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FCA Issues Statement on the End of Synthetic Sterling LIBOR



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On September 29, the UK's Financial Conduct Authority ("FCA") issued a [statement](#) that the publication of the 1-month and 6-month synthetic sterling LIBOR would permanently cease at the end of March 2023.

Background

As we [reported](#) in *Cabinet News and Views* on June 30, 2022, the FCA has been consulting on the winding down of 1-, 3- and 6-month synthetic sterling LIBOR settings and on the future of the remaining U.S. dollar ("USD") LIBOR settings.

On December 31, 2021, publication of 24 LIBOR settings ended. For 1-, 3- and 6-month sterling and Japanese yen LIBOR settings, the FCA required the administrator of LIBOR to continue publication on a synthetic (and unrepresentative) basis from the end of 2021. Under revised regulatory rules in the UK, publication of a synthetic rate can only be compelled to be published by the FCA for up to one year at a time for a maximum period of 10 years. This was to give the holders of certain legacy contracts more time to complete transition.

Publication of 24 of the 35 LIBOR settings ceased from January 1, 2022, with six sterling and Japanese yen LIBOR settings to continue for the duration of 2022 on a "synthetic" basis, and five U.S. dollar LIBOR settings permitted to be calculated using panel bank submissions until June 2023.

Separately, the Bank of England has previously published a policy statement on August 24, 2022 to add Secured Overnight Funding Rate ("SOFR") to the scope of contracts subject to the derivatives clearing obligation ("DCO") and remove contracts referencing U.S. dollar LIBOR.

Consultation Decisions

In June 2022, the FCA consulted on winding down the 1-month and 6-month synthetic sterling LIBOR at the end of March 2023, ceasing the 3-month synthetic sterling LIBOR setting in an orderly fashion, and continuing exposures to the U.S. dollar LIBOR beyond end of June 2023.

In light of the feedback received, the FCA announced the following:

- publication of the 1-month and 6-month synthetic sterling LIBOR settings will permanently cease after final publication on March 31, 2023;
- no change to the announcement made on March 5, 2021 regarding the publication of synthetic Japanese yen LIBOR setting to permanently cease by the end of 2022;
- an appropriate date for cessation of 3-month synthetic sterling LIBOR setting to be considered as the FCA received support for its continuance beyond March 31, 2023; and
- response in relation to U.S. dollar LIBOR settings to be provided in autumn.

Also in June 2022, the Bank of England published a consultation paper titled “Derivatives clearing obligation – modifications to reflect USD interest rate benchmark reform: Amendments to BTS 2015/2205” (the “June CP”). In the June CP, the Bank proposed to introduce a clearing obligation for overnight index swaps (“OIS”) that reference the Secured Overnight Funding Rate in the onshored BTS 2015/2205 from October 31, 2022 and to remove from the DCO contracts referencing USD LIBOR from around the date of CCPs’ contractual conversions of those contracts (which it anticipates will occur over a series of weekends in Spring 2023).

In its [policy statement](#) dated August 24, 2022, the Bank set out its final policy, which maintains the proposal in the June CP to add SOFR OIS contracts with an original maturity between 7 days and 50 years to the DCO from 31 October 2022 and to subsequently remove contracts referencing USD LIBOR from the DCO on April 24, 2022.

Guidance

The FCA urges market participants to actively transition any outstanding LIBOR exposures to risk-free rates. Issuers and holders of outstanding bonds referencing LIBOR, lenders and borrowers, particularly private finance initial (“PFI”) loans, shall make appropriate transition arrangements as a matter of priority. For further information on the retirement of synthetic LIBOR benchmarks, please refer to our [Cabinet news issues on April 28](#) and [June 30](#).

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