

# The cessation of synthetic sterling LIBOR



by **Katie Kelly**

*Those market participants who still have contracts referencing three-month sterling LIBOR should ensure that they are prepared for publication of synthetic sterling LIBOR to cease permanently on 28 March 2024.*

At the end of 2021, when panel bank sterling LIBOR ceased publication, the most commonly used sterling (and yen) LIBOR settings (the one, three and six-month settings) were transitioned to a new “synthetic” methodology. This was required because, in the sterling market, there was considered to be a tough legacy<sup>1</sup> problem due to the large number and volume of bonds with maturities beyond the end of 2021 with no or inappropriate fallbacks catering for LIBOR cessation.

A number of steps were taken to address tough legacy contracts, including amending the UK Benchmarks Regulation (UK BMR) to give the FCA new powers to require continued publication of LIBOR by ICE Benchmark Administration (IBA) on a different basis following the FCA determination that panel bank LIBOR was no longer representative of its underlying market, known as “synthetic LIBOR”, as a temporary bridging solution for tough legacy contracts. An additional, helpful step was the passing of the Critical Benchmarks (References and Administrators’ Liability) Act 2021, which addresses associated issues relating to contractual continuity, such that “contractual references to LIBOR should continue to be treated as references to that benchmark where the FCA has directed a change in how LIBOR is calculated, ie synthetic LIBOR.”<sup>2</sup>

Synthetic sterling LIBOR is based upon the ICE Term SONIA

Reference Rates provided by IBA plus the ISDA fixed spread adjustment (published by ISDA) and is available on the same screens and at the same time that panel bank sterling LIBOR was published. Under the UK BMR, UK supervised entities are restricted from using synthetic sterling LIBOR in new transactions and in legacy transactions, unless the FCA grants them permission to do so. The FCA decided in November 2021 to permit use of synthetic sterling LIBOR in all legacy contracts except cleared derivatives.

The UK BMR allows the FCA to compel IBA to publish synthetic LIBOR for up to ten years, with an annual review period. In June 2022, the FCA consulted on winding down one and six-month synthetic sterling LIBOR at the end of March 2023. That consultation also asked for views on when the three-month synthetic sterling LIBOR setting could cease in an orderly fashion. Based on the feedback, in September 2022,<sup>3</sup> the FCA decided to require continued publication of the one and six-month synthetic sterling LIBOR settings until 31 March 2023. And based on feedback with respect to when the three-month synthetic sterling LIBOR setting could cease, the FCA stated in November 2022<sup>4</sup> that it intends to continue to require IBA to publish the three-month synthetic sterling LIBOR setting until 28 March 2024, after which it will cease permanently.

Some remaining legacy sterling LIBOR bond contracts which have not been actively transitioned to robust alternative rates are likely to fall back to a fixed rate after synthetic sterling LIBOR ends on 28 March 2024 (being the actual date on which it ends, taking account of holidays), in particular those issued before 1 January 2018 and which are likely to

1. Defined by the [Financial Stability Board](#) as “contracts that have no or inappropriate fallbacks, and [which] cannot realistically be renegotiated or amended”.

2. [Critical Benchmarks \(References and Administrators’ Liability\) Act](#) ([parliament.uk](#)).

3. [FCA announces decision on cessation of one and six-month synthetic sterling LIBOR at end-March 2023](#).

4. FCA: [Further consultation and announcements on the wind-down of LIBOR](#).

contain Type 1 fallbacks (1 January 2018 being a proxy date for when Type 2 fallbacks began to be introduced in bond documentation).<sup>5</sup>

For this reason, the authorities have been clear that, although good progress has been made on sterling LIBOR transition, firms should continue to actively transition any remaining legacy sterling LIBOR contracts to robust alternative rates such as SONIA, rather than relying on synthetic sterling LIBOR. Further, the Bank of England's PRA and the FCA said they would continue to monitor transition progress of supervised firms, including through regular data collection.<sup>6</sup> Those market participants who still have contracts referencing three-month sterling LIBOR should ensure that they are prepared for publication to cease permanently on 28 March 2024.



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5. [Fallbacks-for-LIBOR-floating-rate-notes-Q32019.pdf \(icmagroup.org\)](#)

6. [FCA: The USD LIBOR panel ceases at end-June 2023: Are you ready?](#)