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Press release

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FSB publishes progress report on implementation of recommendations to reform interest rate benchmarks

The Financial Stability Board (FSB) today published *Reforming Major Interest Rate Benchmarks* which provides a progress report on implementation of its July 2014 recommendations to reform major interest rate benchmarks. The report finds that, since the last progress report published in July 2015, administrators of key interbank offered rates (IBORs) have continued to take steps to implement the recommendations. The report finds most progress has been made by the three major benchmarks of Euribor, Libor and Tibor. Reflecting the systemic importance of the reference rates, authorities in the European Union, United Kingdom and Japan have taken steps to regulate the administrators of the IBORs. Member authorities represented on the Official Sector Steering Group (OSSG), benchmark administrators and market participants from other jurisdictions, including Australia, Canada, Hong Kong, Mexico, Singapore and South Africa, have continued to take steps to improve the existing interbank rates in their own jurisdictions.

David Lawton, co-chair of the OSSG, stated that “Implementation of the FSB recommendations on reforming interest rate benchmarks is essential to address the issues highlighted by the attempted manipulation of IBORs. Good progress has been made by the major reference rates in implementing the requirements but more work is required to address the outstanding recommendations.”

Jerome Powell, co-chair of the OSSG, stated that “We have seen progress in implementing the 2014 recommendations; however, FSB members have a number of additional steps they need to take both in reforming existing interest rate benchmarks and in identifying alternative risk-free rates. For those currencies that intend to more actively promote the use of risk-free rates, it is paramount that the current momentum is maintained.”

While substantial progress has been made, the reforms of the IBORs have not been completed. Administrators should now focus on transition and decide how to anchor rates in transactions and objective market data as far as practicable.

One of the key recommendations set out in the OSSG report in July 2014 was for authorities to encourage the development of risk-free rates (RFRs) for benchmarks, given that there are certain financial transactions, including many derivatives transactions, which are better suited to reference rates that are closer to risk-free. OSSG members have made good progress in identifying potential RFRs. It is important that RFRs are identified because the volume of transactions in the IBORs underlying markets are low and at risk of declining further. The OSSG will continue to monitor progress in reforms to interest rate benchmarks, and will prepare a final report for publication by the FSB in 2017.

Similarly, more progress remains to be achieved in identifying RFRs and promoting their use where appropriate. Where groups have been set up to identify a single alternative and to promote its use, the final choice has yet to be made and transition planning is still in preliminary stages.

The FSB considers that both streams of work – the reform of existing IBORs and the identification and promotion of RFRs where appropriate – are at crucial stages in their progress, and that further work is warranted and should be supported.

The co-chairs of the OSSG have also written to the International Swaps and Derivatives Association on the need to ensure contractual fall-back provisions in case benchmark publication ceases.

Notes to editors

The OSSG is co-chaired by David Lawton (Director, Markets Policy and International, Financial Conduct Authority) and Jerome Powell (Member, Federal Reserve Board of Governors). OSSG membership includes FSB members from Australia, Brazil, Canada, Hong Kong, Japan, Mexico, Singapore, South Africa, Switzerland, UK and US. In addition, the European Central Bank, European Banking Authority, European Supervisory and Markets Association and the International Organization of Securities Commissions sit on the group.

The major interest rate benchmarks are widely used in the global financial system as benchmarks for a large volume and broad range of financial products and contracts. Uncertainty surrounding the integrity of these reference rates represented a potentially serious source of vulnerability and systemic risk. Against this background, in February 2013, the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks. In July 2014 the FSB published the recommendations for reform developed by the OSSG. The OSSG published its most recent progress report in July 2015.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.