On February 27, the UK’s Financial Conduct Authority (FCA) published a “Dear CEO” letter regarding the London Interbank Offered Rate (LIBOR) (the Letter). In the Letter, Head of Asset Management Supervision at the FCA, Nick Miller, noted that “LIBOR will cease after December 2021” and that asset managers must “prepare now for the end of LIBOR.”

This is the latest in a series of statements from the FCA and the other UK financial regulators urging firms to transition from LIBOR to overnight risk-free rates (RFRs), including a “Dear CEO” letter in February 2019 (for more information, please see the March 1, 2019 edition of Corporate & Financial Weekly Digest) and a suite of documents published in January by the Working Group on Sterling Risk-Free Reference Rates (RFRWG, available here).

In the Letter, Mr. Miller reiterated the FCA’s position that “LIBOR ending is a market event and the transition to alternatives is market-led...Firms should not expect or base their transition plans on future regulatory relief or guidance or on legislative solutions.”

He also explained, specifically, the role that the FCA expects asset managers to play, both as investors in instruments and funds that reference LIBOR and as
operators of such funds. The FCA expects asset managers to engage with their third-party providers to develop and offer new products that reference RFRs and to convert existing products to these alternative rates. Firms must ensure that clients are treated fairly through the transition and are not exposed to “unpredictable or unreasonable costs, losses or risks.”

In particular, Mr. Miller noted the product governance implications of the LIBOR transition to RFRs. The potential pricing difference between LIBOR and the alternative RFR could alter the original target market assessment for a fund or its underlying instruments. Any change to the target market assessment could have repercussions for an investment product’s distribution strategy, the investment advice given to a client and applicable suitability assessment(s), which should be revised accordingly.

The other sections of the Letter focused on the governance tasks presented by this transition. For example, the FCA expects firms to develop a transition plan, with oversight from the Board, which incorporates all relevant priorities and milestones and is monitored throughout its execution.

Finally, Mr. Miller referenced a LIBOR Q&A, which sets out the FCA’s expectations regarding the LIBOR transition and the Senior Managers and Certification Regime (SM&CR). As a first step, firms must identify the senior manager who is responsible for the LIBOR transition and ensure that the Statement of Responsibility and Responsibility Map (if applicable) are updated. For more information on SM&CR, please see the December 20, 2019 edition of Corporate & Financial Weekly Digest.

The Letter is available here and the FCA’s LIBOR Q&A is available here.

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