



The FCA and the Bank of England encourage market participants in a switch to RFRs in the LIBOR cross-currency swaps market from 21 September

- i** Following close engagement with authorities across LIBOR jurisdictions and with market participants, the FCA and Bank of England support and encourage liquidity providers in the LIBOR cross-currency swaps market to adopt new quoting conventions for interdealer trading based on risk-free rates (RFRs) instead of LIBOR from 21 September this year. This is to facilitate a further shift in market liquidity toward RFRs, bringing benefits for a wide range of users as they move away from LIBOR.



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A [key milestone](#) recommended by the [Working Group on Sterling Risk-Free Reference Rates](#) (‘the Working Group’) is to cease initiation of new cross-currency derivatives with a LIBOR-linked sterling leg expiring after 2021, during Q2/Q3 2021, other than for risk management of existing positions. The PRA and FCA expect firms to meet the Working Group’s milestones as set out in the recent [‘Dear CEO’ letter](#) sent to regulated firms.

The Dear CEO letter also noted the PRA and FCA’s expectation that firms further the adoption of RFRs in non-sterling LIBOR currencies, including to cease new use of USD LIBOR as soon as practicable and no later than the end of 2021, in line with the supervisory guidance issued by the [US authorities](#).

On 13 July, the US CFTC’s Market Risk Advisory Committee (MRAC) [formally recommended](#) a series of ‘SOFR First’ initiatives in US dollar markets, beginning with interdealer swap markets on 26 July. The MRAC recommendation also includes a subsequent step to replace use of LIBOR with RFRs in cross-currency swaps, identifying a potential date of 21 September.

In order to support markets in building the necessary liquidity to meet these milestones, the FCA and the Bank of England have [encouraged UK market participants to support the US-led ‘SOFR First’ initiative](#) on 26 July and have also been engaged with authorities across LIBOR jurisdictions to build the necessary consensus around the subsequent initiative for cross-currency swaps in September. Support for this has also been expressed publicly by the [US Alternative Reference Rates Committee](#) and [National Working Group on Swiss Franc Reference Rates](#).

In light of the above, the FCA has engaged with UK market participants, including liquidity providers and interdealer brokers (IDBs), to determine support for a change in the quoting conventions of LIBOR cross-currency swaps in the interdealer market on the proposed date of 21 September.

An FCA survey of UK market participants identified strong support for a change in the interdealer quoting convention, which would see RFRs rather than LIBOR become the default price from 21 September 2021.

The FCA and the Bank of England therefore support and encourage all participants in the LIBOR cross-currency swaps market to take the steps necessary to prepare for and implement these changes to market conventions on 21 September and shift liquidity away from LIBOR to RFRs. In the period leading up to 21 September, the FCA and the Bank of England will continue to engage with market participants and relevant international authorities to determine whether market conditions allow the switch to proceed smoothly.

Background & technical notes

This is an extension of the successful similar changes to the interdealer quoting conventions for linear sterling swaps during Q4 2020, and non-linear sterling derivatives in May 2021, and the upcoming [SOFR First initiative](#) on 26 July 2021. Extending this to cross-currency derivatives is intended to increase alignment in RFR markets and help to accelerate a reduction in new LIBOR exposures.

The proposed change will involve IDBs moving the primary basis of their pricing screens and curve construction for cross-currency swaps from LIBOR to RFRs.

Specifically, the quoting conventions in the interdealer market for the GBP, CHF and JPY legs of cross-currency swaps would switch from LIBOR to SONIA, SARON and TONA respectively from 21 September.

Cross-currency swaps with a USD leg would switch from USD LIBOR to SOFR from 21 September when paired with another LIBOR currency i.e. GBP/USD would switch to SONIA/SOFR, CHF/USD to SARON/SOFR and USD/JPY to SOFR/TONA.



If the USD leg is paired with a non-LIBOR currency, or IBOR, then in line with the US authorities' guidance on the timing for ceasing new use of USD LIBOR, the USD leg would switch to SOFR as soon as is practicable from 21 September and no later than the end of 2021.

FCA survey results

Total respondents: 19

Q1. Do you support a 'RFR-First' Convention Switch for the LIBOR cross-currency swaps market? Yes / No.

100% of respondents selected 'Yes' to this question.

Q2. If you answered Q1 with Yes: Do you think a switch on 21 September 2021 would be an appropriate date for the interdealer LIBOR cross-currency swaps market?

95% of respondents who selected 'Yes' to the first question supported the 21 September date. One market participant was supportive for all LIBOR currencies except one. There was also one abstention.

