

# LIBOR Transition FAQs

## 1. What is LIBOR?

The London Interbank Offered Rate (“LIBOR”) is a daily benchmark interest rate calculated as an average of panel bank submissions and provides indication of the rate banks pay to borrow unsecured money across five currencies (British Pound Sterling, Euro, Japanese Yen, Swiss Franc and US Dollar) and seven tenors (overnight, 1 week, 1, 2, 3, 6 and 12 months) and is used in financial contracts as a reference rate; including for calculating interest. LIBOR rates are published by its administrator, ICE Benchmark Administration (IBA), every applicable London business day.

## 2. How are benchmark interest rates used?

Benchmark interest rates are widely used across the global economy for calculating interest rates and valuations in relation to a wide variety of contracts, such as derivatives, bonds, loans and consumer lending products.

## 3. What does benchmark interest rate reform mean?

In July 2014, the Financial Stability Board, an international body that monitors and makes recommendations intended to promote financial stability, issued a report expressing concerns about the ‘reliability and robustness of existing interbank benchmark rates.’

[https://www.fsb.org/wp-content/uploads/r\\_140722.pdf](https://www.fsb.org/wp-content/uploads/r_140722.pdf)

These rates are commonly referred to as inter-bank offered rates, or IBORs. LIBOR is a well-known example and is commonly referenced in contracts to determine amounts payable. The Financial Stability Board recommended a two-pronged approach to reform:

1. Strengthen existing Interbank Offered Rates (IBORs) by underpinning them to the greatest extent possible with transactions data
2. Develop alternative, nearly risk-free reference rates (RFRs)

Since the financial crisis, regulators have introduced measures to strengthen the balance sheets of banks. Regulatory capital and liquidity requirements have decreased bank risk appetite for short-term funding. Consequently, the volume of transactions that have been historically underpinned by LIBOR submissions has become a relatively small number, which is unlikely to change. The Financial Stability Board is concerned LIBOR is no longer a robust benchmark due to its reliance on the expert judgment of submitters in the absence of significant underlying volumes.

The phrases ‘near risk-free rates’, ‘risk-free rates’ and ‘alternative reference rates’ are generally accepted as interchangeable and

these should be considered to refer to the same: reference rates which are being developed by international, central bank led working groups as alternatives to LIBOR. The acronym “RFR” was introduced by the Financial Stability Board in July 2014.

## 4. Has LIBOR been strengthened as the Financial Stability Board recommended?

The LIBOR administrator (IBA), has implemented enhancements to the submission methodology that mandate a standardised approach for all panel banks to follow. Submitters are required to reference eligible transactions when possible, so that submissions are anchored in transactions to the greatest extent.

<https://www.theice.com/iba/libor>

When there is an insufficient number of eligible transactions, panel banks must use expert judgment based on a standardised internal methodology reviewed by IBA. The EURIBOR administrator, European Money Market Institute (EMMI), has followed with similar enhancements to the submission methodology for EURIBOR. Both IBA and EMMI are authorised administrators for LIBOR and EURIBOR respectively under the European Benchmark Regulation and appear on the register of authorised administrators maintained by the European Securities and Markets Authority (ESMA).

[https://registers.esma.europa.eu/publication/searchRegister?core=esma\\_registers\\_bench\\_entities](https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_bench_entities)

Although both LIBOR and EURIBOR administrators have made efforts to make their methodologies more robust, the underlying markets remain challenged by low levels of liquidity, meaning a continued reliance on expert judgment is expected.

<https://www.theice.com/iba/libor> and [https://www.emmi-benchmarks.eu/assets/files/D0373B-2018%20Second%20Consultation%20Hybrid%20Euribor\\_full.pdf](https://www.emmi-benchmarks.eu/assets/files/D0373B-2018%20Second%20Consultation%20Hybrid%20Euribor_full.pdf)

## 5. Have LIBOR’s changes addressed the robustness concerns raised in the Financial Stability Board report?

Partially. Whilst the reforms introduced by IBA are welcomed and provide for a submission methodology intended to follow best practice standards, the nature of the interbank market has changed, as identified by the Financial Stability Board. Panel banks continue to rely on expert judgment as the basis for the majority of LIBOR submissions due to an insufficient number of eligible transactions.

[https://www.theice.com/publicdocs/ICE\\_LIBOR\\_Evolution\\_Report\\_25\\_April\\_2018.pdf](https://www.theice.com/publicdocs/ICE_LIBOR_Evolution_Report_25_April_2018.pdf) and <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>

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## 6. What has the UK Financial Conduct Authority said about the reforms to LIBOR?

Andrew Bailey, the CEO of the UK's Financial Conduct Authority (FCA) which regulates LIBOR, recognises "significant improvements have been made to LIBOR" from a governance perspective, but questions the sustainability of LIBOR due to the low level of underlying transactions:

"In our view it is not only potentially unsustainable, but also undesirable, for market participants to rely indefinitely on reference rates that do not have active underlying markets to support them."

<https://www.fca.org.uk/news/speeches/the-future-of-libor>

## 7. I have heard LIBOR may cease to exist soon; can this really happen?

In 2017, the FCA reached an agreement with all 20 LIBOR panel banks to continue to support the benchmark by submitting to LIBOR until 31 December 2021. The FCA has been clear that it does not intend to persuade or compel banks to make LIBOR submissions beyond that date. There is a significant risk that LIBOR may not be available after the end of 2021.

<https://www.fca.org.uk/news/speeches/the-future-of-libor>

In 2018, Andrew Bailey reminded the market of the FCA's intentions:

"I hope it is already clear that the discontinuation of LIBOR should not be considered a remote probability 'black swan' event. Firms should treat it as something that will happen and which they must be prepared for."

<https://www.fca.org.uk/news/speeches/interest-rate-benchmarkreform-transition-world-without-libor>

More recently in 2019, Randal Quarles, Chair of The Financial Stability Board, stressed:

"Clarity on the exact timing and nature of the LIBOR stop is still to come, but the regulator of LIBOR has said that it is a matter of how LIBOR will end rather than if it will end, and it is hard to see how one could be clearer than that."

<https://www.federalreserve.gov/newsevents/speech/quarles20190603a.htm>

## 8. Is the Bank of England concerned about the sustainability of LIBOR?

The Bank of England has discussed concerns about the robustness of LIBOR since at least 2013. Around the same time in 2017 that Andrew Bailey, CEO of the UK's Financial Conduct Authority (FCA) indicated LIBOR could cease to exist after the end of 2021, the Financial Policy Committee warned:

"It had become increasingly apparent that the scarcity of term unsecured deposit transactions posed a risk to the

medium-term sustainability of term Libor benchmarks."

<https://www.bankofengland.co.uk/-/media/boe/files/record/2017/financial-policy-committee-meeting-march-2017>

In June 2019, the Bank of England hosted a conference to update market participants on the progress being made to transition away from LIBOR. Dave Ramsden, Deputy Governor for Markets & Banking, repeated this concern:

"Given the pervasive use of Libor historically, this [lack of transactions] creates a fragility at the heart of markets – that financial markets are reliant upon an unsustainable piece of infrastructure."

<https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/last-orders-calling-time-on-libor-speech-by-dave-ramsdend.pdf?la=en&hash=33494FD6C505C800B7FB535A766A7B9B247BD0AE>

## 9. Is it true EURIBOR is expected to continue to be published for some time?

Yes. The working group tasked with identifying alternative rates for interest rate benchmarks in Euro has taken a different approach to LIBOR. The European authorities believe EURIBOR, the Euro Interbank Offered Rate, can exist beyond 2021, and no indication has been given that the benchmark is likely to cease anytime soon. Rather, the European Commission "expressed confidence that, with necessary reforms, the EURIBOR had good medium-term prospects".

[https://www.ecb.europa.eu/paym/initiatives/interest\\_rate\\_benchmarks/WG\\_euro\\_risk-free\\_rates/shared/pdf/20190227/2019-02-27\\_WG\\_on\\_euro\\_RFR\\_meeting\\_Minutes.pdf](https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/20190227/2019-02-27_WG_on_euro_RFR_meeting_Minutes.pdf)

EURIBOR, (EURO Interbank Offered Rate) completed reforms of its methodology in Q4 2019.

[https://www.emmi-benchmarks.eu/assets/files/D0417A-2019 - EURIBOR\\_phase\\_in\\_completion.pdf](https://www.emmi-benchmarks.eu/assets/files/D0417A-2019 - EURIBOR_phase_in_completion.pdf)

## 10. Is EONIA also expected to continue indefinitely?

No. EONIA, the Euro Overnight Index Average, has become increasingly fragile in recent years due to limited volume in the underlying market it seeks to measure. Therefore, in early 2019, the Euro working group recommended "market participants gradually replace EONIA with the new euro short-term rate (€STR)."

[https://www.ecb.europa.eu/explainers/tell-me-more/html/benchmark\\_rates\\_qa.en.html](https://www.ecb.europa.eu/explainers/tell-me-more/html/benchmark_rates_qa.en.html)

After a public consultation, the European Money Markets Institute (EMMI), the administrator of EONIA, adopted this recommendation, and from October 2019, EONIA became recalibrated to track €STR at a fixed spread. EONIA will be published for the last time on 3 January 2022.

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## 11. I can understand the sustainability concerns regarding LIBOR, and the risks this poses, but what could replace it?

Following from direction by the Financial Stability Board, working groups led by the central banks in the jurisdictions of the LIBOR currencies have identified LIBOR replacement near risk free rates, RFRs, and are now designing plans for market participants to use this rates broadly, across the derivatives and cash markets. Measurable progress is being made. The replacement rates identified are:

Currency	Existing rate	Alternative rate	Transaction type
USD	LIBOR	SOFR, Secured overnight financing rate	Secured
EUR*	LIBOR, EURIBOR	€STR, Euro short term rate	Unsecured
GBP	LIBOR	SONIA, Sterling overnight index average	Unsecured
JPY	LIBOR	TONA, Tokyo overnight average	Unsecured
CHF	LIBOR	SARON, Swiss average rate overnight	Secured

\* The Euro Short Term Rate ("€STR") is intended to replace the Euro Overnight Index Average ("EONIA"), at the end of 2021. No potential cessation date has been given for EURIBOR.

## 12. How are the alternative rates different from LIBOR?

The alternative or, risk-free rates (RFRs), differ from LIBOR in a number of ways, including:

- Each currency has its own distinct RFR and administrator;
- RFRs are overnight rates, not rates for a longer term such as three or six months. As such, there is very little perceived credit risk or term premium associated with RFRs.
- Some market participants have expressed the need for a RFR

based term rate, in order to know the applicable interest rate in advance of any payments to be made. Each of the RFR working groups is considering if it will be feasible to produce a robust term rate. The Swiss group has stated it will not be possible in that market;

- RFRs are based on a large number of overnight money market transactions, much greater than LIBOR, so the risks associated with expert judgment do not arise;
- Whilst all LIBORs are unsecured rates not backed by any exchange of collateral, two of the five RFR working groups selected secured, or collateralised, rates for their respective currencies based on transactions in their respective government security repo markets.

## 13. What are some of the considerations for derivatives referencing LIBOR?

Typical derivative master agreements currently include 'fallback' language which sets out the steps to be taken in the event that LIBOR becomes temporarily unavailable. However these fallbacks do not contemplate a scenario in which the benchmark interest rate permanently ceases to be published. If such documentation is not updated, it may at some stage become contractually unclear what rate should be used; this will pose a substantial risk to individual transactions and potentially the stability of the wider financial market.

The International Swaps and Derivatives Association ("ISDA") is in the process of consulting on methodology to develop more robust fallbacks that would apply if LIBOR ceased to be published. After this methodology is agreed and included in the relevant ISDA documentation, the fallbacks will apply to all future derivative transactions executed under the terms of that documentation.

However, these changes will not automatically apply to those transactions entered into prior to the new fallbacks being implemented. Here, it is expected that ISDA will develop and release a 'protocol' to enable derivative counterparties to declare 'adherence' to the inclusion of the updated terms in respect of previously executed transactions.

It is possible that derivative valuations may be impacted as a result of this change. It is also possible for situations to arise in which hedges become dislocated from the underlying exposure they are intended to mitigate.

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## 14. What are some of the considerations for cash products such as loans or bonds referencing LIBOR?

As with derivatives, standard documentation for loans and bonds includes fallbacks intended to apply when LIBOR is unavailable. It is also the case this language does not fully contemplate a permanent cessation of the benchmark. But unlike with derivatives, there is considerable variation in terms and documentation. As these terms are not standardised, there is no protocol mechanism available to amend existing, or legacy, contracts for these products.

Industry bodies have been active in reform efforts and are working to improve fallback language. The Loans Market Association (LMA) and the International Capital Markets Association (ICMA) have recently published enhanced fallback language for loans and bonds respectively, to facilitate transition to new reference rates. Both organisations continue to explore if further refinements can or need to be made. But because the protocol approach is not feasible, it may be very difficult, or

even impossible, to amend fallback language for some legacy contracts.

The extent to which this may be the case will depend on when the product was issued and in what jurisdiction; older products have less flexible language and contracts in some jurisdictions have higher thresholds for getting consent from the relevant parties to amend any terms. There is a risk the existing fallback language may result in commercially undesirable outcomes. It is also possible that valuations may be affected as, and when, reference rates change, and situations may arise in which hedges become dislocated from the underlying exposure they are intended to mitigate.

The US and UK working groups have published some useful information regarding fallbacks in cash products:

<https://www.newyorkfed.org/arrc/announcements>

<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>

## 15. Is there anything market participants can do to prepare for these changes?

Given the use of LIBOR in relation to many financial products, any potential cessation of publication could have a financial and operational impact. It is therefore important that market participants seek to understand how this may affect them. This may be achieved by taking some initial steps, including:

- Identify which products they use that reference LIBOR
- Document what amount of exposure these products have to LIBOR, including in contracts maturing after the end of 2021. Sufficient granularity could include specific currencies and indices, notionals, risk, transactions numbers, maturity profiles, product types and counterparty concentration.
- Examine and, if necessary, amend existing and new legal contracts to ensure there is robust language in place that sets out the steps to be taken, or the interest rate to be applied, in case LIBOR is no longer available.
- Produce an inventory of relevant systems used (e.g. trade booking, risk systems) that may be affected should LIBOR no longer be published in the future, and consider making changes that will allow those systems to use alternative rates.
- Ensure appropriate documentation is in place to adequately disclose or mitigate risks associated with the discontinuation of LIBOR.

We encourage you to stay up-to-date on the latest developments and to consider how these changes may impact your organisation and the products in which you transact, using independent professional advisors (legal, accounting, financial, tax or other) as appropriate.

Market participants are also encouraged to participate in industry consultations and engage with the regulators and other stakeholders in the various RFR working groups to express their views and to better understand the expectations of the regulatory community, particular challenges and any recommended next steps.

This is not intended to be an exhaustive list but instead, some initial steps market participants may want to consider.

Further information is available from the PRA/FCA's feedback to their Dear CEO letter sent to supervised entities in September 2018, which asked for details of preparations and plans for transition from LIBOR to RFRs. The observations provide key themes, good practice and next steps relevant to market participants with LIBOR exposure.

<https://www.fca.org.uk/publication/feedback/feedback-on-dear-ceo-letter-on-libor-transition.pdf>

Similarly, the Alternative Reference Rates Committee in the United States has produced a checklist market participants may find useful.

<https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC-SOFR-Checklist-20190919.pdf>

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## 16. What is Barclays doing to prepare?

Barclays supports the benchmark interest rate reform agenda as set out by the Financial Stability Board in 2014 and subsequently driven by the international risk free rate working groups and relevant supervisory authorities. We are actively engaged in the reform agenda and along with participating in various industry conferences and events discussing LIBOR transition, Barclays is a member of the US, EU, Japan and Singapore working groups. More prominently, Barclays chairs the Working Group on Sterling Risk-Free References Rates.

As instructed by the Bank of England, Prudential Regulatory Authority and the UK Financial Conduct Authority, Barclays is planning for the base case scenario that LIBOR will no longer be available after 2021.

Barclays has mobilised an enterprise-wide programme with Senior Manager oversight, to coordinate its global efforts in relation to the transition and associated risks. The programme encompasses business and infrastructure activity linked to, and impacted by, the LIBOR currencies globally, both with respect to managing existing exposures and supporting new business in the derivatives and cash markets.

Barclays is also aware that transition to RFRs is at different stages depending on the jurisdiction, and moving at different speeds. This also applies to the potential development of RFR-based term rates.

Barclays expects the timing of any transition away from relevant interbank offered rates to take into account liquidity in the replacement RFR, the potential development of robust RFR-based term rates, development of any relevant industry conventions and the speed with which participants in the various derivative, bond and lending markets transition away from LIBOR.

## 17. What are examples of potential risks market participants should consider?

The path to transition away from LIBOR is complex. The alternative rates are calculated on a different basis to LIBOR. The various jurisdictions are at different stages of transition, and are moving at different speeds towards, in all likelihood, different outcomes. It is difficult to imagine a 'one size fits all' approach or solution.

Transition will affect both new and existing products referencing these key interest rate benchmarks, and in different ways. The consequences of reform are unpredictable and may have an adverse impact on any financial instruments linked to, or referencing, any of these benchmarks.

The transition itself may have potential risks associated with it;

- Changes to contractual documentation,
- Adaption of new and/or amended operational processes,
- Changes to the value of products or the possibility of products no longer serving the purposes for which they were intended.

Market participants are encouraged to evaluate their individual circumstances and review their LIBOR-linked exposures. Participants should also develop a sufficient understanding of any expected and potential changes as a result of LIBOR transition and how these changes may impact their organisation, using independent professional advisors (legal, accounting, financial, tax or other) as appropriate. relationship point of contact if you have any questions.

## 18. Who should you contact for more information?

We intend to regularly update the content of our website to help you understand how this change may impact your organisation and encourage you to use this resource, as well as other public sources such as monitoring the websites of the relevant global regulators, central banks and industry working groups.

Please do not hesitate to reach out to your normal Barclays relationship point of contact if you have any questions.

## 19. Where can I find more information on RFRs?

Each of the central bank led working groups set up at the recommendation of the Financial Stability Board have established specific websites to provide market participants with information regarding key transition topics and steps, meeting minutes, feedback on consultations, and other relevant data.

Currency	Working groups links
GBP	<a href="https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor">https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor</a>
EUR	<a href="https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html">https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html</a>
USD	<a href="https://www.newyorkfed.org/arrc">https://www.newyorkfed.org/arrc</a>
JPY	<a href="https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/">https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/</a>
CHF	<a href="https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates">https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates</a>

Industry bodies representing key stakeholders affected by LIBOR transition have also produced considerable material which is available on their respective websites.

Industry body	Industry body links
<b>ISDA</b> International Swaps and Derivatives Association	<a href="https://www.isda.org/">https://www.isda.org/</a> <a href="https://www.isda.org/category/legal/benchmarks/">https://www.isda.org/category/legal/benchmarks/</a>
<b>ICMA</b> International Capital Market Association	<a href="https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/benchmark-reform/">https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/benchmark-reform/</a>
<b>LMA</b> Loan Market Association	<a href="https://www.lma.eu.com/libor">https://www.lma.eu.com/libor</a>
<b>LSTA</b> Loan Syndications and Trading Association	<a href="https://www.lsta.org/">https://www.lsta.org/</a>
<b>APLMA</b> Asia Pacific Loan Market Association	<a href="https://www.aplma.com/">https://www.aplma.com/</a>
<b>ACT</b> Association of Corporate Treasurers	<a href="https://www.treasurers.org/">https://www.treasurers.org/</a>

In addition, regulators and related institutions have dedicated further resource on LIBOR transition and benchmark reform.

Official Sector	Official Sector Links
<b>FCA</b> Financial Conduct Authority	<a href="https://www.fca.org.uk/markets/libor">https://www.fca.org.uk/markets/libor</a>
<b>FSMA (EURIBOR Regulator)</b> Financial Services and Markets Authority	<a href="https://www.fsma.be/en">https://www.fsma.be/en</a>
<b>ESMA</b> European Securities and Markets Authority	<a href="https://www.esma.europa.eu/policy-rules/benchmarks">https://www.esma.europa.eu/policy-rules/benchmarks</a>
<b>IOSCO</b> International Organization of Securities Commissions	<a href="https://www.iosco.org/">https://www.iosco.org/</a>
<b>FSB</b> Financial Stability Board:	<a href="https://www.fsb.org/work-of-the-fsb/policy-development/additional-policy-areas/financial-benchmarks/">https://www.fsb.org/work-of-the-fsb/policy-development/additional-policy-areas/financial-benchmarks/</a>

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