ICE BENCHMARK ADMINISTRATION

ICE LIBOR EVOLUTION - ADDITIONAL CONSULTATION

Introduction

Since taking over the management of ICE LIBOR ("LIBOR") in 2014, ICE Benchmark Administration ("IBA") has been driving transparency in the benchmark setting process with new technology and techniques to improve the LIBOR rate-setting process.

In line with the strategic direction set by the Financial Stability Board ("FSB") and other official sector bodies, IBA is also evolving LIBOR to meet the following objectives, to:

- Base LIBOR in transactions to the greatest extent possible
- Publish a single, clear, comprehensive and robust LIBOR definition
- Implement a construct for ensuring the rate can adapt to changing market conditions with appropriate consideration for the interests of all stakeholders, and
- Evolve LIBOR through a seamless transition – phasing the implementation of the standardised methodology.

IBA Roadmap

IBA has published a Roadmap designed to deliver the seamless transition to an even more robust rate. In the Roadmap, IBA published the ICE LIBOR Output Statement as the LIBOR definition.

IBA has worked closely with the submitting banks and they will be implementing the standardising and updating measures in the Roadmap progressively. IBA expects these changes to be complete by mid 2017.

In advance of the implementation, IBA wishes to ensure that users are informed of the methodology being implemented by LIBOR submitting banks in the coming months:

- Banks will follow the submission methodology prescribed by IBA, thus removing some of the risk inherent in their role as a benchmark submitter
- Banks will use wholesale funding trades in determining their submission thus anchoring ICE LIBOR in transactions to the greatest extent possible, and
- There will be no changes to the way IBA uses the individual banks' submissions to calculate the published LIBOR (i.e. topping / tailing).

Additional consultation

IBA would also like to seek input on one aspect of the methodology, which has come into focus whilst the LIBOR panel banks have been carrying out parallel testing of the Roadmap methodology.

In line with the testing results and following further analysis, IBA proposes to refine the Output Statement by adjusting Level 2 (Transaction-derived data) of the waterfall.

Level 2.3 relates to parallel shift – this is where, if a bank has no transactions in one tenor but one neighbouring tenor has a transaction-based rate, a rate could be constructed by the bank using the day-on-day change in value of the transaction-based tenor.

Banks' testing has shown that, in the current interest rate environment, the use of parallel shift can on occasion produce results that may be unrepresentative depending on a bank's transactions and funding mix. Accordingly, IBA proposes to remove this level of the waterfall but to allow parallel shift to be used at Level 3 (Expert Judgement).

LIBOR publication time

In order to give banks enough time to make their necessary checks, in particular to be able to provide their Level 3 (market-data based Expert Judgement) submissions as at 11.00, IBA will implement a small adjustment to the publication time for LIBOR.

IBA currently publishes LIBOR at 11.45 whereas, before IBA became the administrator, the time was more variable and could sometimes be at around 12.00. IBA is moving the scheduled publication time from 11.45 to 11.55 London time with effect from Monday 27 March 2017.

LIBOR Code of Conduct changes

IBA's proposed changes to the Output Statement can be found in Annex 2 of the LIBOR Code of Conduct ("the Code"), as attached; proposed new wording is shown underlined and deletions are struck through.

Any comments on the proposed changes to the Code should be addressed to IBA@theice.com on or before Wednesday 15 February 2017. Alternatively, comments may be posted to IBA at the following address, to arrive by 15 February:

ICE Benchmark Administration Limited
Milton Gate
60 Chiswell Street
London
EC1Y 4SA

After that date, IBA will publish Issue 4 of the Code, with the revised Output Statement together with a summary of comments received during this consultation and IBA's response to those comments. If a commenter requests confidentiality, their comments will be taken into account by IBA but will not be included within IBA's published summary.

LIBOR CODE OF CONDUCT

PROPOSED CHANGES FOR ISSUE 4

The changes proposed by ICE Benchmark Administration Limited ("IBA") to the LIBOR Code of Conduct are shown below with new wording underlined and deletions struck through:

1. Preface to the LIBOR Code of Conduct

"3. Introduction to Issue ~~3~~ <u>4</u> of the Code

In March 2016, IBA issued a Roadmap designed to deliver a seamless transition to an even more robust benchmark which will make LIBOR more sustainable for the long term.

In order to achieve those objectives:

- IBA is implementing a uniform submission methodology for LIBOR panel banks based on parameters defined by IBA and the LIBOR Oversight Committee
- IBA has published a single, clear and comprehensive definition of LIBOR, and
- Submissions will be non-subjective and fully transaction-based wherever feasible.

In order to anchor LIBOR to the greatest extent possible in transactions, as well as reflect changes in banks' funding models, IBA ~~has~~ designed a waterfall of submission methodologies to ensure that LIBOR panel banks use funding transactions where available.

~~The waterfall is as follows:~~

<u>In January 2017 IBA consulted on changes to the Output Statement and the underlying waterfall introduced in the Roadmap. The revised Output Statement can be found in Annex 2.</u>

<u>The waterfall is now as follows:</u>

- Level 1: The Volume Weighted Average Price ('VWAP') of eligible transactions
- Level 2: Submissions derived from transactions (including adjusted historical transactions~~,~~ <u>and</u> linear interpolation ~~and parallel shift~~), and
- Level 3: Expert Judgement, appropriately framed.

4. Transitional arrangements

The standardising and updating measures set out in the Roadmap will be implemented progressively during ~~2016~~ <u>2017</u>.

This Issue ~~3~~ <u>4</u> of the Code <u>supersedes Issue 3 and</u> applies to a contributing bank from the date on which it transitions to the Roadmap methodology. Issue 2 of the Code continues to apply to a contributing bank until it transitions to the Roadmap methodology.

When all contributing banks have transitioned to the Roadmap methodology:

- Issue 2 will be withdrawn, and
- This section 4 (Transitional arrangements) of Issue 3 will be deleted.

2. ICE LIBOR Output Statement (Annex 2)

The proposed changes to the ICE LIBOR Output Statement are set out overleaf:

ANNEX 2

ICE LIBOR OUTPUT STATEMENT

"ICE LIBOR is the benchmark published under that name or as "LIBOR" and calculated by ICE Benchmark Administration Limited (IBA) on London business days.

It is a wholesale funding rate anchored in LIBOR panel banks' unsecured wholesale transactions to the greatest extent possible, with a waterfall to enable a rate to be published in all market circumstances:

Level 1:

A volume weighted average price (VWAP) of transactions in unsecured deposits and primary issuances of commercial paper and certificates of deposit since the previous submission, with a higher weighting for transactions booked closer to 11:00 London time.

Eligible counterparties are providers of wholesale unsecured funding including:

- banks
- central banks
- governmental entities
- multilateral development banks
- non-bank financial institutions
- sovereign wealth funds
- supranationals, and
- corporations as counterparties to a bank's funding transactions for maturities greater than 35 days.

Transactions in approved major funding centres are taken into account without price adjustment, subject to minimum transaction sizes and number of trades as specified by IBA.

Level 2:

Transaction-derived data, including time-weighted historical transactions adjusted for market movements~~,~~ and linear interpolation~~ and parallel shift~~.

Level 3:

If the LIBOR panel bank has insufficient Level 1 and Level 2 transactions, it should submit the rate at which it could fund itself at 11:00am London time with reference to the unsecured wholesale funding market. In order to determine this rate the bank should follow its internally approved procedure agreed with IBA.

LIBOR is calculated every London business day and normally published by IBA at ~~11.45~~ 11.55 London time; it is a trimmed arithmetic mean that excludes the highest and lowest quartile of submissions. Each panel bank's submission carries an equal weight, subject to the trimming.

The panel banks' individual submissions are published by IBA after 3 months on a non-attributed basis.

Further details are published at www.theice.com/IBA.

IBA is authorised and regulated by the Financial Conduct Authority."