LIBOR - PANEL BANK CRITERIA

1. Introduction

This document sets out the criteria adopted by ICE Benchmark Administration (IBA), following review and assessment by the LIBOR Oversight Committee, to determine who may contribute input data to IBA for the purpose of producing ICE LIBOR (LIBOR).

2. Background

IBA is authorised under the EU Benchmarks Regulation (BMR) which regulates the provision of, contribution to and use of benchmarks. Recital (6) of the BMR sets out its overarching purpose:

“[…] in order to ensure the proper functioning of the internal market and improve the conditions of its functioning, in particular with regard to financial markets, and to ensure a high level of consumer and investor protection, it is appropriate to lay down a regulatory framework for benchmarks at Union level.”

The BMR imposes governance and organisation requirements on benchmark administrators. These 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 input data

With reference to the market or economic reality that the benchmark is intended to measure, LIBOR provides an indication of the average rates at which LIBOR Contributor Banks could obtain wholesale, unsecured funding for set periods in particular currencies.

When the transition to the Waterfall Methodology\(^1\) has been completed, all LIBOR submissions will be determined in accordance with the relevant level of the waterfall:

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\(^1\) See https://www.theice.com/publicdocs/ICE_LIBOR_Methodology.pdf.
- **Level 1:**
  The Volume Weighted Average Price (‘VWAP’) of eligible borrowing transactions.

- **Level 2:**
  Submissions derived from historical transactions adjusted for market movements, and linear interpolation.

- **Level 3:**
  Market based Expert Judgement driven by the Contributor Bank’s own internally approved procedures that are then agreed by IBA.

Transaction data is used where possible. The banks also use Expert Judgement to a greater or lesser extent in their submissions, depending on the availability of reference transactions.

The submissions for each currency and tenor pair are ranked by IBA and then the upper and lower quartiles are excluded to remove outliers. The relevant rate is the arithmetic mean of the remaining submissions, rounded to five decimal places. Each Contributor Bank’s submission carries an equal weight, subject to the trimming.

### 4. Representativeness criteria

The LIBOR Oversight Committee has considered the panel composition criteria that could impact the representativeness of LIBOR currency panels in producing a robust benchmark with input data that reflects the wholesale markets.

It is clear that both qualitative and quantitative criteria are needed to evaluate whether a Contributor Bank would be a good source of input data, including the following as the most important criteria:

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

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

- Credit quality; and
- Reputational standing.

Criteria of lesser importance that may also affect the potential representativeness of a Contributor Bank individually and/or a Contributor panel collectively include:

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

The LIBOR Oversight Committee has also discussed whether usage of, and dependency on, LIBOR should be taken into account when considering the composition of currency panels. Usage may be an indicator of a bank’s potential willingness to be part of a panel and is a reflection of the bank’s appreciation of the need for LIBOR rates to be representative. However, usage of LIBOR should not in itself be a determinant.
5. **Transactional activity overall**

IBA’s Waterfall Methodology is designed to use transaction data where 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 historical transactions adjusted for market movements and linear interpolation.

Submissions must be Level 1 if the bank has sufficient transactions. If a 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 bank has insufficient 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 Contributor Bank’s own internally approved procedures that have been agreed by IBA. There nevertheless 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), 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; or repo.

6. **Bank size**

Balance Sheet size may not always be a gauge of wholesale funding activity or expertise, but LIBOR banks have traditionally been large 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 has determined that setting minimum size thresholds for potential panel banks would be appropriate.

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

IBA proposes to set different minimum sizes for potential panel banks depending on the number of LIBOR currencies for which the bank provides input data to IBA.

Where a bank contributes input data to IBA for a single LIBOR currency, 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 LIBOR currency jurisdiction for which they are submitting. If no size threshold is provided in the jurisdiction, IBA would look to formal designation by the local primary regulator of domestic systemic importance when evaluating whether a bank might be suitable for inclusion in a LIBOR panel.

Where a bank contributes data to more than one LIBOR currency, the minimum size of the bank is expected to be USD 250 billion of assets (or the equivalent in local currency) in accordance with internationally accepted accounting standards such as IFRS or US GAAP, based on the bank’s most recently published earnings report. This captures the largest banking
groups and is in line with how some global regulators have established size thresholds for banks to be deemed internationally active.

7. Geographical reach of panel banks

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

The LIBOR Oversight Committee has an Approved List of Funding Locations based on the major centres in Canada, USA, EU, EFTA, Hong Kong, Singapore, Japan, 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; or
- a bank has requested to use the Funding Location.

Since each bank has its own organisational and geographical profile, IBA agrees the appropriate locations with each bank bilaterally from the Approved List of Funding Locations, being mindful that pricing may be different in some cases. When LIBOR panel banks were regulated as Benchmark Submitters under the UK’s domestic benchmark regime before the BMR applied, a presence in London was a prerequisite. Such presence is now no longer needed.

8. Other criteria

For the continued representativeness of LIBOR, other factors would be taken into consideration, including having consistent access to wholesale markets. In addition, the average credit quality or reputational standing of LIBOR 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.

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