**IFoA: Proposed working party on the Implications of LIBOR reform**

**Draft Terms of Reference – July 2018**

**Background**

In July 2017 Andrew Bailey (Chief Executive of the FCA) made a speech indicating that GBP LIBOR might no longer exist after 2021. The regulator appears to have a strong desire to move derivative usage away from GBP LIBOR to SONIA (Sterling Overnight Index Average)

With over $30 trillion of assets linked to GBP GBP LIBOR, there is a significant need to:

* ensure that market participants can make informed risk management decisions about what portfolio management actions to take
* resolve how any remaining LIBOR-based derivative contracts will be defined if and when GBP LIBOR ceases to exist.

The removal of GBP LIBOR could have a significant impact on a number of areas where actuaries are involved, including:

* Insurance (where the discount rate for liabilities is based on a LIBOR swap rate)
* Pensions (where the use of LIBOR swaps to hedge interest rate and inflation sensitivity is common)
* Investments (where the impact on floating rate instruments linked to LIBOR will be significant)
* Risk (where the removal of GBP LIBOR will potentially create significant issues for hedging and liquidity, amongst other risks)

**Objectives**

Main objective:

* To be a source of knowledge and expertise within the Institute and Faculty of Actuaries (IFoA) on matters relating to LIBOR reform.

Other objectives:

* The working party will review the implications of the transition from LIBOR to SONIA on the key disciplines in which actuaries are involved. The working party will focus on GBP Libor but will include the proposals and implications for other currencies
* The working party will consider the impact of the transition proposals and fall-back mechanism, as well as and the potential need for suitable changes to technical standards
* The working party will report findings to the appropriate IFoA committees who may use this information to support discussions with regulators and other government bodies
* The working party will make findings available to the wider actuarial community via presentations at IFoA events and articles in the Actuary Magazine.

**Membership**

The working party would ideally incorporate cross-discipline membership, including insurance, pensions and investment, as well as risk.

**Governance**

Chair: Simon Richards

Deputy Chair: Hetal Patel

IFoA shadow: Crevan Begley