

STROOCK SPECIAL BULLETIN

LIBOR Evolution: *The Shift to the Waterfall Methodology*

May 1, 2018

On Wednesday, April 25th, Intercontinental Exchange, Inc. (“ICE”) announced that ICE Benchmark Administration Limited (“IBA”) published a new LIBOR report on its website, “ICE LIBOR Evolution”, which can be accessed [here](#). The report touches on LIBOR rates today, including current calculation methodologies, but shifts to focus on the effort to strengthen LIBOR, with the transition to the Waterfall Methodology.

LIBOR (the London Interbank Offer Rate) is currently calculated each business day based on submissions from a group of 20 panel banks estimating the average rate at which they would be able to borrow from each other. Under the current methodology, the submissions are based primarily on expert judgment rather than on actual transactions. In contrast, the Waterfall Methodology seeks a more transactional, data driven approach, requiring LIBOR submissions to be based on eligible wholesale, unsecured funding transactions, where available.

The Waterfall Methodology is comprised of three levels: Level 1 Transaction-Based, Level 2 Transaction-Derived and Level 3 Expert Judgment. The aim is to obtain as many Level 1 submissions from panel banks as possible, since Level 1 submissions are based on a weighted average price of eligible transactions, while a Level

3 submission is least preferable since it is based on a panel bank’s expert judgment of the rate at which it could fund itself. The IBA, which is the administrator of LIBOR, is currently in the process of a gradual transition from the current LIBOR methodology to the Waterfall Methodology, and expects to complete the transition by the first quarter of 2019. The hope of the Waterfall Methodology is to enhance a more accurate calculation of the benchmark rate such that LIBOR can continue being used beyond 2021 on a voluntary basis.

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