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 a number of objectives, one of which is to base LIBOR in transactions to the greatest extent possible.

To do this, IBA designed a waterfall with three levels of submission methodologies to ensure that LIBOR panel banks use funding transactions where available:

- **Level 1**: Transactions (using the time-weighted VWAP\(^1\) of the submitting bank’s eligible transactions)
- **Level 2**: Transaction-derived data (as described below), and
- **Level 3**: Market-data based (Expert Judgment using a documented methodology for basing submissions on transactions in related markets, committed quotes, indicative quotes and other market observations).

The waterfall is published in the ICE LIBOR Output Statement (“Output Statement”) to give a single, clear, comprehensive and robust LIBOR definition.

Within Level 2 (Transaction-derived data), submissions could be based on the VWAP of adjusted historical transactions, interpolation and parallel shift.

Parallel shift 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.

On 24 January 2017, IBA published a consultation paper proposing to remove parallel shift from the waterfall because testing with LIBOR submitting banks showed that, in the current interest rate environment, it could in a very small number of instances produce results outside of the funding range of the submitting bank.

IBA received consultation responses from submitting banks and trade associations. All but one of the respondents endorsed the removal of parallel shift from Level 2 of the waterfall. The respondent which did not agree with removing parallel shift from Level 2 urged IBA to allow it to be used in Level 3.

Accordingly, IBA has removed parallel shift from Level 2 and confirms that it may be used in Level 3.

IBA announced in the consultation paper that, in order to give banks enough time to make their necessary pre-submission checks, the publication time of ICE LIBOR would move from 11.45 to 11.55 London time. This will take place with effect from Monday 27 March 2017.

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\(^1\) Volume Weighted Average Price
The updated Output Statement is attached.

LIBOR is calculated as of 11.00 every London business day and it will be noted that the words “as of 11.00” that were missing in the Output Statement have been reinstated.

Further information about IBA and LIBOR can be found at:

https://www.theice.com/iba/libor

IBA has worked closely with the submitting banks and expects them to implement the waterfall methodology during 2017.
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.

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 11:00 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 as of 11.00 every London business day and normally published by IBA at 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.”