Andrew Bailey: Chief Executive of the FCA

- While significant improvements have been made to LIBOR since April 2013, the absence of active underlying markets raises a serious question about the sustainability of the LIBOR benchmarks that are based upon these markets.

- Panel bank support to sustain LIBOR until end-2021 will enable a transition that can be planned and executed smoothly.

- Work must begin in earnest on planning the transition to alternative reference rates that are based firmly on transactions.

“UK and European legislation does give us the power to compel banks to contribute to LIBOR where necessary…. But we do not think it right to ask, or to require, that panel banks continue to submit expert judgements indefinitely. Indeed, the powers available to us under European Benchmark Regulation, do not allow us to compel indefinitely.”

- End 2021 the target to end the usage of Libor in UK (but ICE announced it intends to continue publication)
THE RFR PATH AND HOW TO DISCONTINUE THE IBOR

- Both the UK and the FED have engaged to prepare the replacement of LIBOR over the last 2-3 years

- FED and BOE led workgroups have laid the foundations, and managed to choose their RFR
  - ARCC has chosen a secured rate the SOFR as the preferred RFR
  - BOE work group has chosen to consolidate SONIA, which is an unsecured rate

- Both are implying that the Main Reference rate for markets could be based on an O/N rate

- Both BOE and FED have clearly indicated that they would like to find incentives to help the market to transfer its LIBOR based products (IRS, Futures…) to RFR based products

- How to transfer the existing contracts / trades into a RFR + Margin?
  - Main idea shared in US seems to be:
    - To freeze the OIS-BOR spread market on a date agreed in advance
    - To provide all market participants an official price for any Forward Date in the future to replace LIBOR by OIS + Margin
ECB to create a new MMSPR based Unsecured Overnight Rate to complement the private sector existing ones

That new rate could be used as a backstop to private sector benchmark rates

ECB, Belgium FSMA, EU Commission, and ESMA to create a new working group to identify and adopt the Euro area RFR or Risk Free O/N Rate


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