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Presentation by

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Secretary Yellen, members of the Financial Stability Oversight Council (FSOC), thank you for this opportunity to offer a eulogy for LIBOR. For almost a decade now, the financial stability risks posed by LIBOR have been high on the agenda of the FSOC, of many of your agencies, and of the Financial Stability Board, which I chair.

Yet despite all these years of work to transition away from LIBOR, despite LIBOR's record of manipulation, and despite the clear and unalterable intention of the panel banks to stop participating in the production of LIBOR, some believe the remorseless evolution of the universe will somehow not involve them. Others have adopted a posture of strategic procrastination, watching as others take the necessary steps to prepare for the imminent end of LIBOR.

The deniers and the laggards are engaging in magical thinking. LIBOR is over.

The United Kingdom's Financial Conduct Authority, which regulates LIBOR, and the ICE Benchmark Administration (IBA), which administers LIBOR, have clearly stated that IBA will no longer have the necessary panel bank submissions to continue to publish any nondollar LIBOR tenors or one-week or two-month U.S. dollar (USD) LIBOR after December 31, 2021. In addition, IBA will no longer have the necessary panel bank submissions to continue publishing the remaining USD LIBOR tenors after June 30, 2023.

Recognizing this reality, the Federal Reserve issued a supervisory letter stating that continued use of LIBOR in new contracts after 2021 would create safety-and-soundness concerns and highlighting the importance of ending the issuance of new LIBOR contracts as soon as is practicable and, in any event, by December 31, 2021. This is critical: the USD LIBOR quotes available from January 2022 until June of 2023 will

only be appropriate for legacy contracts. Use of them for new products will create safety-and-soundness risks, and we will supervise firms accordingly.

There is no path forward for LIBOR after the end of this year. What market participants should expect to see is liquidity and trading volumes falling for LIBOR instruments as we get closer to the year-end deadline, and we will expect them to plan accordingly.

While more remains to be done, key players are making important progress. The Alternative Reference Rates Committee (ARRC), the private-sector body that is leading the transition here in the United States, has indicated it will soon be in a position to recommend term rates for the secured overnight financing rate (SOFR). With the encouragement and leadership of our Commodity Futures Trading Commission (CFTC) colleagues, interdealer derivative markets are expected in late July to switch from primarily pricing off LIBOR to pricing that refers to SOFR. Based on experience in the United Kingdom, this change in quotation conventions should accelerate the transition when it takes effect next month. This will be the last key prerequisite for a SOFR term rate, and we encourage this move. This is all good news.

At the same time, the Federal Reserve welcomes efforts in Congress to craft federal legislation that would provide a workable fallback for legacy contracts that lack one.

Throughout this transition, the official sector has stressed that lenders and borrowers are free to choose the rate they wish to use to replace LIBOR on newly originated loans, but they should make that decision with a full understanding of what it entails. Market participants should ensure that they understand how their chosen

reference rate is constructed, that they are aware of any fragilities associated with that rate and the markets that underlie it, and—most importantly—that they use strong fallback provisions. Let me now turn to the critical, final stretch of trail ahead of us.

We need to be confident we will emerge from the LIBOR transition with a more stable financial system, which will require reference rates for derivatives and capital markets products that are determined in a stable structure. The broad range of private-sector market participants who constitute the ARRC constructed and chose SOFR as their preferred rate precisely because of this stable structure. It rests on one of the deepest and most liquid markets in the world and is therefore likely to remain available even when other financial markets are disrupted. It is transparently calculated, engendering market confidence. And within weeks there will be a term rate based on SOFR, supporting the pricing of a range of market products. For all these reasons, the ARRC did not recommend rates other than SOFR in capital markets or for derivatives, and market participants should not expect such rates to be widely available.[i] For non-capital markets products, our supervisory guidance clearly notes that lenders and borrowers are free to choose among rates that meet their needs, but there are benefits of SOFR for these products, and thus—particularly with the development of term rates—SOFR will play a role in these markets as well.

All of us here are charged with safeguarding the stability of the financial system. Shepherding the LIBOR transition is a key element of our responsibilities in that regard, and we are at a key inflection point in that transition. LIBOR will be gone in fewer than 30 weeks. Financial firms do not have the luxury to burn time reinventing the wheel on the pricing of capital markets products and derivatives when the intensive work of the

private-sector experts on the ARRC has described a clear transition path. With the CFTC-sponsored change to a "SOFR-first" quoting convention, and with the imminent availability of a term SOFR, there is no reason for any firm to delay moving its derivatives and capital markets products to SOFR, in line with the ARRC's recommendations. If we manage this inflection point well over the next few months, the broad, sunlit uplands of a stronger financial system beckon.

[i] Note: These remarks were updated on June 14, 2021, to reflect that the ARRC did not recommend rates other than SOFR in capital markets or for derivatives.