

What is LIBOR?

LIBOR represents the average interest rate that a bank would be charged by other banks for an unsecured loan over a specified term in a specific currency. It is calculated and published daily by the Intercontinental Exchange (ICE) as Benchmark Administrator.

Why is LIBOR important?

LIBOR is one of the most commonly used interest rate benchmarks in global financial markets.

LIBOR is widely used to calculate the interest rate in financial products. The rates are written into loans, bonds, derivatives and many other financial contracts and investments.

What is happening to LIBOR?

In 2017, the UK Financial Conduct Authority (FCA) as regulator of LIBOR announced plans that they will stop compelling banks to submit to LIBOR by the end of 2021. Since then, regulators and market participants around the world have come together to develop comprehensive transition plans away from LIBOR to alternative risk free rates (RFRs)

Why is LIBOR being replaced?

Two primary reasons lie behind the case to replace LIBOR as the key benchmark for wholesale borrowing: first, since the financial crisis there has been a structural decline in the use of the interbank market as a source of funding; second, the setting of LIBOR incorporated a fragile system for the quoting of rates, which was perceived to be vulnerable to manipulation.

What is LIBOR being replaced with?

LIBOR is available in five currencies (GBP, USD, EUR, YEN and CHF). Each relevant jurisdiction has established an alternative RFR to LIBOR.

What is the impact for Pharo funds and investors?

Where Pharo funds, or any other area of Pharo, have exposure to LIBOR, we must prepare for the transition to the relevant RFR. In doing so, we will seek to ensure that, to the extent possible, our Funds and investors are treated fairly and not adversely disadvantaged.

What is Pharo doing to prepare?

Pharo has been following international developments regarding the LIBOR transition and has a project team in place to lead and oversee our transition exercise. Members of this group represent different departments within the firm, and which also includes senior management. As part of our transition plans, we monitor and/or discuss developments with counterparties, exchanges, clearing houses, regulators and trade associations and evaluate the impact on our funds, investors and advisory business. Thereafter, we develop and implement an action plan to reasonably mitigate exposure to all relevant parties.

Where can I get more information?

More information on LIBOR transition in the UK is available from:

<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>.

More information on LIBOR transition in the US is available from: <https://www.newyorkfed.org/arrc>.

More information on LIBOR transition in the EU is available from:

https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html