

Interim LIBOR Oversight Committee (“ILOC”)

Minutes of the meeting held 1200 – 1400 UK, 22nd May 2013, at the offices of the British Bankers’ Association, Pinner’s Hall, 105-108 Old Broad Street, EC2N 1EX.

In Attendance:

Andrew I Gray (on phone)
David Clark
Guy Sears
Joanna Perkins
Jonathan Boyd

Kieran Smyth
Mark Ibbotson (on phone)
Michael Davie (on phone)
Richard Metcalfe
Sally Scutt (Chair for meeting)

Paul Fisher (Observer)

Annabel Murday (Secretariat)
Kalli Tsangaris (Secretariat)

1. Introductions

In order to constitute the ILOC, BBALL had invited individuals from each constituency identified as being important either as users, exchanges, authorities or contributors to LIBOR.

The importance of keeping sensitive matters discussed at the ILOC confidential versus the benefits of public transparency was discussed. The committee would agree how and when information should be published as recommended in the Wheatley review and in the FCA handbook.

2. Composition of Interim ILOC:

Observer vs. Member Status and Central Bank representation

BBALL had invited each of the Central Banks for the continuing LIBOR currencies to attend the ILOC and noted the following points:

- Working Group of the BIS Economic Consultative Committee (ECC) chaired by the Assistant Governor of the Bank of Japan, had stated that “both the private and public sector face an immediate need to ensure that reference rates are reliable and robust, and adequately governed and administered to appropriately guard against market abuse or systematic errors.... the official sector has a role to play in developing commonly agreed principles and the strengthening of governance frameworks”.

- Money market activity underpinning LIBOR rates is low, and reducing: LIBOR rates are frequently formulated based on the “expert judgement” of submitters as allowed for under the rules.
- The potential consequences of ceasing to publish daily rates, due to the volume of legacy contracts which reference these rates, and the lack of contingency embedded in the system in the case that LIBOR rates are unavailable. The support of the authorities would add an important perspective to the ILOC.

Regulators cannot regulate themselves. Central Bank invitees would therefore attend as Observers, and would not approve any items or vote on any matters.

The Bank of England representative noted that he was attending as an Observer and reminded members that he is also a member of the Hogg Tendering Committee for LIBOR.

It was agreed that Observer Status would be acceptable, encouraged, and offered to all the Central Banks, and that the minutes would note Central Banks attendance in this capacity.

Representation of LIBOR Submitting Banks

LIBOR Submitting Banks had not been invited to this initial Oversight Committee meeting.

BBALL had put forward a proposal to invite a small number of Submitting Banks to join the committee to form a minority of Committee members, in line with the recommendation from the Wheatley Review.

The initial membership should remain throughout the transition to the new administrator.

In selecting the ILOC membership, BBALL should take into account the value added by the participants in previous work done by those banks, as well as the seniority of individuals, market knowledge and their willingness to participate.

The Terms of Reference would make it clear that members of the committee would not represent the interests of the institutions by whom they are employed, but instead, would be expected to act in the public interest and in the interest of managing a systemically important benchmark, putting commercial interests aside. An overriding principle should be that the Committee should be populated with knowledgeable people who could provide informed debate and improve credibility and trust in LIBOR.

BBALL advised that the LIBOR Panel Banks and Users Group is an operational forum where operational matters are discussed with all the LIBOR submitting Banks. This group would continue to meet to consider operational matters, would not have any governance role and would be encouraged to escalate issues to the ILOC where appropriate.

Committee members could call on expert non-members, where specific topics require expert knowledge for additional information or to debate particular issues at future meetings as required.

BBALL will invite selected representatives from the LIBOR Submitting Banks to join the ILOC. These Banks would form a minority of committee members.

3. Agree Chair.

As the ILOC is required to challenge and oversee the administrator, it would not be appropriate for BBALL to chair future meetings. Members noted the level of interest in benchmarks and various global consultations and investigations. It was agreed that the interim Chairman would not have any external role or be entitled to make any public comment on behalf of the committee and that all press calls should be referred to BBALL as the interim Benchmark Administrator.

Until the new administrator is appointed, it was agreed that each meeting would be chaired by members of the committee on a revolving basis. It was noted that the new administrator would be expected to nominate an individual to take over the role.

It was agreed that a revolving chair for the ILOC would operate.

4. Review Terms of Reference for ILOC.

Draft Terms of Reference had been circulated with the agenda. Suggested revisions to the initial draft were circulated and discussed.

Discussion focused on:

- the role and powers of the committee
- interpretation of the FCA rules
- responsibilities of the regulated entity versus the responsibilities of the committee

BBALL agreed to circulate a further draft.

Consultation and consideration of the impact on markets and financial contracts of any proposed changes would be important as large nominal values of outstanding contracts rely on the continuation of daily LIBOR rates and there is an imperative to continue to publish LIBOR in its current format as a public good. An important distinction should be drawn between rate definition, which is systemically important and should not be changed lightly or regularly and submission methodology, which could be redefined.

An independent review of the LIBOR administrator would be undertaken before the end of 2013 and the ILOC will receive the findings.

It was agreed that it would not be appropriate for any radical changes to be proposed during the Interim administration period.

5. Conflicts of Interest & Confidentiality.

Members were asked to forward signed copies of the confidentiality agreements which had been circulated. Several members and their alternates had already been in touch regarding conflicts. BBALL would check back with members before publishing these externally.

It was agreed that attendees would keep commercially sensitive matters discussed at ILOC confidential.

6. Update on LIBOR changes:

On 31st May BBALL will publish the last CAD and AUD LIBORs, and eight LIBOR tenors (2 week, 4,5,7,8,9,10 and 11 months) will also be discontinued. From 1st July the publication of individual bank submissions will be embargoed for 3 months.

BBALL intention (subject to FCA and ILOC approval) is to cease SD EUR LIBORs from 1st August.

Members had no objections.

7. Code of Conduct for Contributing Banks.

The Code of Conduct had been discussed with the Contributing / Submitting Banks (SB), and the FCA and the views of the ILOC on the final draft were now sought.

The ILOC agreed to keep the Code of Conduct under review and update it from time to time. A list of items for version 2 of the code was already in place for further attention. It was requested that "procedures for handling persistent errors" should be added to the list.

Code of Conduct for Contributing Banks was agreed by members

8. Proposed Surveillance and Scrutiny approach.

9. Initial Draft LIBOR Benchmark Dashboard.

There was limited time for discussion of these items, which were carried forward.

10. Any Other Business

There being no other business the meeting closed at 2.10pm

All correspondence of comments on these minutes etc should be sent to libor@bballibor.com