5 April 2022

# FSB Statement Welcoming Smooth Transition Away from LIBOR

**Following years of preparation, the end of 2021 marked a major milestone in the transition away from LIBOR and the FSB welcomes the smooth transition to robust alternative rates across global markets, primarily overnight risk-free or nearly risk-free rates (RFRs).** The absence of any significant market disruptions is a testament to the magnitude of market participants' efforts and the level of attention from the regulators and industry bodies to support the transition to RFRs.

## Stocktake of end-2021 transition

All GBP, EUR, CHF, and JPY LIBOR panels, as well as the 1-week and 2-month USD LIBOR settings, ceased as of end-2021. The 1-, 3- and 6-month GBP and JPY LIBOR settings are being published temporarily on a synthetic basis to support legacy contracts[1]. While key panel-based USD LIBOR settings will continue until end-June 2023, this is intended to support the run-off of a substantial proportion of legacy contracts. US Banking Supervisors as well as many other authorities[2] in FSB jurisdictions have strongly encouraged firms to cease new use of USD LIBOR after end-2021, subject only to some limited exceptional use to support an orderly transition.

It is important to continue to build market liquidity of products referencing robust RFRs and to use SOFR across global markets. The transition in GBP, EUR, CHF, and JPY LIBOR shows that RFRs can be used successfully in a wide variety of markets including bonds, derivatives and lending markets. There has already been a significant and smooth transition away from USD LIBOR for many markets. New activity in USD over-the-counter derivatives and capital markets products is predominantly linked to SOFR now. Additionally, the transition from USD LIBOR to SOFR appears to be progressing smoothly in lending markets. Use of SOFR has increased in exchange traded derivatives, however greater progress will need to be achieved in certain markets, such as in Eurodollar futures and options markets, where significant LIBOR-linked activity remains.

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1 The FSB has not observed any major reliance on synthetic GBP and JPY LIBOR rates thanks in part to the successful CCP conversion processes during 2021, wide adoption of the ISDA protocol and active transition.

2 The FCA has put in place a legal prohibition under the UK Benchmarks Regulation restricting new use of USD LIBOR. Additional FSB jurisdictions' supervisory recommendations are available at: Australia, Canada, EU, Hong Kong, India, Japan, Mexico, Singapore, Switzerland, and UK.

## Key messages for 2022-23

**Given the significant use of USD LIBOR globally, the FSB emphasises that firms must have plans in place to ensure their preparedness for the cessation of the USD LIBOR panel.** The FSB continues to support a smooth transition of legacy LIBOR contracts as part of a wider market transition to robust RFRs that will not reintroduce the vulnerabilities experienced with LIBOR. The FSB again highlights the Statement[3] on Credit Sensitive Rates by the Board of the International Organization of Securities Commissions (IOSCO).

**Firms should have already ceased new use of USD LIBOR. It has been repeatedly emphasised by authorities that the continuation of some USD LIBOR settings through to end-June 2023 is intended only to allow legacy contracts to mature**. In addition, it affords market participants more time to take the necessary steps for the conversion of legacy contracts. Between now and end-June 2023, firms with USD LIBOR exposures should take the steps set out in the FSB's Global Transition Roadmap.[4]

**To ensure financial stability, it is important that market participants transition from LIBOR and other IBORs that are set to be discontinued.[5]** The FSB continues to encourage adoption of overnight RFRs and active transition away from USD LIBOR before June 30, 2023 where appropriate. The FSB recognises that in some cases there may be a role for RFR-derived term rates and has set out the circumstances where the limited use of RFR-based term rates would be compatible with financial stability.[6]

**The FSB also continues to support engagement with emerging markets and developing economies (EMDEs) to maintain a smooth transition from LIBOR to RFRs, across all global markets.**

**The FSB encourages firms to maintain momentum in active transition of legacy LIBOR contracts that reference synthetic GBP and JPY LIBOR settings.** The FCA has been clear that synthetic LIBOR is a temporary bridging solution to allow more time for legacy contracts to transition to robust RFRs. Synthetic LIBOR rates cannot be guaranteed beyond end-2022. For JPY LIBOR, the FCA's intention is that it will cease at end-2022. The FCA has announced that, during the course of 2022, it 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 sterling synthetic LIBOR. It should be noted that active transition remains the best way for parties to retain control and certainty over their contractual terms.

The FSB plans to conduct a follow-up assessment in H2 2022 to identify any remaining transition and supervisory challenges to support LIBOR transition effort.

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3 Available at: *Statement on Credit Sensitive Rates*.

4 Available at: *Global Transition Roadmap for LIBOR*.

5 For example, the administrator of Canadian Dollar Offered Rate benchmark (CDOR) published a consultation on potential cessation of CDOR in June 2024.

6 Available at: *Interest rate benchmark reform: Overnight risk-free rates and term rates*.

## FSB OSSG term and leadership announcement

The FSB's Official Sector Steering Group (OSSG) will continue to serve as a forum in 2022 and 2023 for cooperation amongst authorities that have leading roles in interest rate benchmark reforms and transition preparedness.

The OSSG is currently led by co-chairs John C. Williams, President of the Federal Reserve Bank of New York and Nikhil Rathi, Chief Executive Officer of the UK Financial Conduct Authority, who succeeded Andrew Bailey, Governor of the Bank of England, in this role in January 2022.

John Williams made the following statement: **"***The end of 2021 marked a critical LIBOR milestone, made possible by years of active global coordination across the public and private sectors. Andrew Bailey has been a stalwart partner throughout the LIBOR transition and during our time as OSSG co-chairs. I would like to express gratitude to him and all OSSG members for their contributions, and I look forward to working with Nikhil Rathi as we enter this next phase of the transition. I would also like to express my thanks to the many members of the national working groups who have worked so hard during this transition. With LIBOR's final act coming to an end, the OSSG looks forward to seeing continued growth in use of robust reference rates like SOFR worldwide".*

Nikhil Rathi made the following statement: "*I would like to express my gratitude to Governor Andrew Bailey and all the members, and indeed financial market participants more broadly, for their great contributions toward delivery of the end-2021 transition milestone. There is still significant work to be done to complete the transition, but these efforts will help continue progress. Together with John Williams, I look forward to working on the OSSG's priorities and ensuring all FSB members are well supported in this next phase of the transition. We are keen to ensure ongoing coordination of global benchmarks reform, and effective working between standard setters. We are committed to completing the LIBOR transition, and managing significant risk areas, notably monitoring the transition away from USD LIBOR, synthetic LIBOR, and ensuring the development of robust alternative rates.***"**