ICE LIBOR® Feedback Statement on Consultation on Potential Cessation

5 March 2021

Contents

Executive summary

In July 2017, the UK Financial Conduct Authority (the FCA) announced its intention that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR® after December 31, 2021. Since then, the FCA and other official sector bodies have strongly advised end-users of the need to transition from LIBOR by this date.

ICE Benchmark Administration Limited (IBA), the authorized and regulated administrator of LIBOR, has engaged with end-users, panel banks, the FCA and other official sector bodies regarding the potential for continuing certain widely-used LIBOR settings after December 31, 2021.

On December 4, 2020, following discussions with the FCA and other official sector bodies, IBA published a consultation on its intention to cease publication of:

- the following LIBOR settings, to take effect after the publication of LIBOR on Friday, December 31, 2021:
    - EUR LIBOR - all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    - CHF LIBOR - all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    - JPY LIBOR - all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    - GBP LIBOR - all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    - USD LIBOR - 1 Week and 2 Months; and
- the following LIBOR settings, to take effect after the publication of LIBOR on Friday, June 30, 2023:
    - USD LIBOR - Overnight and 1, 3, 6 and 12 Months,

subject to any rights of the FCA to compel IBA to continue publication.

IBA consulted on these intended cessation dates because a majority of LIBOR panel banks had communicated to IBA that they would not be willing to continue contributing to the relevant LIBOR settings after such dates. As a result, IBA considered that it would be unable to publish the relevant LIBOR settings on a representative basis after such dates[1].

Respondents to the consultation were requested to provide feedback to IBA by 5pm London time on Monday, January 25, 2021. IBA is grateful for the 55 responses it received and sets out in this feedback statement a summary of these. In the consultation paper, IBA advised that it would publish the comments received unless confidentiality was requested by the originator of the comments. The non-confidential responses are available on IBA's website.

The proposal to cease publishing the most widely-used USD settings after June 30, 2023, one and a half years following the proposed cessation date for the other LIBOR settings, attracted the most comments and was supported by the vast majority of respondents. However, a number of respondents commented on the market and operational challenges that this difference could present, particularly relating to the setting of the ISDA IBOR fallback spread adjustments and the proposed splitting of the cessation dates for the USD LIBOR tenors.

[1] IBA has received notifications from a majority of LIBOR panel banks of an intention to cease contributing input data to LIBOR:

1. after the publication of LIBOR on Friday, December 31, 2021, for:
    a) Euro LIBOR for all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    b) Swiss Franc LIBOR for all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    c) Japanese Yen LIBOR for all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    d) GBP LIBOR for all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months); and
    e) USD LIBOR for the 1 Week and 2 Months tenors; and
2. after the publication of LIBOR on Friday, June 30, 2023, for:
    a) USD LIBOR for the Overnight, 1, 3, 6 and 12 Month tenors.

Several respondents expressed a preference for avoiding cessations at year end because of factors such as code freezes and lower staffing levels. There were also requests to avoid cessations at the end of a quarter to ease the impact on accounting processes.

There were a number of requests for assurances that LIBOR settings calculated under the panel bank methodology would continue to be representative until their proposed cessation dates. Another recurring theme was the global nature of the benchmark and, consequently, the need for coordination between the official sector globally.

IBA shared and discussed the feedback from the consultation with the FCA. In the absence of sufficient panel bank support, and without the intervention of the FCA to compel continued panel bank contributions to LIBOR, it is not possible for IBA to publish the relevant LIBOR settings on a representative basis beyond the above intended cessation dates for such settings. As a result of IBA not having access to input data necessary to calculate LIBOR settings on a representative basis beyond the above intended cessation dates for such settings, IBA has to cease the publication of:

- the following LIBOR settings, to take effect immediately after the publication of LIBOR on Friday, December 31, 2021:
    - EUR LIBOR - all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    - CHF LIBOR - all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    - JPY LIBOR - all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    - GBP LIBOR - all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    - USD LIBOR - 1 Week and 2 Months; and
- the following LIBOR settings, to take effect immediately after the publication of LIBOR on Friday, June 30, 2023:
    - USD LIBOR - Overnight and 1, 3, 6 and 12 Months,

unless the FCA exercises its proposed new powers (which are included in the current Financial Services Bill as proposed amendments to the UK Benchmarks Regulation) to require IBA to continue publishing these LIBOR settings using a changed methodology (also known as a "synthetic" basis).

The FCA has advised IBA that it has no intention of using its proposed new powers to require IBA to continue the publication of any EUR or CHF LIBOR settings, or the Overnight/Spot Next, 1 Week, 2 Month and 12 Month LIBOR settings in any other currency, beyond the above intended cessation dates for such settings. The FCA has also advised IBA that it will consult on using these proposed new powers to require IBA to continue the publication on a "synthetic" basis of the 1 Month, 3 Month and 6 Month GBP and JPY LIBOR settings beyond such dates, and will continue to consider the case for using these proposed powers in respect of the 1 Month, 3 Month and 6 Month USD LIBOR settings.

The FCA has confirmed to IBA that, based on undertakings received from the panel banks, it does not expect that any LIBOR settings will become unrepresentative before the above intended cessation dates for such settings[2].

[2] I.e. all currency panels are expected to remain as currently constituted for all LIBOR settings until year-end 2021, and Bank of America N.A. (London Branch), Barclays Bank plc, Citibank N.A. (London Branch), Cooperatieve Rabobank U.A., Crédit Agricole Corporate & Investment Bank, Credit Suisse AG (London Branch), Deutsche Bank AG (London Branch), HSBC Bank plc, JPMorgan Chase Bank, N.A. (London Branch), Lloyds Bank plc, MUFG Bank, Ltd, Royal Bank of Canada, SMBC Bank International plc, The Norinchukin Bank and UBS AG are expected to remain for the USD panel for the Overnight and 1, 3, 6 and 12 Months USD LIBOR setting until end-June 2023.

Stakeholders who are interested as to statements relating to the cessation or unrepresentativeness of LIBOR for the purpose of contractual triggers for fallback rate arrangements should see the FCA statement issued earlier today.

Introduction

ICE LIBOR® (also known as LIBOR®) is a widely-used benchmark for short-term interest rates. Used globally, LIBOR is often referenced in derivative, bond and loan documentation, and in a range of consumer lending instruments such as mortgages and student loans.

LIBOR is currently calculated for five currencies (EUR, CHF, JPY, GBP and USD) and for seven tenors in respect of each currency (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months and 12 Months). This currently results in the publication of 35 individual rates (one for each currency and tenor combination) on each applicable London business day.

A standardized, transaction data-driven Waterfall Methodology is used for calculating LIBOR. Further information about LIBOR can be found on IBA's website and in the section entitled *About ICE LIBOR®* in IBA's recent consultation paper.

In July 2017, the FCA announced its intention that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR® after December 31, 2021. Since then, the FCA and other official sector bodies have strongly advised end-users of the need to transition from LIBOR by December 31, 2021.

IBA made an announcement on November 18, 2020 that it would consult on its intention to cease publication of all EUR, CHF, JPY and GBP LIBOR tenors, to take effect after the publication of LIBOR on Friday, December 31, 2021.

IBA subsequently announced on November 30, 2020 that it would consult on its intention to cease publication of the USD LIBOR 1 Week and 2 Months tenors, to take effect after the publication of LIBOR on Friday, December 31, 2021, and the USD LIBOR Overnight and 1, 3, 6 and 12 Months tenors, to take effect after the publication of LIBOR on Friday, June 30, 2023.

The consultation paper was sent to all of IBA's LIBOR license holders and was published on IBA's website on December 4, 2020. Respondents were requested to provide feedback to IBA by 5pm London time on Monday January 25, 2021.

Consultation feedback

IBA is grateful for the 55 responses received to the consultation paper. Respondents included market infrastructure providers, trading groups, banks, investment managers, mortgage providers and eight trade associations. Some contributors to trade association responses also provided IBA with direct feedback.

The International Swaps and Derivatives Association (ISDA) provided an aggregated and anonymized collation of written responses submitted to ISDA by 14 out of its 925 members. Not all ISDA members participated in this consultation and the related ISDA Working Group process.

About a third of responses were from the UK, a third from the United States and Canada, and a little fewer than a third from Europe. A few responses were received from Australia and Asia.

The main themes in the responses were:

- Support from a vast majority of respondents for IBA's intention to cease publishing the most widely-used USD settings after June 30, 2023, one and a half years following the proposed cessation date for the other LIBOR settings. However, a number of respondents commented on the market and operational challenges that this difference could present;

- Support for IBA's intention to cease publishing the other LIBOR settings at the end of 2021;

- Some preference for avoiding cessations at year-end because of factors such as code freezes and lower staffing levels;

- Concern about crystallizing the setting of the ISDA IBOR fallback spread adjustments in early 2021, on the understanding that these would not be expected to apply until the start of July 2023 for the more widely-used USD LIBOR settings;

- Requests for assurances that LIBOR settings in panel bank form would continue to be representative until their proposed cessation dates;

- Comments on the global nature of the benchmark and the need for coordination between the official sector globally; and

- Particular challenges for some markets and financial instruments (as detailed in section '*Challenges for markets and financial instruments*').

Other notable comments included:

- A desire for legislative solutions for tough legacy contracts (as detailed in section '*Global coordination and legislative solutions*');

- The need for good and timely liquidity in the markets for risk free rates (RFRs) that have been chosen as preferred alternatives for LIBOR in certain jurisdictions;

- The complexity that multi-date cessations could cause (as detailed in section '*Continuation challenges')*;

- The potential for an increase in the reliance on expert judgement in LIBOR panel bank submissions, particularly in relation to USD LIBOR during the period from end-2021 to the end of June 2023, and a request that the LIBOR methodology be reviewed; and

- Implications of the potential cessations for the ICE Swap Rate benchmark.

A more detailed summary of the feedback is included below.

Proposal to cease publishing LIBOR

Support for continuation

There was strong support for IBA's intention to cease publishing most LIBOR settings at the end of 2021, and for the proposed continued publication until June 30, 2023 of the USD tenors which represent the largest part of the legacy transaction stock, and which are therefore likely the most challenging tenors to migrate in a short time frame.

However, concerns were raised by a minority of respondents about the effect of a single announcement of the two planned cessation dates for crystallizing the ISDA IBOR fallback spread adjustments (i.e. that the spread adjustments for settings with different intended cessation dates would be set at the same time). Concerns were also expressed generally around the time difference and associated complexities with regard to the intention to cease the USD 1 Week and 2 Months tenors at the end of 2021, but to continue the more widely-used USD settings (Overnight, 1 Month, 3 Months, 6 Months and 12 Months tenors) until June 30, 2023 (as detailed in the section '*Proposed USD 1 Week and 2 Months cessations at year-end 2021')*.

Furthermore, there were a few dissenting views from the general support for the continuation of the more widely-used USD tenors. In the words of one respondent, "The market has had ample time to consider transition as at end-2021. It is unclear what a delay to this date would achieve for the market".

Another respondent commented that there was still some reluctance for customers to renegotiate existing contracts and transition to the new RFRs. In their view, this was due to outstanding operational and technical difficulties and this extension could further delay progress.

Some respondents thought that the extension of certain, widely-used USD LIBOR tenors could cause confusion from a customer perspective and negatively impact the growth of liquidity in SOFR.

Continuation challenges

Several respondents noted that it would be operationally easier, and less of a challenge for transition efforts, if all USD tenors were ceased at the same time (i.e. it could be advantageous to have all USD LIBOR settings cease at end-June 2023 to reduce complexity).

One respondent noted that the extension would result in a dual-rate environment, adding to operational complexity, including the necessity to maintain dual-curve structures in booking and risk systems, challenges for funds transfer pricing, and additional basis risk.

Proposed USD 1 Week and 2 Months cessations at year-end 2021

IBA received many responses that noted the benefits of continuing the most widely-used USD LIBOR tenors (Overnight, 1 Month, 3 Months, 6 Months and 12 Months) until June 30, 2023. IBA also received a number of responses regarding the potential implications of discontinuing the USD LIBOR 1 Week and 2 Months tenors at year-end 2021, whilst the other USD LIBOR tenors continued to the end of June 2023.

One respondent thought aligning the cessation date of all USD LIBOR tenors would allow for greater focus on EUR, CHF, JPY and GBP LIBOR cessation at year-end 2021.

Another respondent raised some concerns regarding the potential for longer-than-expected periods between pre-cessation triggers and actual cessations. They also noted potential inconsistencies with fallback triggers in cash market instruments, including the risk of unintentionally triggering fallbacks as a consequence of some, but not all, USD LIBOR settings being subject to earlier cessation dates.

Responses also included a couple of suggestions that different cessation dates for USD LIBOR tenors could be distracting and potentially confusing for customers. It was also noted that firms would need to build interpolation solutions to manage this with regard to day-to-day pricing and fallback stub calculations. "Firms will also have to implement interpolation logic and workflows to calculate 1W and 2M USD LIBOR and engage clients to educate them about this, amidst possible confusion from clients regarding their cessation. Fallbacks on trades with stub periods (e.g. between 2M and 3M) will be another area that dealers and firms have to grapple with."

One respondent sought clarity on the ability to use available LIBOR tenors beyond 2021 to construct an interpolated rate based on the actual tenor to discount receivables, until such time as the market had fully transitioned to an alternative rate.

ISDA provided an aggregated and anonymized collation of written responses submitted to ISDA by 14 out of its 925 members:

- Four firms were expressly supportive of the proposed cessation date of Friday June 30, 2023, for USD LIBOR - Overnight and 1, 3, 6 and 12 Months. However, another two firms stated they supported the proposed cessation date of Friday, June 30, 2023 for the USD LIBOR Overnight and 1, 3, 6 and 12 Months tenors, and also stated that the proposed cessation date for the USD LIBOR 1 Week and 2 Months tenors should be extended to Friday, June 30, 2023, to avoid challenges associated with splitting the cessation dates for USD LIBOR tenors; and

- It was suggested that splitting the USD LIBOR tenors into two phases would pose significant challenges from a transition project perspective.

Timing of cessations

Whilst the majority of respondents did not comment regarding cessation dates at year end 2021 several respondents did express a preference for avoiding cessations at year-end because of code freezes, lower staffing levels and year-end book-closing processes. There were also requests to avoid an end of quarter cessation to ease the impact on accounting processes.

One respondent commented that a later cessation timeline should be adopted to increase the operational stability of the transition and provide vendors with sufficient time to deliver stable solutions.

In the words of one respondent, "The actual point of LIBOR cessation will trigger an extensive and complex range of activities, trade re-bookings and system re-configurations. Many derivatives, as well as an increasing volume of loans, are likely to transition through a fallback, or deferred switch, mechanism which concentrates activity in the immediate period post cessation. Year end, which co-incides with the financial year end for many banks and corporates, is always an extremely busy period with significant demands on resources. Adding actual LIBOR cessation at this point is likely to create significant additional operational pressures and risks".

Various suggestions were made for moving the proposed cessation date of Friday, December 31, 2021, including: mid-January 2022; Friday, January 21, 2022; Friday, February 4, 2022 (to avoid the immediate year-end reporting period while still allowing a full weekend to support the immediate transition activities and potentially allow any clearinghouse changes to occur very shortly prior to this date in order to minimize any potential mismatch period).

More than one respondent thought that any unanticipated cessation at an earlier or later date than planned would cause significant market disruption.

Fallback triggers and the ISDA IBOR fallback spread adjustments for USD LIBOR

Several respondents asked that any announcement of LIBOR's cessation dates should be explicit as to whether it triggers fallbacks under the ISDA IBOR Fallbacks Supplement and Protocol.

A number of responses related to the timing of trigger announcements, including the potential for different asset classes to work differently. One respondent noted that if a cessation announcement for all USD LIBOR tenors was made on the same date, the spread adjustment for contracts subject to the ISDA IBOR Fallbacks Supplement or Protocol would be fixed on that date, notwithstanding that different USD LIBOR tenors would have staggered cessation dates that are 18 months apart. They also noted that, while 1 Week and 2 Months USD LIBOR tenors may not be widely used, and their earlier cessation would have less impact, there are implications that need to be considered; for example, fallbacks for different asset classes may work differently.

Crystallizing the ISDA IBOR fallback spread adjustments for widely-used USD LIBOR settings in early 2021 was a concern for many respondents, since it will not necessarily be representative of the spread between USD LIBOR and SOFR at the end of June 2023. It was observed that this may influence firms' considerations on whether to use the fallback as the primary means to transition.

One respondent commented that it expected the spread between USD LIBOR and SOFR to narrow over time and, once a cessation announcement is made and the fallback spread adjustment is locked in for derivatives in early 2021, LIBOR could begin to trade as a fixed spread over SOFR. It was noted, however, that cash products' contracts are not covered by the ISDA fallbacks and that it may be challenging to justify using the same ISDA spread adjustments for these contracts and that parties may not agree to accept such spread adjustments during active conversion negotiation, introducing complication and basis risk.

It was also noted that, since locking in the fallback spread adjustments in derivatives for USD LIBOR settings more than two years before their effective cessation date may not be favorable for the cash product market, this may complicate the choices of spread adjustments for active conversion of cash products contracts prior to the USD LIBOR cessation date.

Requests for assurances

Several respondents sought clear and explicit assurances of cessation on the planned dates, and not earlier or later, and confirmation that LIBOR would remain representative until the relevant cessation dates.

It was noted that, to the extent IBA and the FCA could provide certainty on widely-used USD LIBOR settings remaining representative until June 30, 2023, it would aid the market in effectively planning for the transition. Respondents stressed the importance of the panel banks continuing to make submissions in order to avoid any risks of tripping pre-cessation triggers and losing representativeness of the rate. Comments emphasized the need to assure reliability, stability, and accuracy of the remaining rates and to maintain the accuracy of their interpolated LIBOR calculations given the fewer data points available to construct the curve.

As one respondent put it, "Clarity should be provided on how LIBOR settings will remain representative until cessation, e.g. in the case of USD LIBOR, is there a guarantee that no panel bank will exit the panel between 1 Jan 2022 and 30 June 2023?".

One response stated that, "For USD overnight, 1, 3, 6 and 12M tenors, we ask regulators why they are confident that USD LIBOR will not be considered unrepresentative and cease earlier than 30 June 2023; and to confirm that they do not intend to request/require USD contributing panel banks to continue to contribute to ensure IBA can publish USD LIBOR in its current form to allow it to remain representative post 30 June 2023".

One request for assurance of representativeness until cessation noted that this would provide increased transparency and market stability and reduce market risks associated with pre-cessation announcements/triggers.

Although most of the requests for assurance were specifically related to USD LIBOR, some were for all currencies as well.

There were also other types of requests for assurance from regulators, that:

- New LIBOR-linked transactions will cease post-2021 and that supervisory guidance will be issued in advance of this date; and

- If "synthetic" LIBOR is available, it will be permitted on a globally consistent manner and preferably only for clearly defined "tough" legacy contracts.

Global coordination and legislative solutions

Significant support was expressed for the clarity provided by the proposed cessation dates and the continuation until June 30, 2023, of the USD tenors which represent the largest part of the legacy transaction stock, and which are therefore likely the most challenging to migrate in a short time frame. Notwithstanding this, it was considered by a number of respondents that the timelines may not allow for a number of legacy contracts to mature and that legislative initiatives, such as are currently being debated by legislators in the U.S. and in the European Union, are necessary.

One respondent noted that tough legacy contract issues persist for some of these rates (e.g. GBP LIBOR bonds) and thought that swift regulatory/legislative action will be needed to help the market transition once these rates cease publication.

Several respondents emphasized the need for global regulators to coordinate and engage closely with each other in developing their legislative solutions, so that tough legacy contracts across the different regions would be sufficiently resolved and any potential conflicts of law would be avoided.

A number of important Asian IBORS are derived from USD LIBOR and one respondent urged the FCA and IBA to engage with the administrators of the Asian IBORs ahead of permanent discontinuation of LIBOR.

It was also recommended that global regulators should continue to provide guidance and education to end-users on how contracts will change and, more importantly, on the benefits of the new alternative rates, raising awareness of their growing liquidity and presence in markets. Additional clarity should also be provided around "no new LIBOR" and how this will be monitored globally across products.

Whilst appreciating the case for extending the transition timeframe to adopt replacement rates, one respondent considered that such a move that would result in different cessation dates for different LIBOR settings needs to be supported by clear and rigorous regulatory direction and time-frames.

Challenges for markets and financial instruments

The majority of respondents were supportive of the planned cessation dates. However, there were several requests for continued LIBOR publication due to concerns which included:

- The rate of adoption of RFRs and RFR-based benchmarks;

- The limited liquidity in SARON, SOFR and TONA-based instruments;

- Difficulties in achieving transition for the end-user community, noting that a longer publication period would allow for more contracts to mature;

- The need for a longer transition period between the deadline for new LIBOR-linked issuances and the cessation of the publication of such LIBOR settings in order to minimise the unfavorable impact of the cessation to end-users and borrowers;

- Prohibiting trading in USD LIBOR-linked products post-2021, which introduces additional risk, noting that the European Central Bank permitted EONIA use to continue to aid transition to €STR;
- Issues for the cross currency swap (CCS) market in particular, where use of the ISDA IBOR fallback spread adjustment on the two legs of a transaction could apply up to 18 months apart;
- The lack of a liquid LIBOR forward curve post-cessation; and
- The risk that, for USD LIBOR-denominated instruments maturing after end-June 2023, the renegotiation of cash products and adjustment of related derivative hedges might create basis risks in banking and trading books of market participants due to shrinking liquidity in the USD LIBOR derivatives market.

One respondent suggested that the official sector should assess the possibility of accelerating the introduction of "synthetic" LIBOR for USD LIBOR (as a combination of a SOFR forward-looking term rate and a fixed spread adjustment) as soon as a reliable SOFR forward-looking term rate will be developed, and possibly at the beginning of 2022 or earlier.

A number of respondents urged further consideration for some local markets, with Poland's CHF LIBOR mortgage exposure being cited as a particular concern. One respondent stated that the potential cessation of CHF LIBOR will have a huge and unavoidable impact, that more consideration is needed to the cessation of CHF LIBOR at the end of 2021, that there was a need to create a synthetic benchmark, and that it would be desirable to maintain the 1, 3 and 6 Months CHF LIBOR settings even in "synthetic" form as long as possible.

Other comments included that:

- The potential for multiple potential GBP LIBOR alternatives is making transition difficult;
- Greater liquidity is needed in RFR markets to aid transition;
- Term RFRs are needed; and
- There is risk of a disorderly transition in the CHF and JPY derivatives markets.

In addition, IBA received a number of responses that gave specific feedback related to LIBOR cessation implications on certain financial products including cross currency swaps, notes and trade finance:

Cross currency swaps (CCS)

The majority of the specific financial product feedback IBA received related to cross currency swaps (CCS) and the potential timing mismatch if USD LIBOR continues until June 30, 2023, whilst LIBOR in the other currencies ceases at year end 2021.

One respondent noted that multitrack cessation dates may create transition complexity for cross currency instruments involving USD LIBOR, where the non-USD LIBOR leg would fall back around December 31, 2021, while the USD LIBOR leg would only fall back around June 30, 2023.

Another respondent suggested that the proposed cessation timing mismatch between USD LIBOR and GBP, CHF, JPY and EUR LIBOR could cause basis pricing to be erratic if also accompanied by a stressed market environment during the transition from LIBOR to risk free rates.

One respondent noted implications not only for LIBOR currency settings but also LIBOR-linked settings in other currencies including some Asian currencies where these rates (e.g. SOR, THBFIX, MIFOR and PHPREF) are derived from USD LIBOR and are widely used by investors and corporates.

One respondent said that the availability of term reference rates is necessary for the transition away from LIBOR in many products, including CCS.

Notes

IBA received comments from one respondent related to notes and the existence of tranches of issuances with specific fallback language which they believe would trigger on the date of the cessation notice rather than on the date that the cessation takes effect. They thought this would be a particular problem for USD notes that would need to be transitioned shortly after the date of the notice even though LIBOR would continue to be published until the end of June 2023, which would potentially be after the final note maturity in some cases. In their view this could result in increased litigation risk and/or greater additional expense to deliver on the intended contract terms.

Revolving credit facilities (RCF)

One respondent highlighted in their response implications for revolving credit facilities (RCF). They noted issues for undrawn multi-currency RCFs that in their view should be raised with the relevant public sector authorities. They provided examples:

- For multi-currency facilities that expire prior to June 30, 2023 and that, if drawn, are likely to be drawn in USD (LIBOR) and/or EUR (EURIBOR) – as it would be impractical and costly to repaper those in order to amend their references to GBP and/or CHF and/or JPY LIBORs, while they are extremely unlikely to ever be drawn at these rates prior to their expiry June 30, 2023; and

- For multi-currency facilities that expire after June 30, 2023 and that, if drawn, are likely to be drawn in USD (LIBOR) and/or EUR (EURIBOR) – as it would be impractical and costly to repaper those in order to amend their references to GBP LIBOR.

Trade finance

IBA received specific feedback related to trade finance from two respondents.

One respondent viewed the proposed continuation of several key USD LIBOR tenors as a positive step that will mitigate some of the challenges that the trade finance industry faces as it transitions away from LIBOR.

They noted that transition away from USD LIBOR will have a deep impact across a variety of trade products (particularly those traded at a discount), which are price sensitive and are less suited to the compound-in-advance or compound-in-arrears approach, and that businesses that rely on these products typically do not have access to market curves. They advised there is an active secondary market for trade finance assets and, in order for the secondary market to continue to function efficiently, both parties need to be able to determine a mutually agreeable third-party rate to apply to the discount.

The other respondent noted that, in their view, there is no suitable solution for the trade finance market at this time for LIBOR in CHF, USD, EUR or JPY. They welcomed any possibility of the continuation of these rates beyond year-end 2021. They acknowledged that there was the potential for a suitable term rate to replace GBP LIBOR, but that having multiple providers publishing term SONIA makes transition difficult as it is not yet clear which provider will become the market’s preferred option.

Methodology considerations

IBA received feedback from one respondent suggesting that the USD LIBOR extension until June 30, 2023 should be conditional on the LIBOR methodology being updated due to the potential for an increased reliance on expert judgement.

Implications for ICE Swap Rate

IBA received requests for clarity on the potential cessation of ICE Swap Rates linked to LIBOR, including timely guidance on the criteria to establish when to discontinue the ICE Swap Rates linked to LIBOR and the expected timing of any such discontinuation. One of the requests was that IBA should in particular consider the constant maturity swap (CMS) market, noting that it is reliant on the continuous publication of the ICE Swap Rate.

Addressing Feedback and Next Steps

Having shared the results of the consultation with the FCA, IBA sets out below how the consultation feedback is being addressed and next steps:

Concerns regarding two cessation dates for USD LIBOR settings:

Although certain operational issues were noted by some respondents, there was general support for IBA's intention to cease more widely-used USD LIBOR settings at end-June 2023.

It is also the case that there was insufficient support from panel banks for the ongoing publication after year-end 2021 of the lesser used USD LIBOR tenors.

Concerns regarding the settings of the ISDA IBOR fallback spread adjustment for USD LIBOR:

IBA notes the concern expressed by a number of respondents that, for the most widely-used USD LIBOR settings, although the ISDA IBOR fallback spread adjustments may be fixed in early 2021, they understood that it would not be expected to apply until the start of July 2023. IBA has shared with the authorities the concerns expressed in the consultation feedback.

IBA notes that the terms of contractual triggers for the fixing of the ISDA IBOR fallback spread adjustments are the result of industry consultation, and such terms are not within IBA's control or authority. Authorities have been clear in their support for the later cessation of the most widely-used USD LIBOR tenors and have advised the market to expect a clear, single trigger announcement for all LIBOR currencies and tenors at the same time to reduce uncertainty for users[3].

Stakeholders who are interested as to statements relating to the cessation or unrepresentativeness of LIBOR for the purpose of contractual triggers for fallback rate arrangements should see the FCA statement issued earlier today.

Concerns regarding year-end timing of cessation of LIBOR settings:

Some respondents expressed a preference for avoiding cessations at year end because of factors such as code freezes and lower staffing levels and at quarter end for accounting reasons. IBA shared this feedback with the FCA.

In relation to year-end timing, we note that, in July 2017, the FCA announced that the panel banks had agreed to continue to contribute to LIBOR until year-end 2021. We also note that, in the absence of sufficient support from panel banks for the ongoing publication of the relevant LIBOR settings after year-end 2021, and without the intervention of the FCA to compel continued panel bank contributions to LIBOR, it is not possible for IBA to publish the relevant panel bank LIBOR settings on a representative basis beyond such date.

Particular challenges for some markets and financial instruments:

A number of respondents referred to particular challenges for some markets and financial instruments such as cross currency swaps, notes, revolving credit facilities and trade finance. IBA has shared with the FCA the concerns expressed in the consultation feedback.

As noted above, there has been general support for IBA's intention to cease lesser-used USD LIBOR settings at the end of 2021, and more widely-used USD LIBOR settings at end June 2023.

[3] https://www.isda.org/2020/12/04/isda-webinar-the-path-forward-for-libor/

Authorities have been clear in their support for the later cessation of the most widely-used USD LIBOR tenors.

It is also the case that there was insufficient support from panel banks for the ongoing publication after year-end 2021 of the lesser used USD LIBOR tenors.

Requests for assurance:

Several respondents sought clear and explicit assurances of cessation on the planned dates, and not earlier or later, and confirmation that LIBOR would remain representative until the relevant intended cessation dates set out in IBA's consultation.

The FCA has confirmed to IBA that, based on undertakings received from the panel banks, it does not expect that any LIBOR settings will become unrepresentative before such dates[4].

Global co-ordination and legislative solutions for tough legacy contracts:

IBA notes the work undertaken to date by the global official sector related to LIBOR transition, including by the FCA and the FSB.

IBA concurs with the comments on the global nature of LIBOR and the need for coordination between the official sector globally and legislative solutions for tough legacy contracts.

IBA is aware of various legislative initiatives in a range of jurisdictions, including the UK.

Liquidity in the alternative risk free rates (RFRs):

IBA strongly recognizes the importance for the success of the transition away from LIBOR of good and timely liquidity in the alternative risk free rates (RFRs) chosen in the LIBOR currency jurisdictions.

Accordingly, IBA is designing solutions to help stakeholders prepare for transition to new interest rate benchmarks, such as the launch of the ICE Term RFR Portal, ICE Term SONIA Reference Rates and ICE SONIA Indexes[5].

USD LIBOR methodology:

Whilst IBA acknowledges that the official sector has advised that new LIBOR referencing business should not be executed during the potential one and a half year USD LIBOR continuation period, this does not impact the LIBOR Waterfall Methodology i.e. the prescribed way in which eligible, unsecured, fixed rate, wholesale deposits, together with primary issuances of fixed rate certificates of deposit and commercial paper, are used for the calculation of Level 1 and Level 2 submissions. As described in the LIBOR Output Statement, expert judgement is only used for Level 3 submissions in the LIBOR Waterfall Methodology.

IBA recognizes that sources of market data that some banks currently use in their Level 3 submissions may become obsolete at year end 2021, and IBA plans to review the guidelines for Level 3 submissions under the Waterfall Methodology accordingly.

[4] Please see footnote 2 on page 4.
[5] IBA launched an indicative, 'beta' version of its ICE SONIA Indexes on March 3, 2021.

Implications for ICE Swap Rate:

IBA received requests for clarity on the potential cessation of ICE Swap Rates linked to LIBOR, including timely guidance on the criteria to establish when to discontinue the ICE Swap Rates linked to LIBOR and the expected timing of any such discontinuation.

IBA is taking this forward with the ICE Swap Rate and Term SONIA Reference Rates Oversight Committee and will provide further information over the coming months.

Intended LIBOR cessation dates:

Notwithstanding the above feedback, the vast majority of respondents showed support for IBA's intention to cease publishing most LIBOR settings after December 31, 2021, and the remaining widely-used USD settings after June 30, 2023, as set out in the consultation.

IBA has shared and discussed the feedback from the consultation with the FCA.

As already noted, a majority of LIBOR panel banks have communicated to IBA that they would not be willing to continue contributing to the relevant LIBOR settings after the relevant dates specified above. As a result, IBA considered that it would be unable to publish the relevant LIBOR settings on a representative basis after such dates.

In the absence of sufficient panel bank support, and without the intervention of the FCA to compel continued contributions to LIBOR, it is not possible for IBA to publish the relevant panel bank LIBOR settings on a representative basis beyond the dates for intended cessation set out in the consultation.

As a result of IBA not having access to input data necessary to calculate LIBOR settings on a representative basis beyond the above intended cessation dates for such settings, IBA has to cease the publication of:

- the following LIBOR settings, to take effect immediately after the publication of LIBOR on Friday December 31, 2021:
    - EUR LIBOR - all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    - CHF LIBOR - all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    - JPY LIBOR - all tenors (Spot Next, 1 Week, 1, 2, 3, 6 and 12 Months);
    - GBP LIBOR - all tenors (Overnight, 1 Week, 1, 2, 3, 6 and 12 Months);
    - USD LIBOR - 1 Week and 2 Months; and
- the following LIBOR settings, to take effect immediately after the publication of LIBOR on Friday June 30, 2023:
    - USD LIBOR - Overnight and 1, 3, 6 and 12 Months,

unless the FCA exercises its proposed new powers set out in the Financial Services Bill to require IBA to continue publishing these LIBOR settings using a changed methodology (also known as a "synthetic" basis).

The FCA has advised IBA that it has no intention of using its proposed new powers to require IBA to continue the publication of any EUR or CHF LIBOR settings, or the Overnight/Spot Next, 1 Week, 2 Month and 12 Month LIBOR settings in any other currency, beyond the above intended cessation dates for such settings. The FCA has also advised IBA that it will consult on using these proposed new powers to require IBA to continue the publication on a "synthetic" basis of the 1 Month, 3 Month and 6 Month GBP and JPY LIBOR settings beyond such dates, and will continue to consider the case for using these proposed powers in respect of the 1 Month, 3 Month and 6 Month USD LIBOR settings.

As noted above, the FCA has confirmed to IBA that, based on undertakings received from the panel banks, it does not expect that any LIBOR settings will become unrepresentative before the above intended cessation dates for such settings[6].

Stakeholders who are interested as to statements relating to the cessation or unrepresentativeness of LIBOR for the purpose of contractual triggers for fallback rate arrangements should see the FCA statement issued earlier today.

[6] Please see footnote 2 on page 4.

List of Non-confidential Responses

In the consultation paper, IBA said that it would publish the comments received unless confidentiality was requested by the originator of the comments.

About a third of responses were from the UK, a third from the United States and Canada and a little less than a third from Europe. A few responses were received from Australia and Asia.

The following is a list of the non-confidential respondents. Their responses are available on IBA's website. For data privacy reasons, the names of individuals are redacted.

BNP
Capital One Financial Corporation*
Citizens Financial Group, Inc.*
Clarus FT
CME
Discover Financial Services*
DV Trading
Fifth Third Bancorp*
Intesa
ISDA
KeyCorp*
M&T Bank Corporation*
MUFG Union Bank, N.A.*
PNC Bank, National Association*
Regions Financial Corporation*
SIFMA, AFME, ASIFMA
SOFR Academy **
Structured Finance Association
Truist Financial Corporation*
U.S. Bancorp*
Zürcher Kantonalbank (ZKB)

* Part of consolidated US-Based Regional Bank response
** Respondent was added post publication of the Feedback Statement

Glossary

Term	Meaning
EONIA	Euro OverNight Index Average, calculated by the European Central Bank
€STR	Euro Short-Term Rate, the preferred RFR for the Euro, calculated by the European Central Bank
FCA	Financial Conduct Authority in the UK. See https://www.fca.org.uk/
ISDA	International Swaps and Derivatives Association. See https://www.isda.org/
MIFOR	Mumbai Interbank Forward Offer Rate, a mix of USD LIBOR and a forward premium derived from Indian forex markets, calculated by ASIFMA
PHPREF	PHP BVAL Reference Rates, administered by the Bankers Association of the Philippines
RFR	Risk-Free Rates (e.g. €STR, SARON, SOFR, SONIA, TONA)
SARON	Swiss Average Rate Overnight, the preferred RFR for CHF, published by SIX Swiss Exchange
SOFR	Secured Overnight Financing Rate, the preferred RFR for USD, published by the Federal Reserve Bank of New York
SONIA	Sterling Overnight Index Average, the preferred RFR for GBP, published by the Bank of England
SOR	SGD *Swap Offer* Rate, published by the Association of Banks in Singapore
THBFIX	Thai Baht Interest Rate Fixing, which uses USD LIBOR as a component, published by Refinitiv
TONA	Japanese Yen Tokyo Overnight Average rate, the preferred RFR for JPY, published by the Bank of Japan

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