

<b>Title:</b> Wheatley Review of LIBOR: Implementation <b>IA No:</b> <b>Lead department or agency:</b> HM Treasury <b>Other departments or agencies:</b> Financial Services Authority	<b>Impact Assessment (IA)</b>	
	<b>Date:</b> 05/10/2012	
	<b>Stage:</b> Final	
	<b>Source of intervention:</b> Domestic	
	<b>Type of measure:</b> Primary legislation	
<b>Contact for enquiries:</b> Dylan Schumacher or Matt Fisher, Wheatley Review Implementation Team, HM Treasury		
<b>Summary: Intervention and Options</b>		<b>RPC Opinion:</b> RPC Opinion Status

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£-95.75m	£-92.31m	£10.72m	No   NA
<b>What is the problem under consideration? Why is government intervention necessary?</b> Since 2009, the Financial Services Authority (FSA) and regulators in several jurisdictions have been investigating a number of institutions for alleged manipulation of LIBOR. In response, the Government commissioned an independent review of LIBOR led by Martin Wheatley, Managing Director FSA and CEO-designate FCA. A conclusion of the Review was that self-regulation of LIBOR has failed. In particular, it consisted of insufficient incentives and procedures to ensure that the benchmark was beyond reproach.			

<b>What are the policy objectives and the intended effects?</b> LIBOR reform is a priority issue for the Government and is vital in order to secure continuing market confidence and financial stability, which in turn is good for UK financial services and consumers. Recent revelations in relation to LIBOR have shattered confidence in one of the most important benchmarks in the world of finance and tarnished the image of the City. The policy objective of the suggested policy proposals is therefore to fully restore credibility in LIBOR as one of the most widely used and systemically important financial benchmarks (referenced in at least \$300tn worth of contracts globally).
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<b>What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)</b> Option (1): 'Do nothing'. The Wheatley Review concluded that the self-regulation model for LIBOR had failed, and that the systems and controls around LIBOR need comprehensive reform if LIBOR is to continue as an important financial benchmark. Further, given the large stock of outstanding transactions that reference LIBOR and the lack of viable alternative benchmarks, the wholesale replacement of LIBOR does not appear to be feasible. Therefore the 'do nothing' option is unlikely to be an attractive option. Option (2): Implement the Wheatley Review recommendations. These recommendations propose strengthening the existing governance and setting framework for LIBOR. In particular, the Review recommended that the best way to do this would be to: i) make LIBOR submission and administration regulated activities under FSMA; ii) introduce criminal sanctions in relation to attempted manipulation of LIBOR, and iii) provide the FSA with rule-making power in relation to LIBOR.
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<b>Will the policy be reviewed?</b> It will not be reviewed. If applicable, set review date: Month/Year					
Does implementation go beyond minimum EU requirements?				N/A	
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A	Non-traded: N/A	

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.*

Signed by the responsible Minister:



Date:

6/10/12

## Summary: Analysis & Evidence

## Policy Option 1

**Description:** Amending the Financial Services and Markets Act (FSMA) and relevant statutory instruments to make contributing to, and administration of, LIBOR regulated activities and attempted manipulation of benchmarks a criminal offence.

### FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -95.75

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	1	Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£39.8m		£6.5m	£95.75m

#### Description and scale of key monetised costs by 'main affected groups'

The main affected groups are contributing banks, the LIBOR administrator and the regulator (the FSA/FCA). The majority of the costs fall on contributing banks - through staff and IT costs for compliance with regulation - amounting to around £38m of transitional costs, and £5.8m a year ongoing. Some costs will be borne by the administrator of LIBOR - in particular £1.6m of transitional costs and £0.3m a year of ongoing costs. The costs to the regulator are estimated at around £0.4m per year

#### Other key non-monetised costs by 'main affected groups'

None.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	N/A		N/A	N/A

#### Description and scale of key monetised benefits by 'main affected groups'

None.

#### Other key non-monetised benefits by 'main affected groups'

LIBOR is used in contracts worth over \$300tn. Implementation of the Wheatley Review recommendations should result in a LIBOR framework that is significantly less vulnerable to attempted manipulation and subject to much stronger governance and regulatory oversight. As a consequence it would avoid disorderly breakdown, LIBOR will have substantially more credibility and integrity among authorities, market participants and the public, and can therefore continue to serve as an important financial benchmark.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Costs are based on estimates of IT and staff costs, which in turn are based on a Hudson Banking & Financial Services Salary Guide 2012, Hudson Legal Salary Survey 2011, Russell Reynolds Chairmen and Non-Executive Director Survey 2011, and FSA staff and IT cost estimates. Costs for contributing banks are intended to be estimates for a typical panel bank, but may vary depending on the current state of bank systems and the number of LIBOR panels that banks contribute to.

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £10.7m	Benefits: N/A	Net: N/A	No	NA

## Evidence Base (for summary sheets)

### Problem under consideration

1. Since 2009, the Financial Services Authority (FSA) and regulators in several jurisdictions have been investigating a number of institutions for alleged manipulation of LIBOR. As of 2 October 2012, the investigation by the FSA into one institution (Barclays) has been completed, which resulted in a record fine of £59.5m, which included a 30% discount for agreeing to settle at an early stage. Barclays were separately fined \$360m by the US authorities for activities in relation to LIBOR and EURIBOR. There are a number of other ongoing investigations.
2. In response to these allegations and investigations, the Chancellor of the Exchequer commissioned an independent review of LIBOR by Martin Wheatley, Managing Director of the FSA and CEO-designate of the new Financial Conduct Authority. A conclusion of the Wheatley Review was that self-regulation of LIBOR has failed. In particular, it consisted of insufficient incentives and procedures to ensure that the benchmark was beyond reproach.

### Rationale for intervention

3. Recent revelations in relation to LIBOR have shattered confidence in one of the most important benchmarks in the world of finance and tarnished the image of the City. Further, LIBOR is a widely-used benchmark (referenced in at least \$300tn worth of contracts globally) and systemically important. Therefore LIBOR reform is a priority issue for the Government and is vital in order to secure continuing market confidence and financial stability, which in turn is good for UK financial services and consumers.
4. Given the allegations and ongoing investigations, and an analysis of the existing LIBOR system, a conclusion of the Wheatley Review was that self-regulation of LIBOR has failed, and therefore that there is a case for government intervention.

### Policy Objective

5. LIBOR reform is a priority issue for the Government and is vital in order to secure continuing market confidence and financial stability. The policy objective of the suggested policy proposals is therefore to fully restore credibility in LIBOR as one of the most widely used and systemically important financial benchmarks.

### Description of options considered

6. The Wheatley Review considered a number of options in relation to reforming and regulating LIBOR, which are outlined below.

#### (1) 'Do nothing' option

7. The 'do nothing' option would leave LIBOR as a self-regulated benchmark that has lost some credibility with markets and the public.

8. The Wheatley Review concluded that the self-regulation model for LIBOR had failed, and that given the large stock of outstanding transactions that reference LIBOR and the lack of viable alternative benchmarks, the wholesale replacement of LIBOR is not feasible.

9. While the status quo is an option, it is unlikely to be a viable alternative if LIBOR is to continue as an important financial benchmark. The 'do nothing' option could be costly in several dimensions. First, contributing banks have made it clear that they are likely to consider leaving the process if LIBOR remains self-regulated, which would create a risk of a disorderly breakdown of this important financial benchmark. Second, the reputations of the financial sector and UK financial services have been damaged, and the 'do nothing' option would not restore it. Further, there are large benefits to the financial markets and the wider public from having credible financial benchmarks, which would not be realised if this option is followed.

## **(2) Implement the recommendations of the Wheatley Review**

10. The recommendations of the Wheatley Review propose that a number of market participants and regulatory bodies take action to strengthen the governance and setting of LIBOR. There are a number of proposals that would result in additional costs to market participants and regulatory authorities, however they would also have the benefit of restoring confidence and credibility to LIBOR, which would have substantial, albeit unquantifiable, benefits – both monetary and non-monetary. These reforms fall into three broad areas: (a) expanding the regulatory perimeter, (b) criminal sanctions for attempted LIBOR manipulation, and (c) a power of compulsion.

### **Expanding the regulatory perimeter**

11. At present neither submitting to, nor administering LIBOR, is a regulated activity under the Financial Services and Markets Act (FSMA). As a consequence, while the FSA is currently taking regulatory action in relation to attempted manipulation of LIBOR, this is proceeding on the basis of the connection between LIBOR submitting and other regulated activities, and there is no directly applicable, specific regulatory regime covering LIBOR-related activities. This affects the FSA's ability to supervise and take enforcement action in relation to these activities, even when carried out by firms that are regulated in respect of general business activities.

12. Making LIBOR-related activities 'regulated activities' will enhance the ability of the FSA to:
- write and implement rules in relation to the LIBOR process, which will set out the systems and controls that firms must have in relation to LIBOR;
  - supervise the conduct of firms and individuals involved in the process, including regular reviews of performance as well as the relevant systems and controls; and,
  - take regulatory action for misconduct.

13. It will result in a clear, robust regulatory regime, including the existence of sanctions, which will both act as an incentive for appropriate conduct and enable regulatory authorities to take action in relation to misconduct.

14. Although the scope of regulation is set out in secondary legislation, amendments to both the Financial Services and Markets Act and secondary legislation are needed to enable benchmark-related activities to be brought within regulation.

*LIBOR submission as regulated activity*

15. On the basis of analysis and consultation responses, the Wheatley Review concluded that, given the risk of misconduct in the contribution of submissions to LIBOR, there is a strong case for making submitting to LIBOR a regulated activity.

*LIBOR administration as regulated activity*

16. The LIBOR administrator has an integral role in the production of LIBOR. In particular, the administrator is likely to be best-placed to identify any potential manipulation, carry out preliminary enquiries and advise the regulator of any concerns. Failure, therefore, to regulate the administrator could create a gap in the regulatory regime, while such regulation would allow the regulator to ensure that the administrator maintains proper systems and controls for identifying and investigating suspicious behaviour and reporting these to the regulator. The Wheatley Review therefore concluded that LIBOR administration should be a regulated activity.

**Criminal sanctions for LIBOR manipulation**

17. The Wheatley Review concluded that, in light of the high value of the contracts that reference LIBOR, and the financial benefits that might possibly be obtained from manipulating LIBOR, some individuals may nonetheless be motivated to deliberately and dishonestly attempt to manipulate LIBOR, either directly, or through collusion with others. Such behaviour could be for direct or indirect advantage – for example, the benefiting of certain trading positions – and the perpetrators of such behaviour are likely to be conscious of the dishonesty of their conduct. Civil sanctions under either the existing regulatory code of conduct or civil market abuse regime may therefore be insufficient to deter or prevent such behaviour in all cases.

18. The Review also took the view that the FSA, as the primary financial regulator, should have the powers to investigate and take regulatory action with regard to conduct in financial markets and the financial services sector. Therefore, the Review considered it appropriate that the FSA is able to use its statutory powers of investigation and sanction for misconduct in relation to LIBOR.

19. Further, it could be argued that attempts to manipulate LIBOR constitute sufficiently serious conduct to merit its inclusion as a criminal offence.

*EU regulation on Market Abuse (MAR, MIFID, CS-MAD)*

20. There already exists a well-developed civil market abuse regime in the UK, which stems largely from the EU Market Abuse Directive 2003. However, the EU and UK market abuse regimes were designed to capture market abuse in relation to financial instruments, and were not constructed with

activities such as benchmark manipulation in mind; so are unlikely to capture LIBOR-related misconduct directly. While the Wheatley Review did not recommend any immediate changes to the UK market abuse regime, it pointed to a number of forthcoming developments in the EU that would have an impact on the UK market abuse regime. Specifically:

- a new Market Abuse Regulation (MAR) is currently being developed, harmonising EU law on market abuse. MAR will apply to all EU countries, and is likely to come into force two years after it is adopted, replacing the existing Market Abuse Directive 2003;
- a new Markets in Financial Instruments Regulation (MiFIR), which for the first time brings benchmarks into the scope of regulation to ensure fair and non-discriminatory access to them and, in doing so, provides an essential underpinning to the market abuse regime; and
- a Directive requiring the establishment of criminal offences for the most serious cases of market abuse (CS-MAD), to which a Justice and Home Affairs “opt-in” applies for the UK and Ireland. The UK may decide to adopt this Directive by opting in to it in due course, providing the standards are sufficiently robust and do not entail a reduction in protections against market abuse. The Government has indicated that it will consider its position once negotiations on MAR and MIFID have concluded.

21. Although no changes to domestic market abuse legislation are suggested at this point, the Government will need to give due consideration to whether and how it incorporates these EU developments into domestic legislation in due course, in order to address concerns around manipulation of benchmarks such as LIBOR.

### **Power of compulsion**

22. At this stage, it is not considered necessary to compel banks to be members of LIBOR panels. However, if submitting banks were to explore leaving panels, compulsion might be necessary in order to prevent a disorderly breakdown of the benchmark and wider financial market disruption and contract frustration. Whilst the FSA currently has the powers to impose such an obligation on a temporary basis on market stability grounds, existing powers would not allow a long term continuing obligation to be imposed. By providing the FSA with an express power to compel LIBOR submissions, the Government can fill a gap in the regulatory toolkit, and address the potential threat to market stability

23. While it is not currently intended to use such a power to increase the number of banks on the LIBOR panels, it could in theory be used in such a way, and this would have corresponding effects on the aggregate cost estimates included here.

24. Therefore, in order to ensure market stability and enhanced input into LIBOR submissions, an express power of compulsion would be created for the FSA to obligation panel banks to submit to LIBOR. This power would only be used by the regulator if absolutely necessary, and consideration will be given to any necessary safeguards to ensure that this does not impose an undue burden on contributing banks.

## Monetised and non-monetised costs and benefits of the preferred option (including administrative burden);

### Benefits

25. LIBOR is used in contracts worth over \$300tn. Implementation of the Wheatley Review recommendations is likely to result in a LIBOR framework that is significantly less vulnerable to attempted manipulation and subject to much stronger governance and regulatory oversight. As a consequence LIBOR will have substantially more credibility and integrity among authorities, market participants and the public, and can therefore continue to serve as an important financial market benchmark.

26. First, contributing banks have made it clear that they are likely to consider leaving the process if LIBOR remains self-regulated, which would create a risk of a disorderly breakdown of this important financial benchmark. Second, the reputations of the financial sector and UK financial services have been damaged, and only comprehensive reform will restore it. Further, there are large benefits to the financial markets and the wider public from having credible financial benchmarks, including: i) reducing the possibility that LIBOR is mis-priced, therefore improving the contracts linked to it and ii) increasing market confidence in the rate; and, iii) preventing a complete dissolution of the rate leading to market disruption.

### Costs

27. There are three elements of the Wheatley Review recommendations that are likely to have cost implications: (i) the strengthening of submitting firms' systems and controls; (ii) the strengthening of the oversight by the administrator of the rate; and, (iii) the supervision of LIBOR submission and administration as a regulated activity by the regulator. There will also be some costs associated with (iv) applications in relation to authorisation, variation of permissions and the Approved Persons regime.

28. Cost estimates relate to the additional costs that arise from the new policy regime and regulatory framework, over and above the costs that banks, administrators and regulators currently incur in relation to LIBOR. Given that the precise nature of the new framework is not fully developed and to the extent that estimated costs for contributing banks are intended to represent a typical panel bank, there will be some uncertainty associated with these estimates. In particular, there will be some variation in the sophistication of existing systems and controls across contributing banks and costs may vary depending on the number of LIBOR panels that banks contribute to. Further, the aggregate cost will depend on the total number of banks on LIBOR panels.

29. On the basis that there are currently 23 banks that contribute to LIBOR, it is estimated that the total of these costs will amount to £46.3 million in the first year (a), of which £44.0m will fall on LIBOR panel banks. Thereafter, the additional aggregate running costs for LIBOR submitters are assumed to be £5.8 million annually (b). The number of banks contributing to LIBOR is not static, and may rise or fall, with corresponding effects on the costs of the policy.

30. The annual running costs for the administrator are estimated at £0.3 million (c), and for the regulator around £0.4 million (d).

**Table 1: Summary of total aggregate costs**

*Assumes 23 panel banks, 1 administrator and 1 regulator*

	Year 1 (transition)		Ongoing
	£m		
Contributing banks <sup>1</sup>	44.0	(38.2)	5.8 <sup>(b)</sup>
Administrator <sup>2</sup>	1.9	(1.6)	0.3 <sup>(c)</sup>
Regulator <sup>3</sup>	0.4	(0.0)	0.4 <sup>(d)</sup>
<b>Total</b>	<b>46.3<sup>(a)</sup></b>	<b>(39.8)</b>	<b>6.5</b>
<i>Memo: cost to business</i>	45.9	(39.8)	6.1

Notes:

1 See Tables 2 and 5.

2 See Table 3 and 5.

3 See Table 4.

Source: Financial Services Authority estimates

31. The following analysis sets out the key proposals of the report and the potential cost implications. Cost estimates are from the Financial Services Authority, and are based on estimates of IT and staff costs, which in turn are based on a Hudson Banking & Financial Services Salary Guide 2012, Hudson Legal Salary Survey, Russell Reynolds Chairmen and Non-Executive Director Survey 2011, and FSA staff and IT cost estimates. Where costs are employment costs, they are estimated salaries scaled up by 1.3 to account for non-salary employment costs.

**(i) Strengthening firms' systems and controls**

32. A key recommendation of the Wheatley Review was to require firms submitting LIBOR quotes to ensure they have adequate systems and controls in place to avoid the risk of manipulation of the rate. There will be one-off costs for implementing such stronger controls as well as daily expenses for running them. In terms of the one-off costs, it has been assumed that this might be a larger project undertaken by a team of business experts, compliance staff, lawyers, IT staff and external consultants. Firms would also have to invest in the development of IT systems which can store borrowing and lending transactions (record-keeping), assess daily submissions against underlying data and flag up outliers to business and control staff.

33. Running costs will be affected by increased compliance and internal audit resource. Firms may also have to increase resources in their respective business unit in order to ensure adequate analysis of the underlying data and there might be a greater need for IT support to ensure automatic controls are effective. There will also have to be an increase in senior management time to oversee the effectiveness of the controls in place. Lastly, the Wheatley Review recommended requiring firms to have a six-monthly external audit of their systems and controls.

34. These costs are estimated at £1.91 million per contributing bank for the first year. With 23 banks currently contributing to LIBOR, this would equate to a total cost of £44.0 million.



35. These estimated costs are intended representative of a typical panel bank. With the caveat that each panel bank may have very different systems and controls, the FSA has estimated the incremental costs that strengthening those systems and controls would imply for an average bank. They may vary slightly, depending on the number of LIBOR panels a bank is a member of and the state of their existing systems and controls.

**Table 2: Costs to contributing banks**  
ANNUAL RUNNING COSTS

Area	Category	Annual Salary	Resource requirement	% of year (days)	Total costs
Senior Management	Head of Operations (Investment Bank, Senior)	150,000	Tenth of every trading day; for reviewing Manager's performance/LIBOR process	10% (25)	19,500
LIBOR Manager	Business analyst (Senior)	75,000	Quarter of every trading day; confirmation and sign off of daily submissions	25% (62.5)	24,400
LIBOR Staff	Business analyst (Intermediate)	60,000	Half of every trading day; record keeping, reporting, supporting evidence	50% (125)	39,000
Compliance Officer	Compliance Surveillance (AVP)	55,000	Quarter of every trading day; weekly exception reporting and monitoring	50% (62.5)	17,900
Internal Audit	Compliance Reviews (AVP)	60,000	Quarterly review (1 week) of exception reporting and process	8% (20)	6,200
IT support staff	Service Desk Analyst (Intermediate)	50,000	Support for IT systems; 20 days over one year	8% (20)	5,200
External Audit <sup>1</sup>	External Professional Advisory Charges	691,875	6-monthly review of process (2-weeks), systems and controls; two and a half members of staff	20% (50)	138,400
Executive	Global Head of Compliance	200,000	Hundredth of every trading day; for Review at ExCo level	1% (2.5)	2,600
<b>Total per bank</b>					<b>253,200</b>
<b>Aggregate</b>					<b>5,800,000</b>
<b>SET-UP COSTS</b>					
Area	Category	Annual Salary	Resource requirement	% of year (days)	Total costs
Boards <sup>2</sup>	Large firm Board	4,575,000	Review and sign-off	0.4% (1)	23,800
Senior Management	Head of Operations (Investment Bank, Senior)	150,000	Review and sign-off	2% (5)	3,900
LIBOR Manager	Business analyst (Senior)	75,000	2/3rds of time taken up	16% (41.67)	16,300
Libor team member	Business analyst (Intermediate)	60,000	Full-time, 2 staff members	50% (125)	39,000
Internal Consultants	Compliance Surveillance (AVP)	55,000	Full-time, 2 staff members	50% (125)	35,800
External Consultants <sup>1</sup>	External Professional Advisory Charges	691,875	Full-time, 2 and a half staff members	62.5% (156.25)	432,400
Lawyer (internal) <sup>3</sup>	4 years PQE	105,000	Full-time, 1 staff member	25% (62.5)	34,100
IT Staff (team leader)	C++ Team lead (senior)	90,000	Full-time, 1 staff member	25% (62.5)	29,300
IT staff (working level)	C++ Windows Developer - back office (intermediate)	65,000	Full-time, 2 staff members	50% (125)	42,300
Systems <sup>4</sup>		1,000,000	FSA Estimate	N/A	1,000,000
<b>Total one-off costs per bank</b>					<b>1,656,900</b>
<b>Total Costs per Bank</b>					<b>1,910,100</b>
<b>Aggregate</b>					<b>43,900,000</b>

Source: Financial Services Authority (FSA) estimates, based on salary data from Hudson Banking and Financial Services Salary Guide 2012 unless otherwise stated. 1 External Audit costs based on FSA assessment from 2006, uprated with inflation. 2 Russell Reynolds 2011 Chairman & Non-executive Director Survey. 3 Hudson Legal Salary Survey, 2011. 4 FSA estimate, sensed-checked by IT firm IS Data Architecture.

**(ii) Administering LIBOR**

36. The Wheatley Review recommends that the private organisation administrating LIBOR (including its daily calculation, although this may be outsourced, as is currently the case) takes on much greater responsibility for ensuring the adequacy of submissions and the management of conflicts of interest. The organisation would need to ensure that it has an appropriate level of staff to conduct daily checks of banks' submissions, run an internal escalation procedure and follow-up with the submitters where necessary. It is assumed that this job could be done adequately by a team of five, headed by a manager. It would also require some senior management time for review and escalation of cases of suspicious behaviour.

37. In addition, the organisation would have to set up IT systems to process the information, perform the relevant calculations and interrogate the submissions of panel members. This would result in costs for both the systems and the IT development staff.

38. It is estimated that the organisation administrating LIBOR would incur additional costs as a consequence of the new regulations of £1.78 million over the first year. It is possible that it will be able to recover some of these costs from user charges or similar, although this is difficult to estimate, and may depend on the design of the tender process for a new administrator.

39. These estimates is based on the assumption that the new regulatory environment will require a significant strengthening of processes, however the actual costs will vary depending on the model implemented by the new administrator. The administrator will be chosen by a tender process, and the criteria will be based heavily around the new systems that prospective bidders intend to implement in order to ensure the credibility of LIBOR in the future.

**Table 3: Costs to LIBOR administrator**

<b>ANNUAL RUNNING COSTS</b>						
<b>Area</b>	<b>Category</b>	<b>Annual Salary</b>	<b>Resource requirement</b>	<b>% of year (days)</b>	<b>Total costs</b>	
Senior Management	Business analyst (Senior)	70,000	Tenth of every trading day; for reviewing LIBOR process and team performance; escalation of key	10% (25)	9,100	
Manager	Business analyst (Intermediate)	60,000	Full-time; direct oversight of daily process, review of exemptions reporting	100% (250)	78,000	
Associates	Business analyst (junior)	45,000	Full-time; four associates collating submissions, running calculations and performing manual and automated controls	4x100% (1000)	234,000	
IT support staff	Service Desk Analyst (Intermediate)	50,000	Support for IT systems; 20 days over one year	8% (20)	5,200	
					<b>Total running cost</b>	<b>326,300</b>
<b>SET-UP COSTS (3-MONTHS)</b>						
<b>Area</b>	<b>Category</b>	<b>Annual Salary/Cost</b>	<b>Resource requirement</b>	<b>% of year (days)</b>	<b>Total costs</b>	
IT Staff (team leader)	C++ Team lead (senior)	90,000	Full-time, 1 staff member	25% (62.5)	29,250	
IT staff (working level)	C++ Windows Developer - back office (intermediate)	65,000	Full-time, 2 staff members	50% (125)	42,250	
Systems <sup>1</sup>		1,500,000	Estimate of hard and software costs	N/A	1,500,000	
					Total set-up cost	1,571,500
					<b>Total cost</b>	<b>1,897,800</b>

Source: Financial Services Authority estimates, based on salary data from Hudson Banking and Financial Services Salary Guide 2012 unless otherwise stated. 1 FSA estimate, sensed-checked by IT firm IS Data Architecture

### (iii) Supervising LIBOR

40. The Wheatley review recommends that the administration and submission to LIBOR is made a regulated activity and for the FSA to supervise the conduct of the firms and individuals involved in the process of setting the rate. The FSA is likely to require additional specialised supervisory resource. It is also assumed that once the setting of LIBOR becomes a regulated activity, the FSA will need to conduct a thematic review of the systems and controls in place at panel banks to assert compliance with the rules and regulations associated with this regulated activity.

41. It is assumed that the additional specialised resource would be a team of five, with a manager leading it. This would comprise the monitoring of submissions, regular reviews of systems and controls at firms and the supervision of the administrator. The thematic review of systems and controls would be conducted by a team of five and would probably take about 3 months.

42. These assumptions lead us to assume that the costs of supervising LIBOR submissions would be £0.4m per year.

**Table 4: Costs to regulator in relation to LIBOR**

Item	Resource required	% of year (days)	Annual employment cost	Estimated cost (days/250* annual cost)
<b>Annual Costs</b>				
Head of Department	10th of every trading day; review and approval	10% (25)	195,000	19,500
Manager	Quarter of every trading day; 1 member of staff	25% (62.5)	118,950	29,700
Senior Associate	Full-time, 2 members of staff	2x100%( 500)	81,900	163,800
Associate	Full time; 2 members of staff	2x100%( 500)	55,250	110,500
<b>3-month Thematic Review</b>				
Technical Specialist	Quarter of every trading day; 1 member of staff	6.25% (15.5)	118,950	7,400
Senior Associate	Full-time; two members of staff	2x25% (125)	81,900	41,000
Associate	Full-time; two members of staff	2x25% (125)	55,250	27,600
			<b>Total Cost</b>	<b>399,500</b>

Source: Financial Services Authority estimates based on FSA employment costs.

#### (iv) Authorisations and Approved Persons

43. The Wheatley Review's recommendation to make the submission to and the administration of LIBOR a regulated activity means that firms need to be authorised to carry out these activities. For current panel banks the approach might be to deem them authorised and thus they would simply require a variation of permission. However, the administrator of the rate will need to apply for authorisation.

44. The Review also recommends creating an approved persons regime. The manager of the team responsible for submission to LIBOR panels within a bank will need to apply for approval from the FSA. Similarly, the individual carrying out the respective role within the rate administrator would have to be approved by the FSA.

45. Based on a review conducted by Real Assurance Risk Management in 2006 and adjusting for inflation, it is estimated that a variation of permission would cost £2,700, while a full-scale application of authorisation for the administration of LIBOR would attract costs of £12,300. Assuming that all individuals applying for approved person status needed to be interviewed, the cost to a firm for this process would amount to £2,500.

46. Assuming 23 panel banks, the total cost to firms submitting to and administrating LIBOR of obtaining the right authorisations and having the relevant individuals approved by the FSA would amount to £140,000. This represents the cost estimated for the first year and should be substantially lower in subsequent years. These are included in the first column of Table 1, with £12,300 attributed to the administrator, and £126,500 attributed to contributing banks.

**Table 5: Costs associated with Authorisation and Approved Persons**

Organisation	Cost Item	Cost to organisation	Aggregate Cost
Contributing Bank	Approved Persons application - application	250	5,750
	Approved Persons application - interview preparation	2,500	57,500
	Variation of permission	2,750	63,250
	<b>Cost to banks</b>		<b>126,500</b>
Administrator	Application for authorisation	12,300	12,300
	<b>Cost to administrator</b>		<b>12,300</b>

Source: FSA estimates. Assumes 23 contributing banks.

### One In, One Out (OIOO)

47. The policy is out of scope of 'One In, One Out', because it deals with systemic financial risk. Libor is a systemically important benchmark that is used in contracts with a total value of at least \$300tn globally.

### Equalities

48. The Government has considered its obligations under the Equalities Act 2010. We do not believe these measures will impact upon discrimination, equality of opportunity or good relations towards people who share relevant protected characteristics under that act. The detrimental effects of a loss in confidence and credibility in LIBOR would affect a broad-base of market participants and, indirectly, the public. Implementing these reforms to LIBOR will have similarly broad and non-discriminatory benefits.

### Wider impacts

49. The policy is not expected to have any wider impacts, although it is impossible to rule them out completely as it may depend on actions beyond the control of the review. In particular, all reasonable steps have to be taken to ensure that policy has no systemic effect on the LIBOR rate, or other similar effects.

### Proposed Implementation

**Early November:** Amendments to the Financial Services Bill to include amendments to the Financial Services and Markets Act (FSMA) at Report Stage. Begin consultation on amendments to associated secondary legislation.

**By January 2013:** Amendments to secondary legislation laid before parliament.

**By April 2013:** Changes to primary and secondary legislation to be implemented.