

ICE BENCHMARK ADMINISTRATION

ICE LIBOR ERROR POLICY

Introduction

ICE Benchmark Administration Limited (“IBA”) became the Administrator for ICE LIBOR (“LIBOR”) in February 2014 and has strengthened its integrity through enhanced governance and surveillance. As part of its continuing work, IBA is committed both to minimising the risk of inaccuracies in the publication of ICE LIBOR and to providing transparency to stakeholders about any errors in calculating the rate.

Being a Benchmark Submitter to LIBOR became an FCA-regulated activity in April 2013 and the Contributing Banks have committed significant resources putting in place robust LIBOR processes and internal governance within their organisations.

Banks are continually enhancing their procedures and controls but IBA is realistic in recognising that errors may still occur from time to time. This Policy sets out IBA’s approach to handling errors identified subsequent to the publication of ICE LIBOR rates.

ICE LIBOR has global significance and is referenced by an estimated US\$ 350 trillion of outstanding business in maturities ranging from overnight to more than 30 years. This means that there is a very wide diversity in the interests and priorities of users of ICE LIBOR.

Operational impacts

A number of operational implications arise from an error policy, including the following if IBA issues a corrected rate (a “refix”):

- market participants will be exposed to basis risk if their hedging of a contract referencing ICE LIBOR is valued at the refix rate
- contingent transactions and option exercises may be automatically triggered as a consequence of a refix without either party necessarily anticipating or wanting the resulting transaction, and
- significant time and effort may be expended in amending downstream transactions if the refix values are used.

Considerations

Many considerations are associated with an error policy for ICE LIBOR, including

- promoting and maintaining the integrity and transparency of ICE LIBOR
- achieving an accurate and reliable representation of the underlying interest
- complying with international best practice standards and regulation

- acknowledging the operational impacts on users of ICE LIBOR
- safeguarding contractual integrity, and
- facilitating an orderly market transition by implementing any new policy in a way which minimises disruption for market participants.

Because of these considerations, IBA has put in place the following:

- a threshold for materiality of errors
- a cut-off time for reporting an error to IBA for any refix, and
- transparency for errors discovered after the cut-off time.

Cut-off time for refix

The reasons for errors have included technical issues at panel banks, misallocation by banks of supporting transactions and booking a trade in the wrong currency. Errors are usually discovered during post-submission compliance checks on the day of submission but may not be found until a later occasion.

An error must be reported to IBA by 15.00 London time on the day of the error for a refix to be considered.

Mindful of the operational impacts that a refix is likely to have on users, IBA will, if a refix is under consideration on any day:

- make an announcement at <https://www.theice.com/iba/market-status> by shortly after 15.00 London time that a refix is under consideration, stating the affected currency and tenor, and
- any refixed rates will be published by IBA by no later than 16.00 that day.

IBA has a materiality threshold for a refix of 3 bps of the published LIBOR rate.

Transparency of later or smaller errors

Some errors may be identified after the cut-off time for a refix – possibly weeks or months later – for example, during the course of an audit.

IBA publishes on a quarterly basis the incidence of errors. This includes errors that did not lead to a refix, either because the error came to light after the cut-off time or because the error was smaller than IBA's materiality threshold of 3 bps. The absolute change in published ICE LIBOR is stated but not the direction of change.

The error report can be found at:

https://www.theice.com/publicdocs/ICE_LIBOR_Reported_Errors.pdf

IOSCO Principles

Principle 16 (Complaints Procedures) of IOSCO's Principles for Benchmarks¹ states that Administrators should have a detailed process to follow in the event that a complaint results in a Benchmark determination being changed.

Any determination of ICE LIBOR which is changed following a complaint will be notified in the quarterly publication of errors since it is unlikely that a considered response to a complaint would fall within the time parameters identified above for refixing.

Policy review of thresholds

IBA will review the thresholds periodically to accommodate different rate environments, giving a notice period of at least 3 months unless a change in a shorter timeframe is required as a matter of urgency or is mandated by law or regulation.

Additional comments

IBA confirms that, if a refix is carried out, it will be a re-fixing of the LIBOR rate "as of 11.00 am".

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¹ Available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>