

FCA's February 2020 "Sector Views" reinforces need to act on LIBOR

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In the long term, the move from LIBOR to alternative risk-free rates (RFRs) should increase market integrity. However, the FCA repeatedly warns that, due to the volume of legacy LIBOR contracts (as at the end of August 2019, there was approximately £12.5 trillion of outstanding notional in cleared sterling LIBOR derivatives maturing beyond the end of 2021), and the fact that LIBOR is still being used in the wholesale derivatives markets for certain new contracts, there remains a short-term risk of a disorderly transition from LIBOR, which could cause significant harm to the orderly functioning of markets.

The FCA stresses that it is working with market participants to reduce such transition risks. Ultimately, however, action must be taken by market participants themselves, in relation to the transition of their legacy LIBOR contracts. As the Bank of England and the FCA stated in their press releases on 16 January, "**the time to act is now**".

Such action must be well thought out, planned and comprehensive, as the FCA will be monitoring for conduct risk during the transition, and watching that firms treat customers fairly.

Dentons has been highly active in preparing and planning for LIBOR transition. Luke Whitmore, **Derivatives Partner, London, commented:** "LIBOR transition is a major project for financial institutions. The challenges of first identifying and collecting the impacted documentation should not be underestimated and, once the documentation is available, depending on the volume of impacted contracts for an individual organisation, applying a consistent analysis and clear communication message to clients is key. At Dentons we have significant experience in such remediation and amendment projects, and can bring this expertise to bear to ease the burden of your LIBOR transition project. We can help you adopt an appropriate set of strategies for the amendment of relevant agreements and can help you constructively engage with your affected clients. While the time to act is now, you don't need to act alone – Dentons has a tool available to help you through the LIBOR transition."

Dentons has developed a modular-styled solution covering all work phases that financial institutions will need to progress through in their LIBOR transition projects. Through a combination of AI technology, workflow tools, manual resourcing and subject-matter expertise in data extraction, legal analysis and document negotiation, Dentons' solution can assist clients in updating their legacy LIBOR contracts in a timely and efficient manner, complying with obligations to treat customers fairly, without disrupting ongoing business lines.

For more information, including to see a demo of Dentons' solution, please contact Luke Whitmore, Laura Bates, Matthew Sapte, Catriona Lloyd or Paul Holland, or please refer to our LIBOR webpage.

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