FSB FINANCIAL STABILITY BOARD

Press release

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FSB report sets out need to reduce risks to financial stability from LIBOR transition

The Financial Stability Board (FSB) today published its annual progress report on implementation of recommendations to reform major interest rate benchmarks. The report emphasises that the continued reliance of global financial markets on LIBOR poses risks to financial stability and it calls for significant and sustained efforts by the official sector and by financial and non-financial firms across many jurisdictions to transition away from LIBOR by end-2021.

Interest rate benchmarks play a key role in global financial markets. In 2014 the FSB made recommendations to reform interbank offered rates (IBORs) in response both to cases of attempted manipulation and to the decline in liquidity in key interbank unsecured funding markets.

The report sets out progress on implementing the FSB recommendations and finds that:

- There is a common view across FSB jurisdictions that the use of overnight risk-free rates should be encouraged across global interest rates markets where appropriate, and that contracts referencing IBORs should have robust fallbacks.
- There has been good progress in many derivatives and securities markets, but transition in lending markets has been slower, and needs to accelerate.
- Firms undertaking their transition away from LIBOR should not delay their programmes until the emergence of possible forward-looking term versions of risk-free rates.
- The parallel efforts on transition across multiple jurisdictions and currencies are an opportunity to align conventions and other practices across currencies and products.
- Transition requires significant commitment from the official sector, working alongside market participants.
- Given the degree of risk arising from the continued reliance on LIBOR, regulated firms should expect increasing scrutiny of their transition efforts as the end of 2021 approaches.

Andrew Bailey and John Williams, co-chairs of the FSB Official Sector Steering Group, said: “FSB members are committed to transitioning to more robust financial benchmarks. It is essential that both firms and national authorities around the world take steps now to ensure a smooth transition. As a matter of priority, authorities should discuss with financial institutions, and financial institutions with their clients, the transition process and agree on the steps needed.”

The FSB announced on 17 December, as part of its 2020 work programme, that it will conduct a survey of exposures to LIBOR and supervisory measures being taken to address benchmark transition issues, in order to improve collective understanding of LIBOR transition progress so far and to increase awareness of the importance of ensuring timely transition.

The FSB will deliver to G20 Finance Ministers and Central Bank Governors in July 2020, and publish, a report on remaining challenges to benchmark transition.

Notes to editors

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Governor and Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.