**Libor scandal**

# Global regulators warn banks must abandon reliance on Libor

FCA and CFTC urge financials to speed up adoption of new 'risk-free' reference rates

Philip Stafford YESTERDAY

Global market regulators on Thursday issued stern warnings that banks must speed up their plans to abandon Libor in favour of "risk-free" reference floating interest rates.

In a co-ordinated move, the heads of the UK Financial Conduct Authority and the US Commodity Futures Trading Commission underlined their determination that the market ditches the controversial benchmark. "The discontinuation of Libor is not a possibility. It is a certainty," said Chris Giancarlo, chairman of the CFTC.

But while regulators urged the market to move faster, the Financial Stability Board said "risk-free" rates might not suit smaller companies or syndicated loan markets.

Their comments came as authorities raise pressure on banks to find an alternative to Libor, which sets the cost of unsecured borrowing for a variety of periods, usually over one, three and six months.

Authorities argue the four-decade-old benchmark no longer reflects actual bank funding activity and are also seeking to restore public trust after a series of manipulation scandals. After 2021, banks will no longer be required to submit rates that are used in compiling Libor.

That deadline represents a challenge for the global financial system as banks, their customers and the broader derivatives industry still use it as a benchmark for mortgages, consumer loans and credit card rates. About $170tn in interest rate swaps are based on Libor. Many have taken a "wait and see" approach to the development of new benchmarks.

"Misplaced confidence in Libor's survival will do the opposite, by discouraging transition . . . But the pace of that transition is not yet fast enough," Andrew Bailey, chief executive of the FCA told an audience in London.

He warned companies supervised by UK market and prudential regulators would have to show they had plans in place to mitigate the risks and reduce dependencies on

Libor. “The most effective way to avoid Libor-related risk is not to write Libor-referencing business,” he said.

In recent weeks talk has circulated that up to three banks may ask for Libor rates to be published beyond 2021. “Mr Bailey has heard the market murmurings that maybe Libor still has legs, and he has taken the opportunity to decisively cut them off,” said Gabrielle Samuels, banking counsel at Ashurst, a London law firm.

Policymakers want the market to use overnight rates, arguing they are based on actual transactions and are less susceptible to manipulation.

Mr Bailey forecast the interest rate derivatives market, which most relies on Libor rates, would in future switch to a reliance on overnight rates. That in turn would create “powerful incentives” for other instruments, including bonds and securitisations, also to reference the overnight rates.

However, derivatives traders warn the FCA’s approach does not address the needs of the derivatives market as swap contracts use a term rate, such as three-month Libor, to price an interest rate curve. That would build liquidity in the swaps and overnight markets, they argue.

Mr Bailey admitted it was a “chicken-and-egg issue. We’ve got to make sure we break the cycle of people sitting on the sidelines waiting for everyone else to do it,” he said.



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