Title: Fair and Effectives Markets Review: Benchmarks **IA No:** **Lead department or agency:** HM Treasury **Other departments or agencies:** N/A	**Impact Assessment (IA)** **Date:** 24/11/2014 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:**

Summary: Intervention and Options

RPC Opinion: 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, Two-Out?***	**Measure qualifies as**
-£43.94m	-£43.94m	£4.02m	Yes	IN*

***R**elating to the 5 benchmarks in scope of One-In, Two-Out. See paragraphs 44-48.

What is the problem under consideration? Why is government intervention necessary?

Since the revelations about LIBOR misconduct emerged in summer 2012, there have been allegations of misconduct relating to other benchmarks, such as FX and precious metals. On 12 November 2014, the Financial Conduct Authority announced fines totalling £1.1bn on 5 banks for failing to control FX trading practices. On 12 June 2014, the Chancellor announced the establishment of the Fair and Effective Markets Review (FEMR). As an interim milestone the FEMR was tasked to identify major benchmarks in the fixed income, currency and commodity markets that should also be brought within the regulation put in place for LIBOR.

What are the policy objectives and the intended effects?

Recent misconduct further diminishes trust in the financial sector, which is an important part of the UK economy. The policy objective of the recommended option is to restore credibility to the most important benchmarks in the fixed income, currency and commodity markets. By bringing 7 major benchmarks into the regulatory perimeter - Sterling Overnight Index Average (SONIA), Repurchase Overnight Index Average (RONIA), WM/Reuters (WMR), ISDAFIX, the London Goldfixing/LBMA Gold Price , LBMA Silver Price and ICE Brent), enabling close and continuous supervision by the UK regulators, as well as providing specific powers of enforcement against those that manipulate these benchmarks.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: "Do nothing". Under this option, the Government does not pass domestic legislation. It is anticipated that EU legislation will eventually replace the UK regulatory framework (although not the UK criminal framework). However, the EU Regulation is not expected to be fully in place until 2017 and neither its existence nor its content are yet confirmed.

Option 1: pass domestic legislation regulating benchmarks. Taking domestic action now means that we are able to have the powers and tools ready and restore credibility to the most important benchmarks in the fixed income, currency and commodity markets as soon as possible (an area where other measures short of outright regulation have already failed to prevent misconduct).

Option 1 is Government's preferred option

Will the policy be reviewed? 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** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: Andrea Leadsom Date: 12/12/2014

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	**PV Base Year** 2014	**Time Period Years** 10	**Net Benefit (Present Value (PV)) (£m)**		
			Low: Optional	**High:** Optional	**Best Estimate: -**43.94m

COSTS (£m)	**Total Transition *** (Constant Price)	Years	**Average Annual*** (excl. Transition) (Constant Price)	**Total Cost*** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate*	4.4m		4.8m	**43.9mm**

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

The main affected groups for policy option 1 are the contributing banks, the benchmark administrators and the regulator - the Financial Conduct Authority (FCA). The majority of the costs fall on administrators through staff, IT costs for compliance with regulation amounting to £11.65m of transitional costs, and £7.529m annual ongoing costs.

*These figures relate to the 5 benchmarks that are in scope of One-In, Two-Out. See paragraphs 44-48.

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	0		0	**0**

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

The main affected groups are the benchmark users and the wider financial markets. These benefits have been unable to be quantified for the purposes of this impact assessment.

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

The benefits include improved resilience against attempted manipulation, reduced risk of misconduct and associated fines and/or litigation risk, decreased likelihood of cessation of these key benchmarks, increased credibility and integrity of the benchmarks among authorities market participants and the public, greater confidence in financial markets and increased governance and regulatory oversight.

Key assumptions/sensitivities/risks | **Discount rate (%)** | 3.5%

The key assumption is that the cost estimates of regulating additional benchmarks will be based on the cost estimates for regulating LIBOR.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: 4.0m	**Benefits:** 0m	**Net:** -4.0m	Yes	IN

Evidence Base (for summary sheets)

Problem under consideration

1. On 12 June 2014, the Chancellor announced the establishment of the Fair and Effective Markets Review (FEMR), led by Bank of England Deputy Governor for Markets and Banking, Minouche Shafik, with Martin Wheatley (Chief Executive Officer, FCA) and Charles Roxburgh (Director General, Financial Services, HM Treasury) as co-chairs. The terms of reference for the review are set out at: ***http://www.bankofengland.co.uk/publications/Documents/news/2014/tor.pdf***. The consultation document was published on 27 October 2014.

2. The Review has been tasked with investigating those wholesale markets, both regulated and unregulated, where most of the recent concerns about misconduct have arisen: fixed-income, currency and commodity (FICC) markets, including associated derivatives and benchmarks. It will make recommendations on:

    - principles to govern the operation of fair and effective markets, focusing on fixed income, currency and commodities;
    - reforms to ensure standards of behaviour are in accordance with those principles;
    - tools to strengthen the oversight of market conduct;
    - whether the regulatory perimeter for wholesale financial markets should be extended, and to what extent international action is required;
    - additional reforms in relation to benchmarks, in order to strengthen market infrastructure.

3. Given the negative impact benchmark manipulation has on trust and credibility in the market, one of the first things the FEMR was tasked to do, was to identify major benchmarks in the fixed income, currency and commodity markets that should also be brought into the regulatory perimeter. The review team conducted a detailed research exercise and produced a report to highlight what these benchmarks should be. The report can be found at: ***http://www.bankofengland.co.uk/publications/Pages/calendar/femr.aspx.***

4. The Review takes as its starting point the definition of a benchmark set out in the Financial Services and Markets Act 2000 (FSMA), as amended by the Financial Services Act 2012. That legislation sets out the framework for benchmark regulation in the United Kingdom, and states that a "benchmark" means an index, rate or price that:
    (a) is determined from time to time by reference to the state of the market;
    (b) is made available to the public (whether free of charge or on payment); and
    (c) is used for reference for purposes that include one or more of the following:

(i) determining the interest payable, or other sums due, under loan agreements or under other contracts relating to investments;
(ii) determining the price at which investments may be bought or sold or the value of investments;
(iii) measuring the performance of investments.

5. Given the widespread use of benchmarks in financial contracts, it is vital that consumers and market participants are confident that benchmarks – particularly those that lie at the heart of systemically important markets – are credible, trustworthy and accurate. The credibility of a benchmark can be undermined if the benchmark can be distorted, either by accidental errors in its compilation or calculation, through the exposure of participants to conflicts of interest or incentives to manipulate the benchmark, or through abuse of a dominant competitive position in the compilation of a benchmark.

6. The objectives of benchmarks regulation, generally, are therefore to ensure that, when financial activities come to depend significantly on a benchmark, protections are available to deal with risks associated both with the mechanism for producing the benchmark and with the data that go into the benchmark.

7. A framework of legislation for financial market benchmarks was introduced in the United Kingdom following the 2012 Wheatley Review of London Interbank Offered Rate (LIBOR) (***https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191762/wheatley_review_libor_finalreport_280912.pdf***). The legislation brings in two new regulated activities: (i) administering a specified benchmark; and (ii) providing information in relation to a specified benchmark. These new regulated activities mean that firms that either contribute to or administer any 'specified benchmark' must be authorised by the Financial Conduct Authority (FCA). To be authorised under FSMA, a firm must satisfy the threshold conditions for authorisation, which include that the firm must be capable of being effectively supervised, that it has appropriate resources (including financial resources) in relation to the activities it carries out, and that its business model is suitable. In addition, individuals working for authorised persons and carrying out controlled functions must be separately approved by the appropriate regulation. In addition to these general requirements, there is a new power under FSMA for the FCA to make rules requiring authorised persons to take steps in connection with the setting of a regulated benchmark, which could include requiring benchmark submitters to continue contributing to a benchmark.

8. This regulatory regime subjects administrators of, and submitters to, specified benchmarks to a number of specific rules and pieces of guidance, which are formally set out in the 'MAR 8' section of the FCA Handbook. Authorised persons may face a range of sanctions if they breach any of the FCA's rules. These include being subject to financial penalties, suspensions and censures.

As individual benchmarks will vary in their construction and operation, the current rules may if necessary be adapted to their specific characteristics.

9. For benchmark administrators, the requirements include:
    - implementing effective governance and oversight measures, including the establishment of an oversight committee and the development of practice standards in a published code;
    - monitoring of benchmark submissions to identify irregularities in benchmark submissions and breaches of the practice standards and conduct that may involve manipulation, or attempted manipulation, of the benchmark;
    - notifying the FCA of any suspicions in relation to the above;
    - having arrangements in place to identify and manage conflicts of interest; and
    - appointing a benchmark administration manager to oversee the firm's compliance with the FCA's requirements for benchmark administration.

10. The requirements on benchmark submitters include:
    - maintaining effective organisational and governance arrangements for the process of making benchmark submissions;
    - having an effective methodology, based on objective criteria and relevant information, for determining their submissions to benchmarks (including keeping relevant records);
    - notifying the FCA of any suspicions in relation to manipulation, attempts to manipulate, or potential collusion to manipulate the benchmark;
    - having arrangements in place to identify and manage conflicts of interest; and
    - appointing a benchmark manager to oversee the firm's compliance with the FCA's requirements for benchmark submission

11. As recommended by the Wheatley Review, the Financial Services Act 2012 also introduced a new criminal offence of manipulating a 'relevant benchmark' either by making misleading statements or by creating a false or misleading impression of the value of investments that could affect such a benchmark. Like the 'specified benchmarks' subject to enhanced regulation, 'relevant benchmarks' that are subject to criminal sanctions may also be defined by the Government in secondary legislation.

12. The Government initially applied the new regulatory and criminal framework to LIBOR. That reflected the serious design deficiencies that came to light as a result of the LIBOR misconduct scandal – both on the part of submitters (where the reliance on judgment made LIBOR susceptible to manipulation given deficiencies in systems, controls and governance arrangements) and on the part of the then administrator (which, as noted in the Wheatley Report, did not exercise sufficiently robust oversight). The new regime ensured that both the administrator and the panel of contributing banks were subject to full supervision by the FCA in

respect of their LIBOR related activities. It was nevertheless always envisaged that further benchmarks could be brought within scope, as set out in Chapter 7 of the Wheatley Report.

Rationale for intervention and Policy objective

13. Recent misconduct further diminishes trust in the financial sector. The policy objective of the suggested proposal is to restore credibility to the most important benchmarks in the fixed income, currency and commodity markets. Bringing these major benchmarks into the regulatory perimeter would enable close and continuous supervision by the UK regulators, as well as providing specific powers of enforcement against those that manipulate these benchmarks.

14. The FEMR's report sets out in detail the regulatory framework to which the recommended benchmarks would be subject. The Government is aware that there will need to be some adaptions made to the framework to take account of the specificities of the way in which different benchmarks are produced and operate.

15. The Review operates in the context of ongoing international and domestic work on benchmark reform. For example, the IOSCO Principles for Financial Benchmarks, published in July 2013 ***(http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf),*** set out an internationally-agreed set of recommended practices for benchmark administrators and submitters, and provide a strong framework within which to seek further international convergence. The IOSCO principles are intended to promote the reliability of benchmarks and address benchmark governance, quality and accountability mechanisms. Benchmark administrators were asked to disclose their compliance with the principles publicly by July 2014, and IOSCO intends to review the extent to which the principles have been implemented by the end of 2014. These discussions range from specific deliberations on a few benchmarks, to broad discussions about the regime for all benchmarks. There is further discussion of this work in section 1 of the Review's report. The work carried out by the Review is complementary to those initiatives, and the domestic regime will be updated where necessary to ensure international consistency.

16. In order to identify the major benchmarks in the FICC markets, the Review team has developed three key criteria which benchmarks must meet (section 2 of the report sets these out in detail) in order to be recommended for inclusion in the UK regime.

17. **Criterion 1 - Benchmarks that are major FICC benchmarks**. In its recommendations, the Review defines 'major benchmarks' as those which have the greatest usage within the main FICC product markets. It is these benchmarks that would have the biggest impact on retail and wholesale investors if they were distorted or abused, and would represent the greatest source of systemic vulnerability and risk if their integrity were questioned.

18. **Criterion 2 - Benchmarks where the main benchmark administration activities are located in the UK**. The Review's recommendations only cover UK-based benchmarks due to the appropriateness and limits of legislative reach. This will allow HMT and the FCA to ensure that these benchmarks are brought quickly into regulation.

19. **Criterion 3 - Benchmarks that are based on transactions in financial instruments which are not covered comprehensively by existing market abuse regulation.** The Review's approach is to target those benchmarks which are based directly on instruments that are outside the scope of the existing market abuse regime, or which have indirect dependencies on instruments outside the scope of the market abuse regime where additional mechanisms may be needed to monitor against potential sources of abuse.

20. **Recommendations of the review.** Based on the criteria set out above, the Review identified the following seven major benchmarks in the FICC markets which it recommends should be brought into UK regulatory perimeter:

    I. **Sterling Overnight Index Average (SONIA)** serves as a reference rates for overnight index swaps.

    II. **Repurchase Overnight Index Average (RONIA)** serves as a reference rates for overnight index swaps.

    III. **WM/Reuters' FX benchmark rates (WMR)** 4pm London Fix is the dominant global foreign exchange benchmark. The WMR benchmarks are used by market participants for a variety of purposes, but most notably for valuing, transferring and rebalancing multi-currency asset portfolios. In particular, the mid-rates produced by WMR are embodied in the construction of published indices used for tracking multi-country portfolios of bonds, equities or credit instruments, and hence are implicit in many investment mandates.

    IV. **ISDAFix** is the principal global benchmark for swap rates and spreads for interest rate swap transactions. It represents average mid-market rates for fixed-for-floating interest rate swaps in four major currencies (euro, British pound, Swiss franc and U.S. dollar) at selected maturities on a daily basis. Market participants use ISDAFIX as a settlement rate for the majority of cash-settled transactions in the interest rate swaption market. ISDAFIX is also used as a reference rate for cash settlement in connection with early terminations of swap transactions and as a reference rate for some floating rate bonds. ISDAFIX will be transitioned to a different methodology before April 2015. It will be based on a methodology which is neither based on submissions nor on transactions in financial instruments. The banks which are currently submitters to ISDAFIX will not be required to provide (and will not provide) any information or expression of opinion to Ice Benchmark Administrator for the purpose of determining ISDAFIX.

    V. **ICE Brent index**, which acts as the crude oil futures market's principal financial benchmark. In 2012, ICE Brent became the world's largest crude oil futures contract in terms of volume, and it is used by a wide range of financial market participants as well as producers and consumers of oil. ICE Brent is a cash-settled futures contract, and the expiry price is set by reference to an index based on physical BFOE Crude transactions and prices reported by a number of different PRAs. The futures and the physical markets are therefore linked and influence each other through arbitrage relationships. While the futures are within scope of market abuse regime, transactions in the physical market are not directly covered.

VI. **LMBA Silver Price** determines the price of silver in the London market. The LBMA Silver Price benchmark was launched on 15 August, replacing the previous Silver Fix. It is an electronic auction, based on transactions, involving three participants at the time of writing. An initial price is set at the start of the process, and in the first round the system algorithm will attempt to match buy and sell orders within the permitted tolerance level. If the buy and sell orders are out of tolerance, the auction price will change and the auction will restart until the buy and sell volumes are in tolerance and the equilibrium price is set.

VII. **London Gold Fix** determines the price of gold in the London market. This also allows participants to trade physical metal in London and provide daily reference prices for valuation and investment performance. The Review recognises that the London Gold Fix is currently going through a transition, therefore legislative and regulatory requirements will need to be tailored to the emerging future benchmark - provided the three selection criteria are still met. On 7 November the London Bullion Market Association (LMBA) announced that ICE Benchmark Administration (IBA) had been selected to be the third-party administrator for London Gold Fixing and that the proposed new name for the benchmark is the LBMA Gold Price. Live testing of the LMBA Gold Price is expected to go live in Q1 2015. Given these changes, the Government believes that it would therefore be appropriate for the London Gold Fixing to be named in legislation, along with recognition of the proposed change of name.

21. A summary of responses will be published alongside the HM Treasury consultation response.

<u>Description of options considered (including do nothing);</u>

22. Option 0: “Do nothing”. Under this option, the Government does not pass domestic legislation. The European Commission proposed legislation in September 2013 that will regulate the provision of financial benchmarks at EU level. This legislation is currently being considered by the European Parliament and the Council of the European Union. It is anticipated that this legislation will eventually replace the UK regulatory framework (although not the UK criminal framework). However, the EU Regulation is not expected to be fully in place until 2017 and neither its existence nor its content are yet confirmed.

23. Option 1: pass domestic legislation regulating benchmarks. Taking domestic action now means that we are able to have the powers and tools ready and restore credibility to the most important

benchmarks in the fixed income, currency and commodity markets as soon as possible (an area where other measures short of outright regulation have already failed to prevent misconduct). Without regulating these benchmarks, they are subject to a greater risk of manipulation, which ultimately could have devastating effects on the financial market. Credibility lost during this period would not be easily regained even once the EU regulations had belatedly come into force – the damage would already have been done.

24. Option 1 is the preferred option, as it tackles the issue of regulating the most important benchmarks at the earliest opportunity. Given the importance of a number of significant benchmarks to the UK financial system, the failure of previous governance regimes and the number of investigations taking place in this area currently, the Government considers this a high-profile area in which quick action is warranted.

Monetised and non-monetised costs and benefits of each option

25. As with LIBOR, the main affected groups are the contributors, administrators and regulators of these benchmarks.

Benefits

26. The main direct benefit of the increased governance and regulatory oversight of these benchmarks include the effective management of conflicts of interest, the increased accountability and oversight of submitters, and the regulatory oversight of the administrators.

27. **Effective management of conflicts of interest:** If the benchmarks are regulated, the firms are required to have an appropriate conflict of interest policy and effective systems and controls to manage them, which are currently not in place.

28. **Increasing accountability and oversight of submitters**: The submitting firms should have:
    - Adequate oversight by senior management and compliance functions, including by persons approved by the FCA to perform relevant roles
    - Internal and external audits
    - Clear, transparent and documented methodology for choosing and submitting to the benchmark, as well as keeping adequate records of the submissions and supporting documentation.
    - Appropriate systems to capture transactions to support their submission.
    - Approval of key individuals to perform specific functions under the approved persons regime. These individuals will also be subject to regulatory oversight and potentially subject to personal sanctions
    - Proactive supervision of the submission and administration process will increase the likelihood that the FCA can react earlier to problems. Dealing with problems at an earlier stage will help to prevent and reduce the detriment.

29. **Regulatory oversight of the administrator**: By making the act of administrating the selected benchmarks a regulated activity, the rules improve the regulatory oversight of the benchmarks and how they are set. By applying the approved person's regime to the administrator, this further increases the oversight and incentives for the administrator to oversee a fair and functioning benchmark. Making the administrator a regulated entity also brings it within FCA Rules, reducing the risk of unfair practices and increasing market confidence in the selected benchmarks.

30. The expected benefits have been seen in relation to LIBOR, which has already been brought within the domestic regulatory perimeter. These benefits are qualitative in nature, as they refer to concepts which are difficult to quantify such as market confidence and credibility of the benchmark. The expected effects of bringing these benchmarks in scope of regulation are:
    - Improved resilience of benchmarks against attempted manipulation.
    - Reduced risk of misconduct and associated fines and/or litigation risk.
    - Increased credibility and integrity of the benchmarks among authorities, market participants and the public, resulting in greater confidence in financial markets.
    - Ensuring continuity of the benchmarks for existing contracts. The value of contracts linked to these benchmarks are significant. Examples provided by the FCA include:
        - The value of contracts linked to SONIA/RONIA is estimated to be USD 19.2 trillion
        - The value of contracts linked to ISDA is estimated to be USD 34 trillion
        - WMR is the most common used benchmark in the highly liquid 5 trillion a day foreign exchange market.
        - Gold FIX is the worldwide recognised main benchmark for gold, which market is estimated to be up to USD 341 billion for forwards, swaps and options, plus linked Exchange Traded Funds up to USD 25.7 billion.
        - Silver FIX was the worldwide recognised main benchmark for silver. The index is important in the Exchange Traded space where it is used for USD 3.7 billion in assets under management. The new LBMA Silver Price is expected to beat those numbers.
        - Open interest in ICE Brent Futures went from less than 300k in 2000 to a peak of 1,490,121 on the 14 July 2014 for an estimated overall value of USD 160 billion.

Costs

The costs are expected to stem from the following areas:

31. **Regulators**

- Authorisation: The FEMR's recommendation to make the submission to and the administration of the benchmarks listed a regulated activity means that firms need to be authorised to carry out these activities. For banks, which are already authorised persons, to allow them to perform the new activity, 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.

- Ongoing supervision: The administration and submission of these benchmarks require the FCA to supervise the conduct of the firms and individuals involved in the process of setting the rate. The FCA is going to require additional specialised supervisory resource. It is also assumed that once the setting of these benchmarks becomes a regulated activity, the FCA will need to conduct a review of the systems and controls in place at panel banks to assert compliance with the rules and regulations associated with this regulated activity.

32. **Administrator:** Based on the cost estimates made for the regulation of the LIBOR benchmark, 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 administrator costs are split up in the following areas:
    - Systems and controls: these apply to the improvements in the I.T. systems made, as well as the additional I.T. staff required to carry out these activities). In addition, there will annual running costs of the full compliance team.
    - Oversight Committee: This oversight committee comprises of a Chairman who leads the oversight committee and Non-executive directors.
    - Approval (controlled functions): The controlled functions comprise of a Director, CEO and a set of Non-executive Directors.
    - Capital requirements: cost of equity.
    - Authorisation of the administrator

33. **Contributors:** Benchmark contributors would incur costs for:
    - IT Systems
    - Staff (including applying for regulatory approval to perform controlled functions)
    - External audits
    - Controlled functions application

34. It is important to note that many firms that would be captured as submitters to the benchmarks recommended by the Review are already captured as submitters for the purposes of LIBOR. Therefore the costs incurred by these firms would be smaller than those firms that are not captured as submitters for LIBOR.

35. Cost estimates are for each benchmark in scope of preferred option 1. These cost estimates have been provided by the UK markets regulator, the Financial Conduct Authority (FCA), and are based on estimates that have been calculated from estimated LIBOR costs, which have been collected and analysed by the FCA.

36. The cost estimates provided assume that the International Organization of Securities Commissions (IOSCO) benchmark principles

(http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf) have been adhered to by benchmark administrators. These international Principles are understood as a set of recommended practices that should be implemented by Benchmark Administrators and Submitters. The application of these Principles should be proportional to the size and risks posed by each Benchmark and/or Administrator and the Benchmark-setting process. Benchmark administrators who are assessed as IOSCO compliant publish this on their websites, the benchmark administrators have published statements saying that they are IOSCO compliant. Therefore, this has been taken into account by the FCA cost estimates provided. A detailed breakdown of the cost to administrators can be found in Annex A.

37. **Summary of all one off and annual on-going costs for benchmarks outlined in option 1**

	SONIA/RONIA	
	One off (£ ,000)	**Ongoing (£ ,000)**
1)Direct Cost to the FCA	**200**	**514** (This figure reflects the salaries, overheads and 5 submitters)
2) Cost of the administrator System and controls Oversight committee Approval functions Capital requirements Authorisation	**1,140** 1,100,200 - 27,500 - 12,300	**933** 565,500 254,500 - 113,000 -
3) Compliance cost for each submitting firm (multiplied by number of submitting firms) IT Systems Staff External Audits Controlled functions	**1,185x5** 612,500 570,000 - 2,500	**261.5x5** - 216,500 45,000 -
Total	**7,265**	**2,755**

	ISDAFIX	
	One off (£ ,000)	**Ongoing (£ ,000)**
1)Direct Cost to the FCA	**200**	**385** (This figure reflects the salaries, overheads and the fact that there will be no submitters to ISDAFix from Q1 2015)
2) Cost of the administrator	**551**	**455**

System and controls Oversight committee Approval functions Capital requirements Authorisation	523,833 - 15,000 - 12,300	178,000 176,800 - 99,500 -
3) Compliance cost for each submitting firm	No submitting firms	No submitting firms
Total	**751**	**840**

	WM/Reuters 4pm London Closing Spot Rate	
	One off (£ ,000)	**Ongoing (£ ,000)**
1)Direct Cost to the FCA	**200**	**385** (This figure reflects the salaries, overheads and the fact that there are no submitters)
2) Cost of the administrator System and controls Oversight committee Approval functions Capital requirements Authorisation	**564** 523,833 - 27,500 - 12,300	**369** 178,000 78,000 - 113,000 -
3) Compliance cost for each submitting firm	**No submitting firms as information consists solely of factual data obtained from publicly available sources**	**No submitting firms as information consists solely of factual data obtained from publicly available sources**
Total	**764**	**754**

	GOLD FIX/LBMA Gold Price	
	One off (£ ,000)	**Ongoing (£ ,000)**
1)Direct Cost to the FCA	**200**	**385** (This figure reflects the salaries, overheads and the fact that there are no submitters)

2) Cost of the administrator System and controls Oversight committee Approval functions Capital requirements Authorisation	**1,140** 1,100,200 - 27,500 - 12,300	**933** 565,500 254,800 - 113,000 -
3) Compliance cost for each submitting firm	**No submitting firms as information consists solely of factual data obtained from publicly available sources**	**No submitting firms as information consists solely of factual data obtained from publicly available sources**
Total	**1,340**	**1,318**

	LBMA Silver Price	
	One off (£ ,000)	**Ongoing (£ ,000)**
1)Direct Cost to the FCA	**200**	**385** (This figure reflects the salaries, overheads and the fact that there are no submitters)
2) Cost of the administrator System and controls Oversight committee Approval functions Capital requirements Authorisation	**564** 523,833 - 27,500 - 12,300	**546** 178,000 254,800 - 113,000 -
3) Compliance cost for each submitting firm	**No submitting firms as information consists solely of factual data obtained from publicly available sources**	**No submitting firms as information consists solely of factual data obtained from publicly available sources**
Total	**764**	**931**

	ICE BRENT	
	One off (£ ,000)	**Ongoing (£ ,000)**
1)Direct Cost to the FCA	**200**	**385**

		(This figure reflects the salaries, overheads and the fact that there are no submitters)
2) Cost of the administrator System and controls Oversight committee Approval functions Capital requirements Authorisation	**564** 523,833 - 27,500 - 12,300	**546** 178,000 254,800 - 113,000 -
3) Compliance cost for each submitting firm	**No submitting firms as information consists solely of factual data obtained from publicly available sources**	**No submitting firms as information consists solely of factual data obtained from publicly available sources**
Total	**764**	**931**

38. Total one-off costs for all 7 benchmarks = **£11,648m** Total one-off costs for all 5 benchmarks in scope of one in two out (excluding SONIA-RONIA as stated below): £11.648m – £7.265m = **£4.383m**.

    Total annual ongoing costs for all 7 benchmarks = **£7,529m** Total annual ongoing costs for all 5 benchmarks in scope of one, two out (excluding SONIA-RONIA, as stated below): £7,529m – £2,755m = **£4,774m**.

Risks and assumptions

39. The costs provided by the FCA are based on cost estimates for LIBOR. Further details of the cost estimates for administrators can be found in Annex A. Please note that an average value has been taken from any range of cost estimates provided. This is to ensure that a figure can be calculated for the EANCB.

40. It has been assumed that the one-off set up costs include the familiarisation and transition costs for the regulator, benchmark administrators and submitting firms.

41. Another key assumption in this impact assessment is that benchmark administrators will adhere to the international IOSCO principles as highlighted above.

42. The full 10 year appraisal period has been applied to option 1. Although the EU Benchmarks Regulation, which is currently being negotiated, is likely to apply in 2017, this approach overstates the

costs of option 1 relative to the looming financial services regulation. No allowance has been made for this because the timing and final outcome of the EU Regulation is uncertain.

One In, Two Out (OITO)

43. The policy for regulating SONIA-RONIA is out of scope of ‘One In, Two Out’. These benchmarks are of systemic financial importance, in view of their role in major money markets.

44. Other than LIBOR (which is already a regulated benchmark), the major benchmarks for the sterling money markets are the Sterling Overnight Index Average (SONIA) and the Repurchase Overnight Index Average (RONIA). Both benchmarks are administered by the UK-based Wholesale Markets Brokers’ Association (WMBA). SONIA is the daily weighted average interest rate of unsecured sterling overnight cash transactions brokered in London by five contributing members of the WMBA. RONIA is the daily weighted average interest rate of all secured sterling overnight cash transactions, also brokered by five WMBA members. The transactions that form the basis of these benchmarks are not fully captured under the scope of UK market abuse regime.

45. SONIA and RONIA are used by wholesale market participants as the reference rates for overnight index swaps (OIS) and to remunerate sterling collateral. Both UK and international institutions use overnight index swaps to hedge or speculate on changes in future short-term interest rates. These benchmarks are therefore systemically important and no alternatives to them exist. The Depository Trust & Clearing Corporation (DTCC) estimates that the total notional value of sterling OIS swaps as of 1 August 2014 was $13.4 trillion. In turn, OIS curves are used to value major sterling swap portfolios estimated at $52 trillion. Taken together, the scale of the reference transactions based on these benchmarks, as well as their central role in the money market, highlights SONIA-RONIA’s systemic importance.

46. Regulation of the remaining benchmarks is assumed to be within the scope of OITO.

47. As SONIA and RONIA are out of scope, the costs for these 2 benchmarks are excluded from all of the cost estimates in the impact assessment.

Wider impacts

48. The policy is not expected to have any wider impacts. In particular, all reasonable steps have to be taken to ensure that policy has no systemic effect on the benchmark rates or other similar effects.

Equalities impact

49. The Government has considered its obligations under the Equality Act 2010 and does not believe these measures will impact upon discrimination, equality of opportunity or good relations towards people who share relevant protected characteristics under that Act. All UK residents are affected to a

greater or lesser extent by misconduct in the financial sector and will benefit in the same way from the regulation of these benchmarks.

Environmental, social and sustainable development impacts

50. The Government does not anticipate any impact upon greenhouse gases, wider environmental issues, health and well-being, human rights, the justice system, rural proofing and sustainable development.

Impact on small and micro-businesses

51. The Government considers that regulating the 7 proposed benchmarks will not have a disproportionate impact on small firms or micro-businesses.

52. It is most unlikely that any entity in scope of this legislation (the UK regulator, benchmark administrators, and submitting firms, including international banks) would be classified as small or micro businesses. Therefore, no direct costs are attributable to them, while their reliance on commercial lending suggests that they would be among the major beneficiaries from enhanced financial stability. Consequently, there is no need to formally exclude small and micro businesses from the scope of the measure and no specific mitigating actions are proposed.

Impact on competition

53. The increased governance and regulatory oversight of these benchmarks increase credibility and integrity of the benchmark in the market. This provides further confidence in using the benchmark and engaging in the relevant activities. The Government does not expect any significant competition impacts. However, to further reinforce this, the benchmarks in scope of this regulation would be subject to the FCA's competition mandate and may be subject to competition assessments through a market study.

<u>Implementation plan</u>

Date	Implementation milestone
December 2014	Publish consultation response
December 2014	FCA consultation on rules
January 2015	Lay draft Statutory Instrument
April 2015	Legislation comes into force

Annex A: Detailed breakdown of one-off and set-up cost estimates for benchmark administrators

SONIA-RONIA

Costs to the Administrator:

Systems and controls	
Set-up costs, 3 months (£)	
IT Staff*	50,200
IT System*	1,050,000
Total costs	**1,100,200**

Ongoing costs for the new administrator

Annual running costs (£)	
Senior Manager	91,000
Manager	78,000
Associates	234,000
IT Support staff	65,000
Compliance Officer	97,500
Total	**565,500**

Oversight Committee for the new administrator

Function	N. individuals	Total annual costs
Chairman	1	46,800
Non-executive directors	8	208,000
Total	**9**	**254,800**

Controlled functions

Controlled Functions	N. individuals	Cost
CF50	1	2,500
CF1 (Director)	1	2,500
CF2 (CEO)	1	2,500
CF3 (NED)	8	20,000
Total	11	**27,500**

Compliance cost for the submitting firms

Policy	One-Off costs (£)	Ongoing costs (£)
IT systems	490k-735k	
Staff	441k- 700k	83-350k
External audits	0	45k
Controlled functions application (CF40)	2.5	
Total	**0.93-1.44M**	**128-395k**

ISDAFIX

Systems and controls

Set-up costs, 3 months (£)	
IT Staff	23,833
IT System*	500,000
Total costs	**523,833**

*Use an upgrade of the system currently used for Libor.

Ongoing costs for the administrator

Annual running costs (£)*	
Senior Manager	
Manager	78,000
Associates	100,000
IT Support staff	
Compliance Officer	
Total	**178,000**

*They are likely to use the same team for Libor. This accounts for a new manager and 2 associates

Oversight Committee for the new administrator

Function	**N. individuals**	**Total annual costs**
Chairman	1	46,800
Non-executive directors*	5	130,000
Total	**6**	**176,800**

3 NEDs are assumed to be in common with Libor

Controlled functions

Controlled Functions	**N. individuals**	**Cost**
CF50	1	-
CF1 (Director)	1	2,500
CF2 (CEO)	1	
CF3 (NED)	8 (only 5 need authorisation)	12,500
Total	3	**15,000**

WM/Reuters 4pm London Closing Spot Rate

Systems and controls

Set-up costs, 3 months (£)	
IT Staff	23,833
IT System*	500,000
Total costs	**523,833**

*The administrator have already in place systems and controls

Ongoing costs for the administrator

Annual running costs (£)	
Senior Manager	
Manager	78,000
Associates	100,000
IT Support staff	
Compliance Officer	
Total	**178,000**

* to account for new people to be hired; a manager and 2 associates

Oversight Committee for the administrator*

Function	**N. individuals**	**Total annual costs**
Chairman		
Non-executive directors	3	78,000
Total	**3**	**78,000**

* There is currently an oversight committee, we account for 3 new NEDs

Controlled functions

Controlled Functions	**N. individuals**	**Cost**
CF50	1	2,500
CF1 (Director)	1	2,500
CF2 (CEO)	1	2,500
CF3 (NED)	8	20,000
Total	11	**27,500**

GOLDFIX/LBMA Gold Price

Systems and controls

Set-up costs, 3 months (£)	
IT Staff*	50,200
IT System*	1,050,000
Total costs	**1,100,200**

Ongoing costs for the new administrator

Annual running costs (£)	
Senior Manager	91,000
Manager	78,000
Associates	234,000
IT Support staff	65,000
Compliance Officer	97,500
Total	**565,500**

Oversight Committee for the new administrator

Function	N. individuals	Total annual costs
Chairman	1	46,800
Non-executive directors	8	208,000
Total	**9**	**254,800**

Controlled functions

Controlled Functions	N. individuals	Cost
CF50	1	2,500
CF1 (Director)	1	2,500
CF2 (CEO)	1	2,500
CF3 (NED)	8	20,000
Total	11	**27,500**

Oversight Committee for the administrator

Function	N. individuals	Total annual costs
Chairman	1	46,800
Non-executive directors	8	208,000
Total	**9**	**254,800**

Controlled functions

Controlled Functions	N. individuals	Cost
CF50	1	2,500
CF1 (Director)	1	2,500
CF2 (CEO)	1	2,500
CF3 (NED)	8	20,000
Total	11	**27,500**

LBMA Silver Price

Systems and controls*

Set-up costs, 3 months (£)	
IT Staff	23,833
IT System	500,000
Total costs	**523,833**

*The administrator has already in place systems and controls.

Ongoing costs for the new administrator

Annual running costs (£)	
Senior Manager	
Manager*	78,000
Associates*	100,000
IT Support staff	
Compliance Officer	
Total	**178,000**

* to account for new people to be hired; a manager and 2 associates

Oversight Committee for the new administrator

Function	**N. individuals**	**Total annual costs**
Chairman	1	46,800
Non-executive directors	8	208,000
Total	**9**	**254,800**

Controlled functions

Controlled Functions	**N. individuals**	**Cost**
CF50	1	2,500
CF1 (Director)	1	2,500
CF2 (CEO)	1	2,500
CF3 (NED)	8	20,000
Total	11	**27,500**

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Table 2: Systems and controls

Set-up costs, 3 months (£)	
IT Staff	23,833
IT System*	500,000
Total costs	**523,833**

*The administrator have already in place systems and controls. Estimated cost 1/3 of Libor

Ongoing costs for the administrator*

Annual running costs (£)	
Senior Manager	
Manager	78,000
Associates	100,000
IT Support staff	
Compliance Officer	
Total	**178,000**

* anticipate new people to be hired