USD LIBOR® PANEL BANK CRITERIA

1. Introduction

This document sets out the criteria adopted by ICE Benchmark Administration Limited (IBA), following review and assessment by the LIBOR Oversight Committee, by reference to which the panel of banks (the "USD LIBOR® Currency Panel") which contributes input data to IBA for the purpose of producing USD LIBOR® rates (Overnight, 1-, 3-, 6- and 12-Months) in accordance with the "panel bank" LIBOR® methodology is composed.

2. Background

IBA is authorised under the UK Benchmarks Regulation (BMR), which imposes governance and organisation requirements on benchmark administrators. These requirements include, as set out in Article 11(1)(a), the stipulation that:

"the input data shall be sufficient to represent accurately and reliably the market or economic reality that the benchmark is intended to measure.

The input data shall be transaction data, if available and appropriate. If transaction data is not sufficient or is not appropriate to represent accurately and reliably the market or economic reality that the benchmark is intended to measure, input data which is not transaction data may be used, including estimated prices, quotes and committed quotes, or other values".

Article 11(2)(a) requires administrators to have "criteria that determine who may contribute input data to the administrator and a process for selecting contributors".

3. LIBOR - Economic reality and methodology

Economic reality

The "panel bank" USD LIBOR methodology is designed to produce an average rate that is representative of the rates at which large, leading internationally active banks with access to the wholesale, unsecured funding market could fund themselves in such market in USD for certain tenors.

Benchmark methodology

LIBOR is currently calculated for USD and for five tenors (Overnight, 1-, 3-, 6- and 12-Months) and is published every applicable London business day.

Each USD LIBOR calculation is based on input data contributed by 15 panel banks (Contributor Banks). Each USD LIBOR Contributor Bank contributes input data for all five USD LIBOR tenors.

The USD LIBOR Currency Panel is composed with reference to the USD LIBOR Panel Bank Criteria, which are designed so that the contributed input data is able to produce a rate that is representative of the economic reality.

Each USD LIBOR Contributor Bank determines its input data contributions pursuant to the LIBOR Output Statement in order to produce a rate that is anchored in Contributor Banks' wholesale, unsecured funding transactions to the greatest extent possible, with a waterfall to enable a rate to be published in all market circumstances.

USD LIBOR is calculated in accordance with the "panel bank" USD LIBOR Methodology. The published rate in respect of each USD LIBOR tenor is the arithmetic mean of each USD LIBOR Contributor Bank's contributions in respect of that tenor (after trimming upper and lower values), rounded to five decimal places. Each Contributor Bank's contribution carries an equal weight in the calculation, subject to the trimming.

4. Panel composition criteria

It is clear that both qualitative and quantitative criteria are needed to evaluate whether a USD LIBOR Contributor Bank would be a good source of input data able to produce a rate that is representative of the economic reality.

Criteria considered most important include:

- Transactional activity overall (see Section 5);
- Expertise in wholesale markets (see Section 6); and
- Bank size (see Section 6).

Criteria that are more subjective and difficult to define but should still be considered through market cycles include:

- Credit quality (see Section 8); and
- Reputational standing (see Section 8).

Criteria of lesser importance that may also affect the potential representativeness of a USD LIBOR Contributor Bank individually and/or the USD LIBOR® Currency Panel collectively include:

- Types and mix of transactional activity and bank sources of funding (see Section 7);
- Geographical reach of bank(s) (see Section 7).

The LIBOR Oversight Committee has also discussed whether usage of, and dependency on, USD LIBOR should be taken into account when considering the composition of the USD LIBOR® Currency Panel. Usage may be an indicator of a bank's potential willingness to be part of the panel and is a reflection of the bank's appreciation of the need for USD LIBOR to be representative. However, usage of USD LIBOR should not in itself be a determinant.

5. Transactional activity overall

This is considered an important criterion because the LIBOR Output Statement and the associated "Waterfall" Methodology are designed to use transactional input data where and to the greatest extent possible.

Submissions at Level 1 of the Waterfall are the Volume Weighted Average Price (VWAP) of eligible borrowing transactions. Level 2 submissions are derived from eligible historical transactions adjusted for market movements and linear interpolation. Submissions must be Level 1 if the USD LIBOR Contributor Bank has sufficient eligible transactions. If a USD LIBOR Contributor Bank cannot submit at Level 1, it must seek to make a Level 2 submission which allows for the wider use of historical transactions and linear interpolation. Where a USD LIBOR Contributor Bank has insufficient eligible transactional data for a Level 1 or Level 2 submission,

market-based Expert Judgement is used to make a Level 3 submission, driven by the USD LIBOR Contributor Bank's own internally approved procedures that have been agreed by IBA.

There remains a perceived inherent risk in the exercise of Expert Judgement because it is generally less verifiable than transaction data. As well as transactions in wholesale unsecured funding markets (CPs, CDs and deposits), USD LIBOR Contributor Banks may use transactions in other markets as proxies at Level 3, such as the following: interest rate futures; interest rate swaps; floating rate notes; forward rate agreements; FX forwards; FX implied rates; and repos.

6. Bank size and expertise

Balance sheet size may not always be a gauge of wholesale funding activity or expertise, but USD LIBOR Contributor Banks have traditionally been large, leading internationally active banks that generally access one or more of the following markets on a regular basis:

- The interbank funding market;
- The commercial paper market;
- The institutional certificate of deposit market;
- The bond market; and/or
- The FX forward market.

Accessing one or more of these markets on a regular basis generally leads to these larger institutions having developed in-house expertise on how the wholesale unsecured funding markets operate.

As a result, the LIBOR Oversight Committee considers that setting minimum size thresholds for potential USD LIBOR Contributor Banks would be appropriate.

Bank size can be measured by reference to the total assets of the USD LIBOR Contributor Bank legal entity, but it is preferable to take into consideration the total assets of the Contributor Bank group.

The minimum size criteria should reflect the thresholds that align with what would trigger designation as a domestic systemically important bank (D-SIB) in the United States.

7. Geographical reach of banks and types and mix of transactional activity and bank sources of funding

A wide geographical reach or footprint may be desirable but is generally less important than a bank's transactional activity and expertise in the relevant market, although it is recognised that a local presence can be advantageous in sustaining a bank's activity and expertise in that market.

The LIBOR Oversight Committee has reviewed the Approved List of Funding Locations based on the major centres in Canada, USA, EU, EFTA, Hong Kong, Singapore, Japan, UK, Australia and the Cayman Islands.

The criteria for adding a Funding Location are:

- Having a material level of transactions to inform transaction-based calculations;
- A satisfactory regulatory oversight regime for wholesale funding transactions;

- An absence of capital controls, sanctions or other regulatory steps that would influence market funding rates; and
- A bank has requested to use the Funding Location.

Since each USD LIBOR Contributor Bank has its own organisational and geographical profile, IBA agrees the appropriate locations with each USD LIBOR Contributor Bank bilaterally from the Approved List of Funding Locations, being mindful that pricing may be different in some cases.

8. Other criteria

Other factors will also be taken into consideration regarding the continued representativeness of USD LIBOR, including:

- A bank having consistent access to wholesale funding markets; and
- The average credit quality or reputational standing of LIBOR Contributor Banks should not be significantly diminished.

A bank's issuance through market cycles of bonds, CPs and/or CDs can give a good indication of a bank's perceived standing in the markets. The trading of a bank's bonds in the secondary market may also be a proxy measurement tool to assess whether a bank has access to the wholesale markets on an unimpaired basis.

9. Policy review

This policy is subject to periodic review by the LIBOR Oversight Committee.

10. Important Information

IBA is authorised and regulated by the Financial Conduct Authority for the regulated activity of administering a benchmark, and is authorised as a benchmark administrator under the UK BMR.

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