Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	Fair and effective markets review: benchmarks	
Lead Department/Agency	HM Treasury	
Stage	Final	
IA number	n/a	
Origin	Domestic	
Expected date of implementation	SNR 9	
Date submitted to RPC	24 November 2014	
RPC Opinion date and reference	15 December 2014	RPC14-HMT-2287
Departmental Assessment		
One-in, Two-out status	IN	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	£4.02 million	
RPC Overall Assessment	**GREEN**	

RPC comments

The IA is fit for purpose.

The IA explains that this is a regulatory proposal that would impose a net cost on business (an 'IN') with an estimated equivalent annual net cost to business of £4.02 million. This cost relates to five of the seven benchmarks considered in the IA. HM Treasury considers the remaining two benchmarks,[1] SONIA and RONIA, to be of systemic financial importance, due to their role in major money markets and, therefore, to be out of scope of OITO.

HM Treasury does not expect the proposal to have a disproportionate impact on small or micro businesses. It considers it highly unlikely that any will be caught by the regulation.

Background (extracts from IA)

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 June 2014, the Chancellor announced the establishment of

[1] A "benchmark" means an index, rate or price that is determined from time to time by reference to the state of the market; is made available to the public (whether free of charge or on payment); and is used for reference purposes.

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the Fair and Effective Markets Review (FEMR). 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?

"The objective…is to restore credibility to the most important benchmarks in the fixed income, currency and commodity markets. By bringing seven major benchmarks into the regulatory perimeter,

1. *Sterling Overnight Index Average (SONIA)*
2. *Repurchase Overnight Index Average (RONIA)*
3. *WM/Reuters (WMR)*
4. *ISDAFIX*
5. *The London Goldfixing / LBMA Gold Price*
6. *LBMA Silver Price*
7. *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."

Comments on the robustness of the OITO assessment

The IA explains that this is a regulatory proposal that would impose a net cost on business (an 'IN') with an estimated equivalent annual net cost to business of £4.02 million. This cost relates to five of the seven benchmarks considered in the IA. This is consistent with the current Better Regulation Framework Manual (paragraph 1.9.10) and, based on the evidence presented, appears to provide a reasonable assessment of the likely impacts.

The IA explains that the remaining two benchmarks, SONIA and RONIA, are out of scope of OITO. HM Treasury considers these benchmarks to be of systemic financial importance due to their role in major money markets. The IA explains that these benchmarks are used internationally in overnight index swaps (OIS) and that no alternatives to them exist. The scale of the reference transactions that use these benchmarks supports the view that SONIA and RONIA are of systemic financial importance.

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The proposals increase the scope of regulation on business. A SaMBA is, therefore, required.

The SaMBA is sufficient. HM Treasury does not expect the proposal to have a disproportionate impact on small or micro businesses and considers it highly unlikely that any of the entities in scope of the regulation (the UK regulator, benchmark administrators and submitting firms, including international banks) would be classified as small or micro businesses. However, the IA explains that, due to their reliance on commercial lending, small businesses may benefit from the enhanced financial stability expected to result from the proposal. On this basis, the IA explains that there is no need formally to exclude small and micro businesses from the scope of the measure and proposes no specific mitigating actions.

Quality of the analysis and evidence presented in the IA

HM Treasury proposes to expand regulation currently applied to LIBOR to seven other benchmarks that are used in the fixed income, currency and commodity markets. As a result, firms that either contribute to, or administer, a 'specified benchmark' will need to be authorised by the Financial Conduct Authority (FCA) and will need to satisfy certain threshold conditions. Requirements include the introduction of effective governance measures and certain standards of behaviour. The main affected groups are the contributors, administrators and regulators of the benchmarks.

The Government may, through secondary legislation, apply criminal sanctions to some, or all, of these benchmarks.

The proposal forms part of on-going international and domestic work on benchmark reform. The IA refers to the IOSCO Principles for Financial Benchmarks, which were published in 2013 and set out an internationally-agreed set of recommended practices for benchmark administrators and submitters. Based on statements by the benchmark administrators, the IA assumes they currently adhere to the IOSCO principles. HM Treasury has taken this into account in its cost estimates.

HM Treasury expects that domestic legislation will be replaced by an EU regulation regarding the regulation of financial benchmarks. However, HM Treasury does not expect this to occur until 2017 and its content is still unconfirmed. Due to the uncertain nature and timing of the European measures, HM Treasury has appraised this proposal over the usual ten year period.

The costs are based on estimates for LIBOR provided by the FCA.

The estimated one-off and annual ongoing costs associated with SONIA and RONIA are £7.3 million and £2.8 million, respectively. These costs are out of scope of OITO and, therefore, are not included in the EANCB figure. The estimated total one-off cost for the remaining five benchmarks is £4.4 million with annual on-going costs of £4.8 million. The one-off set-up cost includes familiarisation and transition costs.

Costs are likely to fall on the following participants:

- Regulators will incur costs associated with the authorisation and on-going supervision of market participants, which will require additional specialised supervisory resource (£1m one-off, £1.925m on-going);
- The administrators will incur costs resulting from improvements in their IT systems and the establishment of an Oversight Committee. In addition, they will incur regulatory and capital requirement costs (£3.38m one-off, £2.84m on-going);
- SONIA and RONIA contributors are also expected to incur costs resulting

from changes to their IT systems, together with increased staff costs associated with the new regulatory requirements and the cost of an external audit (£5.93m one-off, £1.31m on-going).

The IA explains that many firms are already subject to the LIBOR requirements and therefore the increment in costs resulting from this proposal will be less for these firms.

The IA explains that the main direct benefit of the increased governance and regulatory oversight of these benchmarks includes the effective management of conflicts of interest, the increased accountability and oversight of submitters, and the regulatory oversight of the administrators. However, as these are largely qualitative in nature, HM Treasury has not quantified the benefits.

In response to a request from the RPC, HM Treasury provided further detail on the cost estimates, together with evidence that the Administrators are currently adhering to the IOSCO principles. The published IA should include this information.

Signed	**Michael Gibbons,** Chairman