The End of LIBOR

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PRACTICES Financial Regulatory, Finance, Real Estate Finance, Fund Finance

In this update we consider the current status of the London Interbank Offered Rate ("**LIBOR**"); whether it has a future in light of certain recent discussions in the market and potential alternative rates that may be more suitable going forward.

Current status of LIBOR

LIBOR is the average interbank interest rate published by ICE Benchmark Administration ("**IBA**") on which banks in the London market are prepared to lend to one another.

Since 2014, when IBA became the benchmark administrator of LIBOR, an effort has been made to anchor banks' LIBOR submissions and rates to actual transactions as much as possible. However, the market for unsecured wholesale term lending to banks is no longer sufficiently active and there is little prospect that these markets will become substantially more active in the future. In a speech on 27 July 2017, Andrew Bailey (the Chief Executive of the Financial Conduct Authority (the "**FCA**")) discussed the unsustainability of relying indefinitely on a reference rate that does not have an active underlying market to support it.

There are currently 20 panel banks which make submissions on which the calculation of LIBOR is based. Panel banks are feeling increasingly uncomfortable about providing submissions based on judgments with so little actual borrowing activity. Any withdrawals of submissions from these 20 panel banks would further weaken the representativeness and robustness of the rate. Currently English and European legislation gives the FCA the power to compel banks to contribute to LIBOR where necessary, but the FCA has stated that it would be reluctant to do this.

A transition away from LIBOR is likely to take four to five years. The intention is for the panel banks to sustain LIBOR until the end of 2021.

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The-End-of-LIBOR.pdf

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