BlackRock

February 7, 2020

Submitted via email: RFR.Secretariat@bankofengland.gsi.gov.uk

**Re: Consultation on credit adjustment spread methodologies for fallbacks in cash products referencing GBP LIBOR**

Dear Sirs,

BlackRock is pleased to have the opportunity to respond to the consultation on credit adjustment spread methodologies for fallbacks in cash products referencing GBP LIBOR, published by the Working Group on Sterling Risk Free Reference Rates in December 2019.

As an asset manager, BlackRock acts as a fiduciary on behalf of our clients. In this regard, we note that BlackRock has a diverse range of clients with different investment strategies and objectives. As such, while we have endeavoured to respond to the questions raised in the consultation, we note that preferences may be varied depending on each client's and portfolio's objectives, and the solutions we ultimately choose to pursue in consultation with different clients may not be uniform.

Further, as considerations of global benchmark reform continue, we find it important to highlight the need for global coordination and for solutions to avoid imposing significant costs on investors. Given the portfolio context in which investors (both asset owners as well as asset managers managing money on behalf of their clients) operate, the need for coordination among asset classes and currencies is imperative.

Responses to specific questions

**Question 1: Please indicate whether the ISDA historical median approach is your preferred credit adjustment spread methodology for cash products in respect of:**

**(a) fallbacks which apply on cessation of GBP LIBOR; and**
**(b) pre-cessation fallbacks for GBP LIBOR that trigger as a consequence of a regulatory announcement of non-representativeness.**

**If not, please rank the approaches in Section 5 (Description of credit adjustment spread methodologies) in order of preference (with 1 as your preferred approach).**

The ISDA historical median approach is our preferred credit adjustment spread methodology for cash products in respect of both (a) and (b) above.

**Question 2: Are there any other methodologies for calculation of a credit adjustment spread which should be considered in the cash markets? If so, please indicate which of the situations outlined in (a) and (b) in Question 1 above this methodology would be most applicable to.**

We do not think so and believe that the overarching aim and principle behind controlling for economic value transfers should be that the method of conversion is as consistent as possible across cash and derivatives markets.

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**Question 3: Please comment on the characteristics of the proposed methodologies that most influenced your decision (including whether alignment with related hedging formed a part of your decision-making process).**

See above. Alignment with the derivatives market and the likely wide recognition as well as ease of adoption formed the basis for our decision.

**Question 4: Please indicate whether your comments apply to all cash products, or whether there are different considerations for different cash products.**

Our comments apply to all cash products.

**Question 5: In respect of fallbacks, would it be problematic to have different credit adjustment spreads apply based on when fallbacks take effect (i.e. prior to cessation or upon cessation of GBP LIBOR)?**

Yes, we think it would be problematic. Optionality in this regard, and the potential to arbitrage the transition date are unlikely to encourage transition.

**Question 6: In respect of fallbacks, should the credit adjustment spread following a pre-cessation fallback trigger subsequently change should GBP LIBOR be discontinued to the credit adjustment spread calculated following the permanent cessation of GBP LIBOR? Alternatively should it remain at the credit adjustment spread for the pre-cessation event?**

We believe that the credit adjustment spread should remain at the level calculated as at the pre-cessation event. But, per the answer to Q5, it would be helpful if there was no difference in the adjustment spread whether applied at pre-cessation or permanent cessation.

**Question 7: Please comment on anticipated operational challenges and elaborate on how long you feel it would take to overcome such challenges.**

We understand this question to be operational challenges surrounding the calculation and implementation of a credit adjustment spread in general. Identifying impacted bonds (whether or not they have pre-cessation triggers), then referencing/calculating the appropriate adjustment spread and adjusting coding to correctly implement this in our systems will be the key challenges. We believe alignment with ISDA and possibly referring to the source identified by ISDA for the calculation and publication of the credit adjustment spread would be helpful in reducing operational challenges for the cash market.

**Question 8: Would it be problematic for market participants to use different approaches to calculate credit adjustment spreads in fallbacks or for transitioning legacy documentation across different currencies? Please explain why or why not, commenting specifically on the potential implications of using different approaches across different currencies.**

We believe consistency in approaches to calculate credit adjustment spreads would be helpful across different currencies from a transparency and ease of implementation point of view. On a related note, we believe there should be a global recognition of the approach to the calculation of the credit adjustment spread for GBP LIBOR contracts as they may be governed by laws other than English. We would expect the same credit adjustment spread to apply to GBP LIBOR contracts regardless of the laws governing the respective contracts.

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We thank the Working Group on Sterling Risk-Free Reference Rates for providing BlackRock with the opportunity to comment on the consultation. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

**Stephen Fisher**
**Managing Director, Global Public Policy**

**Deniz Yegenaga**
**Director, Global Fixed Income**