Financial benchmarks: Council adopts new rules addressing LIBOR cessation

The Council today adopted amendments to the so-called Benchmark Regulation addressing the termination of financial benchmarks.

The amendments have been made against the background of an expected phasing-out of the London Inter-Bank Offered Rate (LIBOR) by the end of 2021. The aim of the new rules is to reduce legal uncertainty and avoid risks to financial stability by making sure that a statutory replacement rate can be put in place by the time a systemically important benchmark is no longer in use.

Under the new framework, the Commission will have the power to replace so-called ‘critical benchmarks’, which could affect the stability of financial markets in the EU, and other relevant benchmarks, if their termination would result in a significant disruption in the functioning of financial markets in the EU. The Commission will also be able to replace third-country benchmarks if their cessation would result in a significant disruption in the functioning of financial markets or pose a systemic risk for the financial system in the EU.

The new rules also cover the replacement of a benchmark designated as critical in one member state, through national legislation.

In addition, the amendments to the Benchmark Regulation extend the transition period for the use of third-country benchmarks until the new rules governing the use of such benchmarks are applied.

EU supervised entities will be able to use third-country benchmarks until the end of 2023. The Commission may further extend this period until the end of 2025 in a delegated act to be adopted by 15 June 2023, if it provides evidence that this is necessary in a report to be presented by that time.

Next steps

The text of the regulation adopted today will be signed on 10 February and is expected to be published in the Official Journal on 12 February. It will enter into force and apply from the following day.