ISDA Safe, Efficient Markets

CP22/21 Consultation on ‘synthetic’ US dollar LIBOR and feedback to CP 22/11

Consultation questions

If you would like to provide an executive summary to your response, please provide it here.

Executive Summary

The International Swaps and Derivatives Association (ISDA) and its members welcome the opportunity to respond to the Financial Conduct Authority’s consultation on ‘synthetic’ US dollar LIBOR. ISDA has been instrumental in supporting international and regional efforts to ensure orderly transition of derivatives contracts away from LIBOR and other benchmarks and developed multilateral protocols and supplements to facilitate an orderly transition.

Consistent with our mission, our responses are primarily focused on ensuring the safety and efficiency of the financial markets with respect to derivatives and other financial transactions. As a result, we have responded only to those questions that are most relevant to that mission.

The views set out in this response are based on the aggregated and anonymized views of ISDA’s members and its staff. Thus, these responses reflect the input of ISDA staff and members of the ISDA Americas and Europe Benchmark Working Group; ISDA APAC Benchmark Working Group; ISDA Article 28(2) EU Benchmark Regulation Group; ISDA CEE/SEE/CIS Group; ISDA Documentation Group; ISDA EU Benchmarks Regulation Advocacy Group; ISDA IBOR Fallback Implementation Subgroup; ISDA Interest Rate Definitions Working Group; ISDA Interest Rates Steering Committee; ISDA JPY Benchmark Working Group; ISDA Middle Eastern Group; ISDA Rates Market Infrastructure Working Group. While ISDA solicited the views of all of its members in each of these Working Groups, not all members responded and not all members of ISDA are members of these working groups. Not all members who provided feedback responded to all of the questions. These responses may not, therefore, reflect the full range of views held by ISDA’s membership or of the relevant Working Groups in their entirety. Where indicated, responses represent the views of an individual member and may not be representative of the views of other members or ISDA.

ISDA encouraged members to submit their own responses to this consultation.

We would reiterate the comment in our response to Consultation 22/11 on winding down ‘synthetic’ sterling LIBOR and US dollar LIBOR that, as a general matter, we believe that providing market participants with longer notice of the planned cessation of any benchmark helps ensure an orderly process, providing additional time for a natural reduction in the population of 'tough legacy' trades as well as pro-active transition efforts.

While we welcome the FCA's recognition that a short additional period beyond end-June 2023 of publication of US dollar LIBOR on a synthetic basis may help market participants to transition a small but material population of legacy contracts referencing US dollar LIBOR, some ISDA members have expressed differing views on the exact length of the extended provision of US dollar LIBOR on a synthetic basis with one member preferring a longer period of publication and another being generally supportive of a September 2024 end date and leaning towards a shorter publication period[1]. ISDA has encouraged its members to submit their own institutional response that specifically addresses the question of the duration of synthetic US dollar LIBOR.

We are aware that ICMA have submitted a response to this consultation and in that respect would reiterate the point made in our response to Consultation CP 22/11 that, given the use of derivatives to hedge cash products, like bonds, the use of synthetic US dollar LIBOR for derivatives should be permitted for as long as synthetic US dollar LIBOR use is permitted in such cash products.

With respect to the proposals to mandate publication of synthetic USD LIBOR, as much consistency as possible both with the synthetic tough legacy solutions adopted for GBP LIBOR and JPY LIBOR and the tough legacy solution for US law contracts under the US LIBOR Act are important given the global nature of the derivatives markets.

Chapter 3 Further consultation on US dollar LIBOR

Q1: Do you have any views or comments regarding our proposal on a synthetic US dollar LIBOR and its duration – or any other comments on this section of this consultation?

Please refer to our statements in the Executive Summary section.

Q2: Do you agree with the manner in which we propose to exercise our methodology change power?

We refer you to our statements in the Executive Summary section.

Q3: Do you have any other views or comments on our proposed exercise of our methodology change power, including about how this would impact you?

We refer you to our statements in the Executive Summary section.

[1] Note that ISDA did not conduct a comprehensive survey of its members' position on this issue and therefore we have no way of knowing the views of all ISDA member firms.

Q4: Do you agree with the manner in which we propose to exercise our legacy use power?

We refer you to our statements in the Executive Summary section.

Q5: Do you have any other views or comments on our proposed exercise of our legacy use power, including about how this would impact you?

We refer you to our statements in the Executive Summary section.