

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, by reference to which each currency panel of banks which contribute input data to IBA for the purpose of producing ICE LIBOR (LIBOR) is composed.

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 - Economic reality and methodology

Economic reality

The ICE LIBOR (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 particular currencies for certain tenors.

Benchmark methodology

LIBOR is currently calculated for five currencies (USD, GBP, EUR, CHF and JPY) and for seven tenors in respect of each currency (Overnight/Spot Next, One Week, One Month, Two Months,

Three Months, Six Months and 12 Months). This results in the publication of 35 individual rates (one for each currency and tenor combination) every applicable London business day.

Each calculation is currently based on input data contributed by a panel of between 11 and 16 panel banks (Contributor Banks) for each of the five LIBOR currencies. Each Contributor Bank contributes input data for all seven LIBOR tenors in every currency in respect of which it is on a panel.

Each currency panel is composed with reference to the LIBOR Contributor 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 Contributor Bank determines its input data contributions pursuant to the ICE 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.

LIBOR is calculated in accordance with the LIBOR Methodology. The published rate in respect of each currency and tenor combination is the arithmetic mean of each Contributor Bank's contributions in respect of that currency and 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. Currency panel composition criteria

The LIBOR Oversight Committee has considered the currency panel composition criteria, by reference to which each currency panel of banks which contribute input data to IBA for the purpose of producing LIBOR is composed, and which are designed so that the contributed input data is able to produce a rate that is representative of the economic reality.

It is clear that both qualitative and quantitative criteria are needed to evaluate whether a Contributor Bank and a currency panel 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 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 (See Section 8); and
- Reputational standing (See Section 8).

Criteria of lesser importance that may also affect the potential representativeness of a Contributor Bank individually and/or a 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, 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

This is considered an important criterion because the LIBOR Output Statement and the associated "Waterfall" Methodology is 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 bank has sufficient eligible 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 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 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), 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 repo.

6. Bank size and expertise

Balance sheet size may not always be a gauge of wholesale funding activity or expertise, but 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 contributor 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.

Different minimum sizes should be considered for potential contributor banks depending on the number of LIBOR currencies for which the bank provides input data to IBA.

Where a Contributor 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 is suitable for inclusion in a LIBOR currency panel.

Where a Contributor 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 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, 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 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 contributor 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

Other factors will also be taken into consideration regarding the continued representativeness of 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 BMR.

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