

05 May 2023

## Circular on the Benchmarks Regulation ('BMR') – Transition from USD LIBOR to Risk-Free Rates

This circular is being addressed to market participants, particularly those falling within the scope of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 08 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (hereinafter referred to as 'BMR'/the 'Regulation'), *inter alia* administrators of benchmarks, contributors of benchmarks and users of benchmarks.

This circular should be read in conjunction with the Regulation and circulars previously issued by the Authority, particularly those of [25 March 2021](#) and [16 November 2021](#), which circulars brought to the attention of market participants the cessation of the London InterBank Offered Rate ('LIBOR') and the resulting transition to risk-free rates ('RFRs').

### 1.0 Background

As communicated in previously issued circulars, in July 2017, the Financial Conduct Authority ('FCA') had made public its plans to ensure that LIBOR was maintained until the end of 2021, and that it did not intend to use its provisions at Law to prolong LIBOR's publication beyond that point. By setting the date beyond which LIBOR would no longer be published as at end of 2021, the FCA gave sufficient time for a complex transition involving market participants across different markets and jurisdictions to be undertaken.

On 05 March 2021, the FCA had further announced that:

- All CHF and EUR LIBOR settings, the 1 Week and 2 Months USD LIBOR settings, and the Overnight/Spot Next, 1 Week, 2 Months and 12 Months GBP and JPY LIBOR settings would cease immediately after 31 December 2021; and
- The Overnight, and 12-Months US dollar LIBOR settings will cease immediately after 30 June 2023.

### 2.0 Way Forward

Following the successful cessation of all the CHF, EUR, JPY LIBOR settings and some USD LIBOR settings, market participants across the globe widely adopted risk-free rates, hence allowing for a smooth transition away from LIBOR. Nevertheless, the transition from LIBOR

to risk-free rates can only be considered as finalised once the USD LIBOR panel ceases on 30 June 2023.

By way of the Authority's circular dated [13 September 2022](#), market participants were requested to provide data vis-à-vis their exposures to critical and significant benchmarks, including any LIBOR settings. Through the latest data collected as at 31 August 2022, the MFSA noted that several market participants had significant exposure to USD LIBOR.

In view of the fact that USD LIBOR settings are expected to cease being published in less than 60 days, the MFSA expects that by now market participants should have already determined the specific actions which need to be undertaken to mitigate the risks to safety and soundness arising from their exposures to USD LIBOR, whilst ensuring that for contracts and financial instruments maturing beyond 30 June 2023 the necessary fallback provisions have been implemented to ensure a smooth transition to risk-free rates.

In this respect, the MFSA urges market participants to:

- Actively transition USD LIBOR contracts to risk-free rates, ahead of the expected cessation as at 30 June 2023.
- Ensure that entities are ready for the implementation of USD LIBOR fallbacks.
- Ensure that contracts and financial instruments referencing USD LIBOR transition to the most robust risk-free rates.

**In view of the above, it is critical that market participants carefully consider and reflect on the points raised in this circular (and previously issued circulars relating to LIBOR) in order to take any actions, as may be deemed appropriate.**

**The global transition from LIBOR to risk-free rates has been a significant industry effort, also involving market participants within the Maltese jurisdiction. As the final cessation of USD LIBOR settings approaches, the continued focus of market participants in taking proactive steps to ensure a smooth transition from USD LIBOR to risk-free rates is increasingly important.**

## Contacts

Should you have any queries relating to the above, kindly contact the Authority on [benchmarks@mfsa.mt](mailto:benchmarks@mfsa.mt).

We thank you in advance for your cooperation.