

# **LIBOR CODE OF CONDUCT**

## **CONTRIBUTING BANKS**

**Issue 3:**

**(tbd) 2016**

**Confirmed as Industry Guidance by the FCA**

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## **PREFACE**

### **1. Purpose**

This LIBOR Code of Conduct (“LIBOR Code” or “Code”) sets out the practice standards adopted by ICE Benchmark Administration Limited (“IBA”) for benchmark submitters to ICE LIBOR (“LIBOR”).

The Code provides the framework within which contributing (or “panel”) banks should operate and assists users in deciding whether LIBOR is an appropriate benchmark to use in contracts. The Code also sets out the responsibilities of the Benchmark Administrator and its Oversight Committee.

Whilst the Code summarises the relevant FCA rules in places, firms should refer to the FCA Handbook for the FCA rules themselves.

### **2. Background**

From 2 April 2013 the following two new regulated activities were introduced through the Regulated Activities Order:<sup>1</sup>

- Providing information in relation to a specified benchmark, and
- Administering a specified benchmark.

LIBOR was the first specified benchmark under the new regulation.

Knowingly or deliberately making false or misleading statements in relation to benchmark-setting was made a criminal offence (sections 91 and 92 of the Financial Services Act 2012<sup>2</sup>).

The Financial Conduct Authority (“FCA”) is the UK’s regulatory and supervisory authority for benchmarks, and has issued Rules governing benchmark setting by adding Chapter 8 (Benchmarks) to its Market Conduct Sourcebook. MAR 8.2 and MAR 8.3 contain the provisions for benchmark submitters and benchmark administrators, respectively.

In accordance with MAR 8.3.10(1):

“The *benchmark administrator* through its oversight committee must:

- (1) develop practice standards in a published code which, for the relevant *specified benchmark*, set out the responsibilities for:
  - (a) *benchmark submitters* and (where applicable) *persons* who make *benchmark submissions* available;
  - (b) the *benchmark administrator*; and
  - (c) the oversight committee”.

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<sup>1</sup> Article 63O and Sch 5.

<sup>2</sup> SI 2013/637 - The Financial Services Act 2012 (Misleading Statements and Impressions) Order 2013.

Issue 1 of the Code became effective from 2 April 2013 when BBA LIBOR Ltd was the Administrator of LIBOR. It was the Interim Code at that time pending the appointment of a new Administrator. IBA became the Administrator on 3 February 2014 and adopted the text of the Interim Code.

The Code is FCA-confirmed industry guidance under PS07/16<sup>3</sup>. FCA confirmation means that the FCA will regard a firm following such confirmed guidance as complying with the relevant Handbook rule,<sup>4</sup> but will not treat a firm's failure to comply with such guidance as indicating that the firm has breached that rule, as in many cases there will be more than one way to comply. However, where a breach of FCA rules has been established, industry guidance is potentially relevant to an enforcement case. The ways in which the FCA may seek to use industry guidance in an enforcement context are similar to those in which the FCA may use FCA guidance or supporting materials .

The Code does not affect firms' obligations under applicable competition law such as the Competition Act 1998.

### 3. Introduction to Issue 3 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:

- Level 1: The Volume Weighted Average Price ('VWAP') of eligible transactions
- Level 2: Submissions derived from transactions (including adjusted historical transactions, 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.

This Issue 3 of the Code applies to a contributing bank from the date on which it transitions to the Roadmap methodology. Issue 2 of the Code applies to contributing banks before they transition to the Roadmap methodology.

<sup>3</sup> Available at [http://www.fsa.gov.uk/pubs/policy/ps07\\_16.pdf](http://www.fsa.gov.uk/pubs/policy/ps07_16.pdf).

<sup>4</sup> See PS07/16, paragraph 2.5.

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.

**GLOSSARY OF TERMS**

Term/expression	Meaning
Benchmark Administrator ( ICE Benchmark Administration Limited)	An entity carrying out the regulated activity of administering a specified benchmark.
Benchmark manager	An individual tasked with overseeing a contributing bank's compliance with MAR 8.2.
Benchmark submission	The information provided to a benchmark administrator for the purposes of determining a specified benchmark.
Compliance function	A control function independent of the business area within which the LIBOR submission process is based.
Contributing bank	A bank carrying out the regulated activity of providing information in relation to a specified benchmark. In its Rules, the FCA refers to this as a ' <i>benchmark submitter</i> '.
Exceptional Market Event	A mechanism to protect the integrity of the rate in times of severe market dislocation.
Governance group	A committee, working party or other group of senior individuals within a contributing bank charged with oversight of the contributing bank's benchmark submission process.
LIBOR Administrator's Operational Group	A group which meets regularly with the Administrator to discuss operational issues concerning LIBOR. Representatives of each contributing bank are included in this Group.
MAR	The FCA's Market Conduct Sourcebook.
Reviewer	An individual within a contributing bank who reviews submissions, whether before or after the submission has been made. This person may also be the Benchmark manager.
Regulated Activities Order	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 [SI 2001/544 as amended by SI 2009/1389 and SI 2013/655]
Submitter	An individual within a contributing bank who prepares a benchmark submission on behalf of the bank.

LIBOR Oversight Committee	A Committee of the LIBOR Administrator, responsible for overseeing the activities around LIBOR. The Committee must include representatives of contributing banks, market infrastructure providers, users of LIBOR and at least two independent non-executive directors of the Benchmark Administrator.
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## CODE OF CONDUCT

(Text from MAR 8 is shown in *italics*)

### 1. Governance arrangements

MAR 8.2.1R      1.1      A contributing bank *must establish and maintain adequate and effective organisational and governance arrangements for the process of making benchmark submissions.*

#### **Governance and structure**

1.2      Governance arrangements should be within the context of a structure that reflects appropriate senior management involvement in, and awareness of, the LIBOR submission process. The overall approach, policies and procedures should cover:

- Reporting structure and operating procedures
- Oversight and monitoring arrangements
- Escalation and reporting procedures
- Business continuity arrangements for making LIBOR submissions

1.3      The contributing bank should charge a governance group of senior individuals with responsibility for the oversight of the submission process and for receiving reports on post submission reviews. In some contributing banks this may be a formally established group, whilst in others this oversight may be exercised within the bank's existing accountability framework.

MAR 8.2.3 R      1.4      Each contributing bank must nominate an individual as a Benchmark manager to be responsible for oversight of the bank's compliance with the FCA's MAR 8.2 requirements. The individual is also the primary point of contact for the LIBOR Administrator.

MAR 8.2.4 G      1.5      The Benchmark manager is expected to be based in the United Kingdom.

1.6      The Benchmark manager or a delegate is expected to attend the LIBOR Administrator's Operational Group meetings regularly.

MAR 8.2.2 G (2),  
(3)

- 1.7 There should be *appropriate oversight of the submission process by the compliance function of the firm to ensure compliance with the contributing bank's obligations* under the provisions of MAR 8. There should also be *periodic internal audit reviews*.
- 1.8 In respect of the LIBOR submission process, the role of the compliance function should include:
- confirming the incorporation of the LIBOR activity and oversight of that activity into the contributing bank's policies, such as those covering Conflicts of Interest and Whistleblowing;
  - incorporating appropriate oversight activity into the annual compliance function plans;
  - incorporating the oversight activity into the contributing bank's compliance policies and procedures and keeping this material up-to-date;
  - procedures for reporting findings.

#### **Designation of individuals**

- 1.9 Each person directly involved in the submission process should be formally designated and documented as such within the contributing bank. The designation and documentation should include the person's name, role and reporting line, as well as a detailed job description covering the involvement in the submission process.
- 1.10 At a minimum, this designation and documentation should include the following persons:
- The Benchmark manager.
  - Submitters and reviewers (and their alternates).
  - An individual within the contributing bank's compliance function as the point of contact for covering the Benchmark submission process.

#### **Policies and systems**

- 1.11 A contributing bank should create, implement and enforce written policies and procedures designed to ensure the LIBOR Code is implemented and systematically applied within the bank so as to ensure the integrity of its LIBOR submissions.
- 1.12 The contributing bank's internal compliance function must be able to access policies covering the LIBOR submission process. Policies should be made available, on request, to the LIBOR Administrator and the FCA.
- 1.13 All policies should be reviewed at least annually, and updated as necessary, and must reflect changes in the LIBOR Code.

## 2. Staff training and awareness

### Experience and training

- MAR 8.2.3(2)2  
R
- 2.1 All submitters and reviewers should have relevant experience in the market for the LIBOR benchmark for which they are making submissions, or in a comparable market. The level of experience required to be demonstrated should be appropriate to the responsibilities of the function performed, in the context of the depth of the market concerned.
- 2.2 The Benchmark manager must have a sufficient level of authority and access to resources and information to enable him/her to carry out his/her responsibility, in line with the provisions of the LIBOR Code and with regulatory expectations.
- 2.3 All records relevant to the LIBOR submission process should be available to the Benchmark manager.
- 2.4
- All submitters and reviewers should receive training on responsibilities, processes, systems and controls associated with setting LIBOR. Training should include at a minimum:
    - The LIBOR Code.
    - Internal policies and procedures related to LIBOR setting.
    - Inputs that should be taken into account when determining submissions.
    - The use of expert judgment, within the framework of submission guidelines.
    - The impropriety of attempting to influence the determination of submissions, and the need to report any such attempts that they become aware of.
    - The importance of conducting all business related to LIBOR submissions on recorded telephone and electronic communication systems and not on personal telephones or other personal electronic devices.
    - The employment and other potential consequences for firms and employees if employees act unlawfully or improperly in connection with the contributing bank's submissions or the process for determining submissions, including under the Competition Act 1998.
- 2.5 Completion of training should be documented for each individual. Training should be provided promptly to new submitters and reviewers. For all submitters and reviewers training should be refreshed at least annually and whenever there are material changes to the LIBOR Code or applicable regulatory requirements.

- 2.6 All contributing bank employees who primarily trade or deal in products that reference LIBOR should receive training, initially and then at least annually, to ensure familiarity with the responsibilities, systems and controls associated with being a contributing bank. The training should address as a minimum the following topics:
- The impropriety of attempting to influence the determination of submissions, and the need to report any such attempts that they become aware of.
  - Policies and procedures related to communication with submitters and reviewers.
  - The requirement to conduct business related to derivatives products that reference LIBOR on recorded telephone and electronic communications systems, and not on personal devices or systems.
  - The employment and other potential consequences for firms and employees if employees act unlawfully (including under the Competition Act 1998) or improperly in connection with the contributing bank's submissions or the process for determining submissions.
- 2.7 Intentional non-compliance with internal policies and procedures implementing the LIBOR Code may be a disciplinary matter, and lead to staff being subject to the contributing bank's existing staff disciplinary procedures, including the application of 'malus' clauses.
- s91, FSA 2012 2.8 Knowingly or deliberately making false or misleading statements in relation to benchmark-setting has been made a criminal offence in the circumstances set out in the FSA 2012<sup>5</sup>. The criminal sanction, under the Financial Services Act 2012, is a prison term of up to seven years, and/or a fine.

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<sup>5</sup>SI 2013/637 - The Financial Services Act 2012 (Misleading Statements and Impressions) Order 2013.

### 3. Submission methodology

- 3.1 Contributing banks are required to formulate their LIBOR submissions in accordance with the ICE LIBOR Output Statement included in Annex 2 to this LIBOR Code.
- 3.2 The Annexes set out the steps that should be covered by the submitter's methodology and reporting arrangements.
- 3.3 Reliance on the daily publication of LIBOR rates in all currencies and tenors is built into the global financial infrastructure. Indeed, since 2 April 2013 it has been a regulatory requirement for the LIBOR Administrator to have regard to the continuity of the rate.
- 3.4 Contributing banks are therefore asked to submit daily rates even during periods of market turmoil and inactivity. In a crisis situation where the market is dislocated, it is possible that there could be little or no trade data for an extended period and therefore little or no opportunity for submitters to undertake price discovery in some market segments.
- 3.5 A contributing bank must ensure that its LIBOR submissions are determined using the LIBOR Administrator's methodology for Level 1 and 2 (Transaction-based) submissions where the bank has transactional data.
- Level 1 and Level 2 submissions are mathematically based on transaction data and the methodology is common to all contributing banks.
- MAR 8.2.5R 3.6 Banks must establish their Level 3 (Expert Judgement) benchmark submissions on the basis of internally approved procedures and inputs allowed by the Administrator. A contributing bank must also review this methodology as and when market circumstances require, but at least every quarter, to ensure that its LIBOR submissions remain credible and robust at all times.
- For Level 3 submissions, the methodologies are bilaterally agreed between the contributing bank and the LIBOR Administrator.
- MAR 8.2.6 G 3.7 An effective methodology for determining Level 3 LIBOR submissions *in addition to quantitative criteria may include the use of qualitative criteria, such as the use of expert judgement of the submitter*, within the inputs permitted by the LIBOR Administrator.

- 3.8 Such a methodology should be based on:
- the provisions set out in in the Annexes to the Code.
  - a robust governance and operating framework.
  - the employment of appropriately experienced staff as submitters and reviewers; and submitters and reviewers exercising expert judgement in a consistent manner.
  - processes designed to identify manifest error on LIBOR submissions prior to submission to the LIBOR Administrator.
- 3.9 Contributing banks should maintain the necessary arrangements to ensure that consistent and timely electronic delivery of LIBOR submissions is possible without material interruption due to human or technical failure. In particular the bank should have:
- Controls that will help prevent system and process failures, or identify them to rectify problems promptly.
  - Arrangements for the continuity of submissions in the event that a significant process or system becomes unavailable or is destroyed.
  - Arrangements for the recording and capture of electronic communications from a site used for disaster recovery and/or business continuity purposes.
- 3.10 Contributing banks must be in a position to lodge their submissions with the LIBOR Administrator by 11.30 at the latest each business day. Late submissions will be treated by the LIBOR Administrator as errors, and frequent offenders will be reported to the Oversight Committee and the FCA.

#### 4. Managing conflicts of interest

- MAR 8.2.7R
- 4.1 A contributing bank must maintain and operate effective organisational and administrative arrangements to enable it to identify and manage any conflicts of interest that may arise from the process of making benchmark submissions.
- 4.2 There is an inherent conflict of interest arising from the combination of roles of LIBOR setting and the potential profits from trading positions in instruments related to LIBOR, both internally and externally. Contributing banks may, from time to time, find themselves in a position where other potential conflicts of interest may arise. They should therefore remain vigilant in identifying new potential conflicts arising from, for example, changes in the business structure and/or responsibilities, and in the development of new products.
- 4.3 All contributing banks should have in place ethical policies and escalation procedures to address conflicts of interest.
- MAR 8.2.8 G
- 4.4 In order to identify and manage conflicts of interest, a contributing bank should:
- *Establish, implement and maintain a conflicts of interest policy which*
    - *Identifies the circumstances that constitute or may give rise to a conflict of interest arising from its benchmark submissions or the process of gathering information in order to make benchmark submissions; and*
    - *Sets out the approach to managing such conflicts.*
  - *Establish effective controls to manage conflicts of interest between the parts of the business responsible for the benchmark submissions and those parts of the business who may use or have an interest in the benchmark rate; and*
  - *Establish effective measures to prevent or limit any person from exercising inappropriate influence over the benchmark submissions.*
- 4.5 All submitters and reviewers should be located within the function responsible for the contributing bank's liquidity and liability management. These individuals should not have parallel responsibility for any derivatives trading other than that associated with the contributing bank's liquidity and liability management.

- 4.6 In respect of situations where potential conflicts of interest with submissions may occur, such as where submitters or reviewers hold positions in the market that are sensitive to LIBOR, contributing banks should consider systematically identifying those activities which are sensitive to such LIBOR rates.
- 4.7 The activities referred to in paragraph 4.6 need not include LIBOR-related exposures where the interest rate exposure is not actively managed or where it is not material.
- 4.8 The internal controls and procedures developed and implemented to mitigate all identified actual or potential conflicts of interests should be documented and monitored to demonstrate their effectiveness. Such internal controls and procedures should include, but not be limited to:
- Requiring submitters and reviewers:
    - Not to disclose (subject to paragraph 4.12) rates which will be submitted in the future or have been submitted to the LIBOR Administrator but not yet published to any external individual or internal individual
    - Not to disclose information influencing a submitter's specific submission that is not openly available to other market participants
    - Not to be physically located in proximity to contributing bank employees who primarily trade or deal in derivatives products that reference the LIBOR rates to which the contributing bank makes submissions such that they can hear each other
  - Requiring individuals not involved in the LIBOR-setting process:
    - Not to contact submitters and reviewers to attempt to influence, or inappropriately inform, the contributing bank's submissions for any reason, including for the benefit of any derivatives trading positions
    - Not to contact submitters and reviewers to seek information on the contributing bank's submissions prior to their submission to the LIBOR Administrator.

This should not be interpreted as denying access to submissions to perform checks prior to publication of LIBOR by a bank's compliance function or by named individuals designated as a part of the submission process.

- 4.9 Communication within the group of submitters and reviewers responsible for submissions need not be restricted. However, all communication within that group relating to submissions which is not face to face should be conducted on the contributing bank's recorded telephone and electronic communication systems and not on personal telephones or other personal electronic devices. Communication relating to submissions should not be conducted in a manner that prevents the contributing bank from recording such communications.
- 4.10 Submitters and reviewers responsible for submissions should treat any non-public LIBOR-related information as sensitive and take appropriate precautions to ensure the confidentiality of such information.

- 4.11 Contributing banks should maintain a “whistleblowing” policy so that members of staff and external parties have a means by which to raise concerns regarding unlawful or inappropriate practices related to LIBOR, for example confidentially to the compliance function.
- 4.12 For the avoidance of doubt, nothing in this LIBOR Code shall prevent the disclosure of rates which have been submitted to the LIBOR Administrator and used in the calculation of a published LIBOR rate to any external individual or internal individual who is not formally designated as being involved in the submission process, so long as such individual (i) has a commercially reasonable business need to know, or (ii) is a customer of the contributing bank entering into a transaction with it priced by reference to the submitted rate, provided that appropriate arrangements for preserving confidentiality are in place. Any disclosure must comply with applicable competition law, such as the Competition Act 1998.

#### **Remuneration, incentives and discipline**

- 4.13 Adherence to the LIBOR Code should be an integral part of the performance assessment of submitters and reviewers and others within the LIBOR-setting process.
- 4.14 The remuneration of the Benchmark manager and all submitters and reviewers should not be based in whole or in part on any economic target that could incentivise submitters directly or indirectly to modify LIBOR submissions.
- 4.15 Under the FCA Remuneration Code, compensation agreements with staff identified as ‘Code Staff’ (under the Remuneration Code) should contain ‘malus’ clauses which give the contributing bank the option to reduce all or part of bonuses awarded, including where payment has been deferred. Where any such Code Staff have been found to have intentionally breached internal policies and procedures implementing the LIBOR Code or the rules on which the LIBOR Code is based, in particular by knowingly or deliberately manipulating LIBOR submissions, or by encouraging others to do so, such clauses should be applicable.

## 5. Suspicions

- MAR 8.2.9R
- 5.1 A contributing bank which suspects that any person is
- manipulating or has manipulated
  - attempting to, or has attempted to, manipulate colluding in, or had colluded in, the manipulation or attempted manipulation of LIBOR
- must notify the FCA without delay.
- 5.2 Submitters and reviewers are expected to report suspicious behaviour or events which they come across in the course of their work, where, objectively, reasonable grounds exist for such knowledge or suspicion.
- 5.3 Meeting this obligation requires a contributing bank to have robust rules and escalation procedures which require submitters and reviewers to report any suspicions that they come across to the compliance function and, as appropriate, to the Benchmark manager.
- 5.4 Any behaviour and/or events reported to the compliance function and/or to the Benchmark manager should be reviewed by them in a timely manner to determine whether there are reasonable grounds for suspicion and therefore an obligation to make a report to the LIBOR Administrator and the FCA.
- 5.5 If, as set out in clause 5.2 above, there are reasonable grounds to suspect manipulation in relation to one or more transactions on which the bank's LIBOR submission would be based:
- The transaction(s) should be excluded from the calculation.
  - The contributing bank should inform IBA promptly that one or more transactions is/are being excluded from the calculation.
  - The contributing bank should submit their suspicions to the FCA without delay as per their MAR 8.2.9 obligation.

Note: This section 5 does not interpret or in any way affect a contributing bank's responsibilities under FCA rules or applicable market abuse legislation.

## 6. Record keeping

- MAR 8.2.10 R (1) 6.1 A contributing bank must keep for at least five years:
- *Records of its benchmark submissions, as well as all information used to enable it to make a benchmark submission;*
  - *Reports on the key sensitivities the benchmark submitter may have regarding the specified benchmark it is submitting to, including (but not limited to) the benchmark submitter's exposure to instruments which may be affected by changes in the specified benchmark.*
- 6.2 The records on the key sensitivities referred to in paragraph 6.1 should reflect trading positions, where they can be identified in the London office for the funding locations bilaterally agreed with the Administrator, and need not include LIBOR-related exposures where the interest rate exposure is not actively managed or is not material.
- 6.3 A contributing bank should also maintain records relating to:
- The process surrounding rate determination and subsequent sign-off and review. This should include the basis for the use of judgement;
  - Communications (which may be recorded in electronic format) between the submitters and others in determining submissions, such as internal and external traders and brokers;
  - Interaction with the LIBOR Administrator or its calculation agent;
  - Submission queries and their respective outcomes;
  - Complaints and approaches from whistleblowers; and
  - The findings of compliance reviews and internal and external audits.
- MAR 8.2.10 R (2) 6.4 The contributing bank must *provide to the relevant benchmark administrator all information used to enable it to make a benchmark submission on a daily basis.*
- MAR 8.2.11 G 6.5 The information provided to the LIBOR Administrator in relation to paragraph 6.4 should comprise
- the type of submission for each applicable tenor (i.e. Level 1, 2 or 3) and an explanation of the rationale and methodology used to establish each Level 3 submission.
- 6.6 Other information used in the submission process should be able to be provided, on request, to the LIBOR Administrator and the FCA.

- 6.7 A contributing bank should ensure that appropriate records are kept of its business and internal organisation, which must be sufficient to enable the FCA, LIBOR Administrator or external auditor to monitor the contributing bank's compliance with the requirements under the LIBOR code and the contributing bank's internal policies and procedures.
- 6.8 Records should be kept in a medium that allows the storage of information in a way accessible for future reference by the regulator or the LIBOR Administrator. Storage arrangements should also enable the identification of any corrections, or other amendments made to submissions to be easily ascertained. Trade level data should be kept in a format which can be converted into Microsoft Excel.

## 7. Compliance and internal audit

### Compliance

- MAR 8.2.2(2) G
- 7.1 The function responsible for monitoring compliance of LIBOR-setting related activities with the LIBOR Code and the contributing bank's internal policies and procedures should be independent both of the individuals responsible for LIBOR submissions and of the businesses with income statement sensitivity to LIBOR.
- 7.2 Examples of the key duties of compliance or other similar function related to LIBOR submissions include:
- Advising the relevant persons responsible for carrying out LIBOR-setting related activities in complying with the contributing bank's obligations under its internal policies and the LIBOR Code.
  - Involvement in gathering and investigating any complaints concerning the accuracy or integrity of the contributing bank's submission, including the logging, review and follow-up of all complaints.
  - Regularly reviewing the contributing bank's interactions with the LIBOR Administrator, including the number and result of requests for further information and the number of late submissions.
  - Monitor, following a risk based approach, the compliance and completeness of Level 1 and 2 transactional data and ensure that eligible transactions are processed in accordance with IBA's prescribed methodology.
  - Investigate and report suspicions of manipulation, attempted manipulation or collusion to the FCA.
  - Regularly reviewing reports identifying exceptions and breaches of internal procedures implementing the LIBOR Code.
  - Testing a sample of records of voice communications between those involved in the LIBOR submission process and those outside of this process.
  - Issuing recommendations based on the result of work carried out.
  - Verifying compliance with those recommendations.
  - Recording and escalating its findings.
- 7.3 The compliance function should maintain a physical presence, on at least a monthly basis, on the floor of the LIBOR-setting team and the floor of traders in derivatives that reference LIBOR rates to which the contributing bank makes submissions.
- 7.4 In order to enable the compliance function to discharge its responsibilities properly and independently:
- The function should have the necessary authority, resources, expertise and access to all relevant information.
  - A compliance officer (with alternate) should be designated as the point of contact for all LIBOR-setting related activities within the contributing bank.
  - The designated compliance officer should not be involved in the performance of services or activities they monitor.

- The method of determining the remuneration of the compliance officer must not compromise their objectivity and must not be likely to do so.

**Internal audit**

- MAR 8.2.2(3) G
- 7.5 A contributing bank should conduct periodic internal audits of reasonable, random samples of its submissions, the factors and all other evidence documenting the basis for such submissions and communications of the submitters in order to verify the integrity and reliability of the process for determining submissions.
- 7.6 Confirmation that internal audit reviews of the LIBOR submission process have taken place, and a summary of the findings and actions, should be sent to the compliance function, and should be available, on request, to the LIBOR Administrator and the FCA.
- 7.7 The governance group of the contributing bank should be notified of any significant issues which are identified by the internal audit, for decision on the appropriate actions to be taken and whether these issues should be reported to the LIBOR Administrator.

## 8. Auditor reporting

- |                  |     |                                                                                                                                                                                                                                                                                                                                       |
|------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MAR 8.2.12 R     | 8.1 | A contributing bank must appoint an independent auditor to report to the FCA on the bank's compliance with the relevant requirements of the FCA Rules, on a regular basis.                                                                                                                                                            |
|                  | 8.2 | Such a report, which will be commissioned from an external firm, will focus on the contributing bank's systems and control framework for making LIBOR submissions, and its compliance with the contributing bank's obligations under MAR 8.                                                                                           |
| MAR 8.2.13 G (1) | 8.3 | The FCA expects an auditor's report to be issued annually, although the FCA may agree a longer period depending on the contributing bank's particular circumstances, including the nature and scale of its engagement in the specified benchmark and the internal framework for monitoring compliance with the requirements of MAR 8. |
| MAR 8.2.13 G (2) | 8.4 | A contributing bank which proposes to appoint an auditor to report to the FCA on a less frequent than annual basis should notify the FCA explaining why it believes it would be appropriate to do so.                                                                                                                                 |

## 9. Benchmark Administrator responsibilities

9.1 Authorised and regulated by the FCA as a Benchmark Administrator, IBA must comply with the requirements in MAR 8.3 of the FCA's Market Conduct Sourcebook.

9.2 In summary, Benchmark Administrators must:

- Establish and maintain effective organisational and governance arrangements.
- Have regard to the importance of maintaining integrity of the market and the continuity of the benchmark including the need for contractual certainty for contracts which reference the benchmark.
- Operate effective organisational and administrative arrangements to enable it to identify and manage any conflicts of interest.
- Ensure the confidentiality of data.
- Appoint a benchmark administration manager with authority and access to resources and information to have responsibility for oversight of the Administrator's compliance with MAR 8.3.
- Have effective arrangements and procedures for regular monitoring and surveillance of benchmark submissions.
- Monitor submissions in order to identify breaches of the practice standards and conduct that may involve manipulation, or attempted manipulation of the benchmark.
- Carry out statistical analysis of submissions using relevant market data.
- Have a whistle-blowing procedure which allows any person on an anonymous basis to alert the Administrator of conduct that may involve manipulation or attempted manipulation of the benchmark.
- Establish an oversight committee which includes (where applicable) representatives of benchmark submitters, market infrastructure providers, users of the benchmark and at least two independent NEDs of the Administrator.
- Provide to the oversight committee timely updates of suspected breaches of practice standards and attempted manipulation.
- Notify the FCA and provide all relevant information where it suspects a material breach of the practice standards, conduct that may involve manipulation or attempted manipulation of the benchmark or collusion to manipulate or to attempt to manipulate the benchmark.
- Ensure that benchmark is determined using adequate submissions representative of the state of the market and made available by reliable data sources.
- Through the oversight committee, develop practice standards in a published code setting out the responsibilities for benchmark submitters, the Administrator and its oversight committee.
- Through the oversight committee, undertake regular periodic reviews of the practice standards, the setting and definition of the benchmark and (where applicable) the composition of panels of benchmark submitters or other

- persons who make benchmark submissions available.
- Through the oversight committee, undertake periodic reviews of the process of making relevant benchmark submissions and, before making any changes as a result of such review: notify the FCA; publish a draft of the proposed changes and a notice that representations about the proposed changes may be made to the benchmark administrator within a specified time; and have regard to any such representations.
  - Be able to provide to the FCA on a daily basis all submissions used to determine the benchmark.
  - Publish quarterly aggregate statistics outlining the activity in the underlying market relevant to the benchmark.
  - Keep key records for at least five years.
  - Be able to meet its financial liabilities as they fall due and maintain at all times sufficient financial resources to cover the operating costs of administering the benchmark for at least six months.
  - Notify the FCA where it identifies a reasonable possibility of not being able to hold sufficient financial resources to cover the operating costs for nine months.
  - Ensure that relevant users are granted non-discriminatory access to: relevant price and data feeds and information on the composition, methodology and pricing of the benchmark; and licences or other arrangements to a CCP, an MTF or a regulated market to use the benchmark for the purpose of clearing and trading.
  - Grant such access to a CCP, an MTF or regulated market on a fair, reasonable and non-discriminatory basis; and without undue delay, following a written request by the relevant user.
  - Charges a fee (if any) for access to the benchmark at a reasonable commercial price taking into account the price at which access is granted or the intellectual property rights are licensed for the purposes of clearing and trading.

## 10. LIBOR Oversight Committee

- MAR 8.3.8 R            10.1    The FCA requires the appointment of an oversight committee, as follows:
- “A benchmark administrator must establish an oversight committee (which must be a committee of the benchmark administrator) which includes:*
- (1) (where applicable) representatives of benchmark submitters;*
  - (2) market infrastructure providers;*
  - (3) users of the specified benchmark; and*
  - (4) at least two independent non-executive directors of the benchmark administrator approved to carry out the non-executive director function.”*
- 10.2    In accordance with MAR 8.3.8, IBA has appointed the LIBOR Oversight Committee which is a committee of the Board of IBA.
- MAR 8.3.9 G            10.3    The FCA’s requirement in MAR 8.3.9 is that:
- “The oversight committee should be responsible for:*
- (1) considering matters of definition and scope of the specified benchmark;*
  - (2) exercising collective scrutiny of benchmark submissions if and when required; and*
  - (3) notifying the FCA of benchmark submitters that fail on a recurring basis to follow the practice standards (as set out in MAR 8.3.10 (1)) for the specified benchmark.”*
- MAR 8.3.10 R           10.4    MAR 8.3.10 further expands on the FCA’s requirements, as follows:
- “The benchmark administrator through its oversight committee must:*
- (1) develop practice standards in a published code which, for the relevant specified benchmark, set out the responsibilities for:*
    - (a) benchmark submitters and (where applicable) persons who make benchmark submissions available;*
    - (b) the benchmark administrator; and*
    - (c) oversight committee;*
  - (2) undertake regular periodic reviews of:*
    - (a) the practice standards mentioned in MAR 8.3.10R (1);*
    - (b) the setting and definition of the specified benchmark it administers;*

- (c) *where applicable the composition of panels of benchmark submitters or other persons who make benchmark submissions available; and*
  - (d) *the process of making relevant benchmark submissions; and*
- (3) *before making any changes as a result of such review:*
- (a) *notify the FCA;*
  - (b) *after doing so, publish a draft of the proposed changes and a notice that representations about the proposed changes may be made to the benchmark administrator within a specified time; and*
  - (c) *have regard to any such representations.”*

10.5 The full terms of reference of the LIBOR Oversight Committee are published on IBA's website ([www.theice.com/iba](http://www.theice.com/iba)) together with information about IBA's handling of conflicts of interest as well as the processes for election, nomination or removal and replacement of the LIBOR Oversight Committee members.

## SUBMISSION METHODOLOGY

- 1 In order to anchor LIBOR to the greatest extent possible in transactions, IBA has designed a waterfall of submission methodologies to ensure that LIBOR panel banks use funding transactions where available. The waterfall of methodologies is as follows:
  - Level 1: The Volume Weighted Average Price (“VWAP”) of eligible transactions
  - Level 2: Submissions derived from transactions (including adjusted and historical transactions, interpolation and parallel shift), and
  - Level 3: Expert Judgement, appropriately framed.
  
- 2 Submissions should not have regard to trading positions of submitters and reviewers in instruments which reference a LIBOR rate to which the contributing bank makes submissions, nor the broader positions of the submitter or reviewer’s business unit, or, to the extent known, other positions within the contributing bank.
  
- 3 A contributing bank should not exclude eligible transactions from Level 1 or 2 submissions except:
  - Where the bank is aware of a manifest error in the transaction data (see below).
  - If, as set out in clause 5.2 above, there are reasonable grounds to suspect manipulation in relation to one or more transactions on which the bank’s LIBOR submission would be based.
  - In an Exceptional Market Event (see below) If the Administrator has declared an Exceptional Market Event and allows the exclusion of transactional data .
  
- 4 Where a contributing bank becomes aware of a manifest error in the transaction data for a Level 1 or 2 submission, the bank should exclude the transaction(s) and inform the LIBOR Administrator of the exclusion and the reason therefor.

### Level 3 submissions

- 5 The extent to which a proposed Level 3 submission is subject to a detailed review, as opposed to a check or reconciliation for manifest error, before a submission is made, is a matter for the contributing bank to decide, and will be influenced by the timings within its preparation process. Where a detailed review does not take place before submission, such a review should take place promptly following submission.

- 6 Where a full review is carried out before submission, errors requiring correction, or further adjustments considered necessary, are able to be incorporated before making the submission. Where a full review takes place post submission, any errors requiring correction, or further adjustments that should have been made, should be reported to the LIBOR Administrator.
- 7 The review of submissions should challenge any of the data and related commentary, including pointing out errors, inaccuracies, omissions or anything that may appear unusual.
- 8 If the reviewer does not agree that the submitted rate is able to be justified by the factors, adjustments, considerations and explanations given by the submitter, this should be documented and recorded and escalated to the compliance function and to the Benchmark manager (if different from the reviewer) and, if he/she considers it appropriate, the appropriate internal governance group.

#### **Validation processes**

- 9 Once a submission has been made, there should be a mechanism for checking that the rates that were submitted to the LIBOR Administrator (or to its collection agent) agree with those intended to be submitted, in order to identify any IT-related or transcription errors.
- 10 Contributing banks should have arrangements and effective controls in place:
  - to monitor, following a risk based approach, the compliance and completeness of Level 1 and 2 transactional data and ensure that eligible transactions are processed in accordance with IBA's prescribed methodology.
  - for ensuring that the bank's Level 3 methodology is followed correctly.

#### **Errors in submissions**

- 11 There should be a procedure for the immediate carrying out of an impact assessment of any breach of the LIBOR Code or of internal procedures, to calculate the effect on the submission, to be provided to the submitter and to the compliance function.
- 12 Errors should be escalated to the compliance function, who will investigate the exception, informing and involving the Benchmark manager and , the contributing bank's governance group . The LIBOR Administrator must be informed of all errors, subject to any threshold that may be agreed from time to time by IBA with the FCA and the Oversight Committee. The LIBOR Administrator will record all details of reported errors and if a contributing bank makes frequent errors, it will be referred to the LIBOR Administrator's Oversight Committee and the FCA.

- 13 As stated in paragraph 3.10 of the LIBOR Code, late lodgement of submissions will be treated by the LIBOR Administrator as errors. The incidence of errors will be reported to the Oversight Committee, subject to any threshold agreed from time to time by IBA with the FCA and the Oversight Committee.

## 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, 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 11:00 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 11.45 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](http://www.theice.com/IBA).

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