

To: CurveGlobal Markets Member Firms

Subject: GBP Libor transition plans for CurveGlobal Markets

13 May 2020

Dear CurveGlobal Markets Member Firm,

On 11 December 2019, CurveGlobal Markets (the derivatives segment of London Stock Exchange, also “the Exchange”) [issued a consultation](#) on a series of proposals designed to manage possible amendments to, and/or the cessation of, GBP Libor publication with attendant implications for the settlement of open positions in the CurveGlobal Three month Sterling Futures contract (“Libor Futures”).

The consultation period closed on 28 February 2020 and we would like to thank all respondents for their input. Having considered the responses received, and having worked in close collaboration with LCH Limited (“LCH”), we are setting out in this document our approach for managing the impact of the Libor transition on Libor Futures¹.

1. Responses to consultation and confirmation of CurveGlobal Markets GBP Libor transition plans

Respondents were strongly supportive of the proposed actions CurveGlobal Markets set out in the consultation. Participants further suggested that the Exchange should seek to align its approach with the OTC market as far as possible, a proposal which is consistent with our publicly stated intention. A summary of responses to the consultation can be found in the annex to this document.

We would like to highlight three further points:

- The proposals set out in this document relate only to cessation events corresponding to 3 Month GBP Libor. GBP Libor cessation events that may affect other GBP Libor tenors, should they be different to 3 Month GBP Libor, are not considered relevant to our plans;
- We are providing greater clarity on the dates certain actions will now be taken; and
- In light of developments in the OTC market (detailed later) we are now proposing more definitive action be taken on so-called ‘pre-cessation’ events.

We now set out our approach for managing the 3 Month GBP Libor transition, both on a permanent and pre-cessation basis, in more detail.

(i) Impact of permanent GBP Libor cessation on the Libor Futures contracts

In our consultation, we explained the impact that a permanent GBP Libor cessation event would have on Libor Futures contracts and possible actions we could take to address it.

We stated our expectation that, in the event of a permanent cessation of GBP Libor, an announcement would be made by ICE Benchmark Administration (IBA), the benchmark administrator for Libor, specifying the date from which the publication of GBP Libor would cease. We said we would expect to implement our plans at some point between the IBA announcement on Libor cessation being published and the cessation date specified in the announcement.

We would like to clarify that:

- In order for a permanent cessation event to be relevant it must include 3 Month GBP Libor;
- In addition to IBA issuing an announcement specifying the date from which the publication of 3 Month GBP Libor would cease (which would include an announcement on behalf of IBA), it is possible that a

¹ The Exchange will continue to monitor developments and reserves the right to change its approach in light of prevailing or changing circumstances, included but not limited to a change in regulatory approach.

“relevant authority” with supervisory, insolvency or resolution powers over 3 Month GBP Libor could issue a similar announcement, and in either case this would lead to a “permanent cessation event”;

- If IBA or a relevant authority were to make a permanent cessation announcement relevant to 3 Month GBP Libor, the date on which it did so would be the “permanent cessation announcement date”; and
- If 3 Month GBP Libor were to cease, the first business day 3 Month GBP Libor was permanently unavailable would be the “permanent cessation date”.

We can now confirm that following a permanent cessation event, the following would occur:

- Member Firms would be notified by Market Notice as soon as possible following the permanent cessation announcement date that Libor contingency plans have been triggered;
- For Libor Futures contracts with open interest at the close of business on the business day prior to the permanent cessation date, in collaboration with LCH:
 - o Libor Futures contracts would be converted into the corresponding SONIA Futures contracts, using an appropriate credit spread adjustment upon conversion; and
 - o The credit spread adjustment would be the value calculated and published by Bloomberg Index Services Limited, which has been selected by ISDA for the calculation and publication of fallback related adjustment, and would be applied uniformly across each contract conversion²;
- For Libor contracts with no open interest, the Exchange intends to suspend and delist Libor Futures contracts without open interest beyond the last contract with open interest remaining. We would seek to do this as soon as possible following the permanent cessation announcement date, and ahead of the permanent cessation date.

(ii) Alternative scenarios for Libor discontinuation

In the consultation, we also set out a number of alternative scenarios for Libor discontinuation, including where GBP Libor is declared “unrepresentative” by the FCA (a “pre-cessation announcement”) from a defined date (the “pre-cessation date”). We initially indicated that, in the event of a pre-cessation announcement, CurveGlobal Markets would need to retain discretion to determine whether to implement Libor contingency plans on the pre-cessation date specified by the FCA.

However, having noted the wider developments in the OTC market (in particular, the recent pre-cessation communications issued by LCH³ and ISDA⁴), and considering the request from respondents to align with the OTC market wherever possible, we can now confirm that, in the event of a pre-cessation announcement relevant to 3 Month GBP Libor, we will broadly follow the same process as for a permanent cessation of 3 Month GBP Libor. This would mean that the following would occur:

- Member Firms would be notified by Market Notice as soon as possible following the date of the pre-cessation announcement that Libor contingency plans have been triggered;
- For Libor Futures contracts with open interest at the close of business on the business day prior to the pre-cessation date, in collaboration with LCH:
 - o Libor Futures contracts will be converted into the corresponding SONIA Futures contracts, using an appropriate credit spread adjustment upon conversion; and

² The Exchange will confirm in a subsequent announcement the precise dates to be used for credit spread calculations – see section 2 below.

³ <https://www.lch.com/membership/ltd-membership/ltd-member-updates/summary-feedback-lchs-consultation-regarding-proposed>

⁴ <https://www.isda.org/2020/04/15/isda-announces-preliminary-results-of-consultation-on-pre-cessation-fallbacks-for-libor/>

- The credit spread adjustment would be the value calculated and published by Bloomberg Index Services Limited, and would be applied uniformly across each contract conversion⁵;
- For Libor contracts with no open interest, the Exchange intends to suspend and delist Libor Futures contracts without open interest beyond the last contract with open interest remaining. We would seek to do this as soon as possible following the date of the pre-cessation announcement, and ahead of the pre-cessation date.

We also set out in the consultation a further possible scenario where the GBP Libor assessment methodology was revised in such a way that ensured it remained “representative” and fit for long-term use, including where GBP Libor consequently took on another naming convention. If that were to occur, CurveGlobal Markets would communicate with Member Firms on any further steps which may be necessary.

2. Next steps – amendments to Libor Futures contract specification

The Exchange will update its Libor Futures contract specification in due course to reflect the Libor transition plans contained in this document and Member Firms will be provided with an opportunity to review and comment on any amendments before they are made final.

In light of the desire for CurveGlobal Markets to align with the OTC market as far as possible, it is likely the updated contract specification will be published only after the LCH and ISDA rule amendments and/or approaches have been concluded. This sequencing will allow the Exchange to calibrate any final details as best as possible, including in relation to the precise dates to be used for credit spread calculations.

3. Conclusions

The plans set out in this document will ensure CurveGlobal Markets is able to effectively manage an orderly and effective transition away from GBP Libor to SONIA. We will continue to engage constructively with Member Firms and other key stakeholders, including our regulators, on these plans.

Should Member Firms have questions on any of the material contained in this document, or wish to discuss our approach more generally, please contact your account manager or email products@curveglobalmarkets.com.

Yours faithfully,

Andy Ross,

Head of CurveGlobal Markets

⁵ As in the case of permanent cessation, the Exchange will confirm in a subsequent announcement the precise dates to be used for credit spread calculations – see section 2.

Annex

Below is the list of questions asked as part of the CurveGlobal Markets consultation issued on 11 December 2019, with a summary of the response received.

Question 1: Do you agree with the proposal to delist the Libor Futures Contracts beyond the last contract with open interest remaining?

- Respondents agreed with our proposal.

Question 2: Do you agree that all Libor Futures Contracts before the last contract with open interest remaining should be retained?

- Respondents agreed with our proposal.

Question 3: Subject to an appropriate credit spread adjustment (detailed below), do you support the immediate mandatory conversion of Libor Futures contract to SONIA Futures should our Libor contingency plans need to be implemented?

- Respondents agreed with our proposal.

Question 4: Do you agree with the use of the ISDA credit spread formula to price the conversion of Libor Futures into SONIA Futures?

- Respondents agreed with our proposal.

Question 5: Do you agree with the proposed approach for these alternative scenarios?

- Respondents agreed with our proposal.

Question 6: Are there any other scenarios or further aspects which we should consider?

- Participants reiterated the importance of Exchange aligning its approach with the OTC market as far as possible.