which allow them to move to a fair replacement rate once sterling LIBOR is discontinued. We are mindful that continuing the synthetic LIBOR rates prevents these fallback mechanisms from operating, and is therefore delaying the movement of these LIBOR-linked mortgages to a permanent replacement rate.

3.25 However, we also continue to recognise the challenges of transitioning the remaining LIBOR-linked mortgage contracts, given that mortgage customers are generally not actively engaged in LIBOR transition so may not respond to lenders' attempts to engage with them on contractual amendments.

3.26 On the basis of information received to date, we estimate the number of UK mortgage contracts that may still be linked to 1-month sterling LIBOR to be fewer than 100. Further, some of these may contain robust fallbacks. Where this is not the case, we consider that it should be possible for lenders to prioritise and focus their efforts on making contact with this very small pool of customers and explaining the relevant issues, in order to complete transition away from 1-month sterling LIBOR mortgages by end-March 2023.

3.27 For mortgage contracts linked to 3-month LIBOR, where volumes are higher (although still very small in the context of the overall UK mortgage market), we remind lenders that the synthetic 3-month LIBOR rate is a temporary solution only. We encourage them to redouble their efforts to transition customers to appropriate alternatives. We are keen for lenders and third-party administrators to set out their ongoing transition plans and the timeframe for completing these in response to Q5 below.

3.28 We understand there may also be a small number of non-mortgage consumer loans referencing 3-month LIBOR. Our understanding is that the vast majority of these were written after July 2017 and contain workable fallback provisions.

Funds

3.29 As we have said previously, we understand that the process for amending investment funds' documentation to use another benchmark to measure performance (for the purpose of calculating performance fees) is straightforward, albeit it can take several months. The additional year provided by the current requirement to publish synthetic sterling LIBOR settings, particularly with the addition of the 3-month extension described in this paper, should be sufficient for firms to complete this process in our view.

Q1: **Do you agree that the 1-month sterling LIBOR setting can be ceased in an orderly fashion at end-March 2023?**

Q2: **Do you agree that the 6-month sterling LIBOR setting can be ceased in an orderly fashion at end-March 2023?**

Q3:

a. Are there any reasons why you – or, if you are a trade body or professional services firm, your members or clients – will not be able to transition your 1- and/or 6-month sterling LIBOR exposures in the manner and timeframe we have assumed to be possible?

b. Where the answer is Yes, what asset class(es) and/or types of contract(s) do these exposures relate to, and which LIBOR setting do they reference?

c. Please explain why these exposures cannot be transitioned in the manner and timeframe we've assumed to be possible, and what alternative timescale you think is needed.

Q4: **In your view, when would be the earliest date at which the 3-month sterling LIBOR setting could cease in an orderly fashion?**

Q5:

a. Do you – or, if you are a trade body or professional services firm, your members or clients – have exposures linked to 3-month sterling LIBOR where you have encountered, or expect to encounter, obstacles that prevent you from completing transition by end-March 2023?

b. Where the answer is Yes, what asset class(es) and/or types of contract(s) do these obstacles relate to?

c. Please provide details of these obstacles, how you intend to overcome them and to what timescale?

Q6:

a. Do you – or, if you are a trade body or professional services firm, your members or clients – have any specific contracts, or classes/types of contracts, linked to 1-, 3- or 6-month sterling LIBOR that you consider will be unable to cope with cessation regardless of the time available – because they do not have workable fallbacks, cannot be transitioned away, and cannot cease prior to maturity without causing disruption?

b. Where the answer is Yes:

i. What type of contract(s) are they?

ii. Which LIBOR setting(s) do they reference?

iii. How many contracts are there?

iv. What is their approximate total value?

v. When are they due to mature?

c. For each type of contract, please explain the precise reasons why you consider they cannot transition, and what the impact on the contract would be if the relevant sterling LIBOR setting ceased?

4 US dollar LIBOR

Outstanding exposures and transition progress

4.1 Exposures to US dollar LIBOR settings have always been considerably higher than exposures to other LIBOR settings, given the larger and more global nature of the US dollar market. However, the additional 18 months of panel bank US dollar LIBOR has provided market participants with considerable extra time to transition away to suitable replacement rates, as well as allowing more legacy contracts to reach maturity.

4.2 We expect all UK-regulated firms to be progressing their plans to transition legacy contracts referencing one of the five remaining US dollar LIBOR settings, or otherwise ensuring robust fallbacks are in place to deal with both unrepresentativeness and cessation, before the end of the US dollar LIBOR panel at end-June 2023. We urge non-UK-regulated firms to do the same. This expectation is shared by regulators globally, for example through the Financial Stability Board (FSB). Its Global Transition Roadmap for LIBOR sets out steps that market participants should take to help ensure a smooth transition from US dollar LIBOR.

4.3 Feedback from UK-regulated firms with high exposures to US dollar LIBOR settings indicates that transition is progressing well and at this stage is expected to be on track for completion to this timeframe. If this reflects wider LIBOR transition efforts, it may be an indicator that the cessation of US dollar LIBOR at end-June 2023 can be achieved in an orderly manner.

4.4 We have developed initial assumptions for each asset class. These are set out below. Our assumptions focus on US dollar LIBOR contracts not governed by US law. This is because we understand contracts governed by US law are either within the scope of recent federal legislation on LIBOR which provides a clear mechanism to transition to alternative rates at end-June 2023, or are beyond its scope because they contain robust (non-LIBOR-related) fallbacks that equip them to cope with LIBOR's cessation. So contracts governed by US law should not be the cause of a disorderly cessation of US dollar LIBOR.

4.5 We recognise there may be exposures of which we are not currently aware, or other local factors we should consider, eg factors arising from the location of the counterparties or the governing law of the contract. We encourage respondents to help us test our assumptions by providing relevant information. We are keen to establish whether there are any insurmountable barriers to a smooth transition of US dollar LIBOR-referencing contracts to alternative rates before or upon the cessation of the US dollar LIBOR panel (whether these be legal, operational, or other barriers), and if so, the size and nature of any exposures affected by these barriers.

Derivatives

4.6 In the US dollar derivatives market, clearing houses are planning to transition cleared derivatives referencing US dollar LIBOR before end-June 2023. The ISDA IBOR Fallbacks Protocol provides an easy mechanism by which uncleared derivatives can transition away from LIBOR. There has been very good take-up of the protocol, with over 15,000 entities having adhered globally.

4.7 For the same reasons set out at 3.4 to 3.6 above in relation to sterling LIBOR, we consider that most remaining US dollar LIBOR derivative contracts should be transitioned by end-June 2023, either through insertion of robust fallbacks, or active transition.

Bonds

4.8 We think similar assumptions to sterling LIBOR bonds can also be made for US dollar LIBOR bonds issued under English law. Our analysis suggests English law is the most common governing law for US dollar LIBOR bonds, after US law.

4.9 We assume bonds issued after end-2017 should have fallbacks designed for the permanent discontinuation of LIBOR, similar to those in sterling (ie an independent advisor is appointed to select or advise on a replacement rate). More recently, some may also have adopted the Alternative Reference Rates Committee's (ARRC's) fallbacks for bonds, or other language with pre-cessation triggers (ie. language which triggers upon LIBOR becoming permanently unrepresentative). Bonds written before end-2017 likely do not contain fallbacks, or where they do, such fallbacks were designed primarily to deal with a short-term interruption to the availability of the benchmark. In the event of a permanent cessation, these fallbacks may have the effect of moving the bond to use a fixed interest rate.

4.10 Bonds can be transitioned away from LIBOR by successfully following a consent solicitation process. We understand that the process and consent requirements for US dollar bonds governed by English law are typically the same as for sterling bonds (see 3.9). We also assume the process takes a similar amount of time, and issuers can run multiple consent solicitations in parallel. Based on these assumptions, as with sterling LIBOR, it is not clear from our analysis that any issuer has such a large number of outstanding non-US law US dollar LIBOR bonds that they will not have had enough time to complete a consent solicitation for all of their bonds by end-June 2023.

Securitisations

4.11 We have assumed that securitisations issued by US entities are governed by US law so are not relevant to our assessment of whether US dollar LIBOR can cease in an orderly fashion (for the reasons set out at 4.4 above)

4.12 We have made broadly the same assumptions for non-US law securitisations as for bonds. For example, we have assumed that securitisations issued after end-2017 have robust fallback or other conversion mechanisms available (such as a negative consent process, or potentially ARRC-recommended fallback language).

4.13 However, as with sterling LIBOR, we acknowledge that there are additional complexities with some securitisations – see 3.14 above. Our assumptions have been adjusted to reflect these complexities.

4.14 We consider that transition of retained and privately placed securitisations is more straightforward given there are very few noteholders, and there are often established relationships between the originator and investors.

Syndicated loans

4.15 The global nature of US dollar LIBOR means it has been used in the syndicated lending market in a very wide range of jurisdictions, including emerging markets.

4.16 We expect US dollar LIBOR syndicated loans written more recently to contain robust fallback arrangements. For example, in June 2020 the ARRC published recommended fallback language for syndicated loans. This takes effect if US dollar LIBOR becomes unrepresentative, or ceases.

4.17 We understand that most US dollar LIBOR syndicated loan contracts written before this require a degree of lender consent to move to any alternative fallback rate. Nonetheless, there is a mechanism for these contracts to transition away to robust alternative rates where needed, provided sufficient time is available. As with sterling LIBOR, we have not identified any barriers to transition other than the potentially large number of loans that need remediating.

4.18 If our engagement with UK-regulated firms with large exposures to US dollar LIBOR is indicative of the wider market, it may suggest that transition plans for US dollar LIBOR syndicated loans are on track to be substantially completed by mid-2023.

4.19 Some market participants had previously suggested that US dollar LIBOR syndicated loans with counterparties based in emerging markets may take longer to transition, due to a perception that there is lower awareness of LIBOR transition in these markets. The additional 18 months of panel bank LIBOR has provided firms with additional time to complete their renegotiation processes. Information from regulated firms suggests that lenders' communication with their clients has been successful in raising awareness and prompting the necessary remedial action. Lenders' own efforts have been supplemented by continued communication effort by international bodies such as the FSB and International Organization of Securities Commissions (IOSCO).

Bilateral loans

4.20 As with syndicated loans, US dollar LIBOR has been used in the bilateral lending market in a wide range of jurisdictions.

4.21 We understand that generally there is less standardisation of contract terms in the bilateral loan market compared with the syndicated loan market, although the ARRC published recommended fallback language for US dollar LIBOR bilateral loans in August 2020.

4.22 For those contracts that require borrower consent to transition to an alternative rate, we have not identified any barriers to transition that we judge to be insurmountable. As with syndicated loans, feedback from UK firms indicates that transition is on track. We recognise that many loans with emerging market counterparties may be bilateral rather than syndicated, however we consider that the same assumptions set out at 4.19 above apply. Overall, we consider that continuation of the US dollar LIBOR panel until end-June 2023 provides sufficient time for remaining bilateral loans to have moved to robust alternative rates.

Mortgages and other consumer lending

4.23 We understand mortgages and other consumer loans referencing US dollar LIBOR are common in the US. However, we assume these contracts are governed by US law so are within scope of the federal legislation (see 4.4 above). We understand there may be a small number of mortgages and other consumer loans referencing US dollar LIBOR outside the US, but to date we have not been made aware of any contracts that cannot transition by mid-2023.

Funds

4.24 We have made the same assumption for investment funds referencing US dollar LIBOR settings that we have made for those referencing sterling LIBOR, ie that the process for amending documentation is straightforward but can take several months. The additional 18 months of panel based US dollar LIBOR from end-2021 to end-June 2023 should be sufficient for firms to complete this process.

Q7: Do you agree it will be possible to transition remaining exposures to US dollar LIBOR in line with our assumptions?

Q8:

a. Do you – or, if you are a trade body or professional services firm, your members or clients – have exposures to US dollar LIBOR where you have encountered, or expect to encounter, obstacles that prevent you from completing transition by end-June 2023?

b. Where the answer is Yes, what asset class(es) and/or types of contract(s) do these obstacles relate to?

c. Please provide details of these obstacles, how you intend to overcome them and to what timescale?

d. Where these contracts are governed by laws other than US or UK law, please provide details of any contract language or provisions that mean our assumptions are not appropriate and require adjustment.

Q9:

a. Do you – or, if you are a trade body or professional services firm, your members or clients – have any specific contracts, or classes/types of contracts, linked to US dollar LIBOR that you consider will be unable to cope with cessation regardless of the time available – because they do not have workable fallbacks, cannot be transitioned away, and cannot cease before maturity without causing disruption?

b. Where the answer is Yes:

i. What type(s) of contract(s) are they?

ii. Which LIBOR setting(s) do they reference?

iii. How many contracts are there?

iv. What is their approximate total value?

v. When are they due to mature?

vi. What is the relevant governing law?

c. For each type of contract, please explain the precise reasons why you consider they cannot transition, and what the impact on the contract would be if the relevant US dollar LIBOR setting ceased?

Considerations for a potential synthetic US dollar LIBOR

4.25 As we set out above, from the information available to us, we think end-June 2023 should provide sufficient time for transition away from the US dollar LIBOR settings such that they can cease in an orderly fashion at that point. However, there may be exposures of which we are not currently aware, and in questions 7 – 9 we are seeking information to help test our assumptions.

4.26 The end-June 2023 date for the end of the US dollar LIBOR panel will not change. We have not yet decided whether it would be appropriate or desirable to continue publication using a changed – ie synthetic – methodology after end-June 2023. The BMR sets out clear statutory tests that must be met before we can exercise this power (as we have for the 1-, 3- and 6-month sterling and yen LIBOR settings). The information received in response to this consultation will help inform our assessment of whether these tests are met.

4.27 Were we to decide to require publication of any synthetic form of US dollar LIBOR, we would take account of our published policy on the exercise of the power to require a change to a critical benchmark's methodology. So we expect that any synthetic US dollar LIBOR would follow a similar model to sterling and yen.

4.28 In line with this policy, the model we chose for synthetic sterling LIBOR was IBA's term SONIA reference rates, plus the respective ISDA fixed spread adjustment. For synthetic yen LIBOR, we chose the term TONA reference rate recommended by the Japanese Cross-Industry Committee (the Tokyo Term Risk Free Rates (TORF) provided by QUICK Benchmarks Inc.) plus the respective ISDA fixed spread adjustment.

4.29 Our policy framework says that we would take into account whether market support had already been established, through public or private sector-led working groups, and/or open consultation, on a fair way of calculating a replacement value for the relevant benchmark.

4.30 The ARRC has formally recommended CME's term SOFR rates as an alternative reference rate for US dollar LIBOR in certain cases where such use is in line with its Best Practice Recommendations, including in legacy contracts that have adopted ARRC fallback language. (Recommended use of the term SOFR rate in new products is more limited, and CME's licensing restrictions support this). Refinitiv is the ARRC's recommended publisher of spread-adjusted SOFR rates for use in cash product fallbacks.

4.31 A model using the ARRC's recommended term SOFR rates would depend on CME's term SOFR rates being available to IBA for use in a synthetic rate under an agreement acceptable to both parties, as is the case for synthetic yen LIBOR (where QUICK Benchmarks Inc. has made its TORF rates available to IBA).

4.32 We are seeking information on the consequences for market participants if we were to decide to compel IBA to produce US dollar LIBOR using a synthetic methodology.

4.33 Again, we remind market participants that **the considerations set out in 4.26 – 4.31 above are not proposals for a synthetic US dollar LIBOR**. In due course we will assess whether the US dollar LIBOR settings can be wound down in an orderly fashion without requiring publication of a synthetic rate. Responses to this consultation will help inform this work.

4.34 As we've set out previously, market participants should not rely on any synthetic US dollar LIBOR settings being published, nor on any such rate being available for use in all legacy contracts. We would have to specify which legacy contracts are permitted to use any synthetic US dollar LIBOR, in line with our policy framework (see 2.5).

Q10: **What impact would publication of a synthetic US dollar LIBOR rate have? Would there be any unintended adverse consequences?**

Please provide details of why and whether this is relevant to specific contracts.

Annex 1
Questions in this paper

Q1: Do you agree that the 1-month sterling LIBOR setting can be ceased in an orderly fashion at end-March 2023?

Q2: Do you agree that the 6-month sterling LIBOR setting can be ceased in an orderly fashion at end-March 2023?

Q3:

a. Are there any reasons why you – or, if you are a trade body or professional services firm, your members or clients – will not be able to transition your 1- and/or 6-month sterling LIBOR exposures in the manner and timeframe we have assumed to be possible?

b. Where the answer is Yes, what asset class(es) and/or types of contract(s) do these exposures relate to, and which LIBOR setting do they reference?

c. Please explain why these exposures cannot be transitioned in the manner and timeframe we've assumed to be possible, and what alternative timescale you think is needed.

Q4: In your view, when would be the earliest date at which the 3-month sterling LIBOR setting could cease in an orderly fashion?

Q5:

a. Do you – or, if you are a trade body or professional services firm, your members or clients – have exposures linked to 3-month sterling LIBOR where you have encountered, or expect to encounter, obstacles that prevent you from completing transition by end-March 2023?

b. Where the answer is Yes, what asset class(es) and/or types of contract(s) do these obstacles relate to?

c. Please provide details of these obstacles, how you intend to overcome them and to what timescale?

Q6:

a. Do you – or, if you are a trade body or professional services firm, your members or clients – have any specific contracts, or classes/types of contracts, linked to 1-, 3- or 6-month sterling LIBOR that you consider will be unable to cope with cessation regardless of the time available – because they do not have workable fallbacks, cannot be transitioned away, and cannot cease prior to maturity without causing disruption?

b. Where the answer is Yes:

i. What type of contract(s) are they?

ii. Which LIBOR setting do they reference?

iii. How many contracts are there?

iv. What is their approximate total value?

v. When are they due to mature?

c. For each type of contract, please explain the precise reasons why you consider they cannot transition, and what the impact on the contract would be if the relevant sterling LIBOR setting ceased?

Q7: Do you agree it will be possible to transition remaining exposures to US dollar LIBOR in line with our assumptions?

Q8: a. Do you – or, if you are a trade body or professional services firm, your members or clients – have exposures to US dollar LIBOR where you have encountered, or expect to encounter, obstacles that prevent you from completing transition by end-June 2023?

b. Where the answer is Yes, what asset class(es) and/or types of contract(s) do these obstacles relate to?

c. Please provide details of these obstacles, how you intend to overcome them and to what timescale?

d. Where these contracts are governed by laws other than US or UK law, please provide details of any contract language or provisions that mean our assumptions are not appropriate and require adjustment.

Q9: a. Do you – or, if you are a trade body or professional services firm, your members or clients – have any specific contracts, or classes/types of contracts, linked to US dollar LIBOR that you consider will be unable to cope with cessation regardless of the time available – because they do not have workable fallbacks, cannot be transitioned away, and cannot cease before maturity without causing disruption?

b. Where the answer is Yes:

i. What type of contract(s) are they?

ii. Which LIBOR setting do they reference?

iii. How many contracts are there?

iv. What is their approximate total value?

v. When are they due to mature?

vi. What is the relevant governing law?

c. For each type of contract, please explain the precise reasons why you consider they cannot transition, and what the impact on the contract would be if the relevant US dollar LIBOR setting ceased?

Q10: What impact would publication of a synthetic US dollar LIBOR rate have? Would there be any unintended adverse consequences?

Please provide details of why and whether this is relevant to specific contracts.

Annex 2
Abbreviations used in this paper

Abbreviation	Description
ARRC	Alternative Reference Rates Committee
BMR	Benchmarks Regulation
FSB	Financial Stability Board
IBA	ICE Benchmark Administration
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
PFI	Private finance initiative
RFR	Risk-free rate
TORF	Tokyo Term Risk Free Rates

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