

GBP loan market Q&A for the Working Group’s end-Q1 2021 recommended milestone (Published in February 2021 – Updated in June 2021)

The Working Group on Sterling Risk-Free Reference Rates (the ‘Working Group’)¹ has a recommended milestone relating to GBP loans and multi-currency loans containing a GBP LIBOR option: By end-Q1 2021, cease initiation of new GBP LIBOR-linked loans that expire after the end of 2021.

This milestone, and other 2021 milestones relating to loans, are available here:

<https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfr-working-group-roadmap.pdf>.

The Loan Enablers Task Force (‘LETF’), a sub-group under the Working Group focused on loans, has drafted this Question and Answer document relating to the end-Q1 2021 milestone. It has been prepared for the purpose of highlighting to market participants potential considerations for them and addresses questions they may have in relation to the milestone. This Question and Answer document does not constitute a comprehensive outline of all relevant considerations. Market participants should seek their own advice in relation to their legal, regulatory and other obligations and as to any other considerations or risks that may arise or be relevant.

Question	Answer
<p>1. What are the key changes between the Working Group recommended milestone for end-Q3 2020 and the new milestone for end-Q1 2021?</p>	<p>The Working Group’s recommended milestone for the end of Q3 2020 marked the start of a six- month transitional period intended to support sterling markets in moving away from use of GBP LIBOR in new or refinanced loans by the end of Q1 2021.² From the beginning of October 2020, it was recommended that lenders should be actively offering non-LIBOR linked products to their customers, and to include in any new or re-financed GBP LIBOR-linked lending clear contractual arrangements to facilitate conversion by the end of 2021, either through pre-agreed conversion terms (‘rate switch agreement’) or an agreed process for renegotiation, to SONIA or other alternatives.</p> <p>From the beginning of April 2021, the recommendation is for all new or re-financed GBP lending that expires after end 2021 to be based on SONIA or other non-LIBOR alternatives from the outset to ensure markets smoothly transition ahead of end 2021.</p>

¹ The Bank of England and the Financial Conduct Authority (the ‘FCA’) are each ex-officio members of the Working Group. Market participants should note that the views and considerations set out in this document do not constitute guidance or legal advice from the Bank of England (including the Prudential Regulation Authority (the ‘PRA’) or the FCA nor are they necessarily endorsed by the Bank of England (including the PRA) or the FCA.

² These recommended milestones were originally announced by the Working Group in its April 2020 statement: <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfrwg-further-statement-on-the-impact-of-coronavirus-on-timeline-for-firms-libor-transition-plans.pdf>

They have then been captured in the Working Group’s priorities and roadmap for transition since July 2020, see press release: <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/statement-from-the-working-group-on-libor-transition.pdf>

<p>2. Should GBP LIBOR-linked transactions under discussion with borrowers prior to end-Q1 2021 complete post-Q1 2021?</p>	<p>The milestones, which have been clear and on the Working Group’s roadmap since July 2020, specifically included a six month period between October 2020 and March 2021 to facilitate in-progress GBP LIBOR-linked lending to be completed and ensure lending expected to complete after the end of Q1 2021 be on alternatives to GBP LIBOR. In January 2020, the FCA and the PRA issued a ‘Dear CEO’ letter³ indicating that firms are expected to plan to meet the milestones.</p>
<p>3. Are borrowers able to continue to execute GBP LIBOR facilities with a rate switch agreement beyond end-Q1 2021, which ensures transition by the end of 2021?</p>	<p>The milestone is to cease initiation of all new or refinanced GBP LIBOR-linked loans by the end of Q1 2021 and that includes loans with a GBP LIBOR rate switch agreement.</p>
<p>4. In a syndicated loan, whose responsibility is it to meet the end-Q1 2021 recommended milestone?</p>	<p>The Working Group’s recommended milestones for the loan market were set in July 2020, and have provided sufficient notice of the end of Q1 2021 milestone⁴ to cease initiation of new GBP LIBOR-linked loans that expire after the end of 2021. It is the responsibility of all market participants (arrangers, lending banks, institutional lenders, borrowers and sponsors) to work together on new RFR-based or alternative rate facilities and meet the milestone of no longer originating loans based on GBP LIBOR.</p> <p>For example, incremental GBP leveraged loan transactions post 1 April 2021 should not be LIBOR-based and should instead reference either SONIA, the Bank of England’s bank rate (‘Bank Rate’, often referred to as ‘base rate’) or fixed rate. Information and guidance is available to loan market participants including a Best Practice Guide (see link for details).</p>
<p>5. What if borrowers or syndicate members are not ready to consume/offer SONIA?</p>	<p>The Working Group wrote to system providers to complete their updates by the end of Q1 2021⁵ and systems implementation is ongoing. Market participants have been repeatedly encouraged to engage early in a dialogue ahead of the end of Q1 2021 milestone to ensure readiness and establish contingencies. Lenders and borrowers are also encouraged to initiate detailed discussions now for any financing or refinancing need in GBP after the end of Q1 2021 to understand what support is available from their</p>

³ See: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2020/initial-expectations-fca-pra-of-firms-libor-transition-progress-during-2020.pdf>

See also: <https://www.bankofengland.co.uk/news/2021/january/the-final-countdown-completing-sterling-libor-transition-by-end-2021>

⁴ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfr-working-group-roadmap.pdf>

⁵ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/open-letter-to-tms-and-loan-vendors-rfrwg-pack.pdf>

	<p>finance providers and elsewhere to enable use of SONIA or alternatives such as base rate or fixed rate.</p> <p>The FCA and the Bank of England have made clear statements on syndicated lending at recent meetings of the Working Group. The FCA said institutions unable to provide RFR products would have to accept that they could not participate in syndicates, rather than trying to hold back others in the syndicate from moving away from GBP LIBOR.⁶ The Bank said the lending market should not be dictated by the progress of the slowest firms and supervisors would take a keen interest in any remaining GBP LIBOR lending after the end of Q1 2021.⁷</p>
<p>6. What should the approach be for the GBP leg of a multi-currency facility if other rates are term and/or on different cessation timelines?</p>	<p>The milestone applies equally to all lending in GBP where the reference rate should no longer be based on GBP LIBOR. This effectively covers the wider international loan market for the GBP leg of loan facilities in addition to the domestic GBP loan market. This would include bilateral lending in GBP, syndicated facilities in GBP and the GBP tranches/legs of multicurrency facilities. It is accepted that other currencies may be on different cessation timelines and that there may be different approaches to these other currencies⁸ but there should be a consistent approach taken to lending in GBP (i.e. no longer originating loans based on GBP LIBOR).</p> <p>The Working Group’s paper on use cases⁹ for benchmark rates envisaged that high value lending involving sophisticated market participants, such as in facilities like these, would primarily be based on SONIA compounded in arrears. Market standard documentation to support this is available¹⁰ and the list of RFR-referencing facilities published¹¹ by the LMA contains a number of examples where this has been achieved, including where term rates such as EURIBOR are used in other legs of the transaction.</p>

⁶ Minutes from the December 2020 meeting of the Working Group: <https://www.bankofengland.co.uk/-/media/boe/files/minutes/2020/rfr-december-2020.pdf>

⁷ Minutes from the January 2021 meeting of the Working Group: <https://www.bankofengland.co.uk/minutes/2021/february/rfr-january-2021>

⁸ For example, the target for the cessation of new use of USD LIBOR-linked lending by 30 June 2021 in the ARRC’s Recommended Best Practices: <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-Best-Practices.pdf>

It should be noted the Chair of the ARRC, Tom Wipf, has also stated that market participants should immediately stop issuing USD LIBOR-based instruments:

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC_Press_Release_Wipf_Action_Transitioning_SOFR.pdf

⁹ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/use-cases-of-benchmark-rates-compounded-in-arrears-term-rate-and-further-alternatives.pdf>

¹⁰ <https://www.lma.eu.com/libor>

¹¹ https://www.lma.eu.com/application/files/6016/1114/4014/List_of_RFR_referencing_bilateral_and_syndicated_loans_January_2021.pdf

<p>7. Does the end-Q1 2021 recommended milestone include new/re-financed transactions where the main drawn currency is not GBP, but where the client wishes to retain the option to draw GBP?</p>	<p>As above, the end of Q1 2021 recommended milestone does include the GBP component of new/re-financed transactions where the main drawn currency is not GBP but where the client wishes to retain the option to draw in GBP.</p> <p>Drawings in GBP would need to refer to an RFR-based or alternative rate, and not GBP LIBOR beyond 1 April 2021.</p>
<p>8. How does the end-Q1 2021 recommended milestone affect facilities with existing extension options?</p>	<p>The milestone is to cease initiation of all new or refinanced GBP LIBOR-linked loans that expire after the end of 2021 by the end of Q1 2021.</p> <p>This includes existing facilities which are due to mature before the end of 2021 but contain an extension option¹² which would extend the maturity beyond end 2021 (except where the extension option gives the borrower a contractual right to unilaterally extend without seeking lender consent).</p> <p>Any exercise of (or request to exercise) an extension option relating to a facility which already matures beyond the end of 2021 provides a timely opportunity for the borrower, agent, and lender(s) to actively engage at that time regarding transition of the facility (insofar as a robust transition mechanism is not already in place) and to:</p> <ul style="list-style-type: none"> i) Transition to SONIA compounded in arrears or an appropriate alternative rate directly; or if this is not practicable; ii) Insert or update fallback language to include a rate switch agreement with an effective date at or in advance of end 2021; or if this is not practicable; iii) On an exceptional basis, agree a date and process for the transition of the facility away from GBP LIBOR, effective by the end of Q3 2021, document this agreement and be prepared to discuss any such outcome with Supervisors. <p>Furthermore, new extensions or the addition of new extension options that were not previously documented are not consistent with the end-Q1 2021 recommended milestone.</p>

¹² Commonly referred to as a “+1” or “+1 +1” structure depending on whether there is one one-year extension option or two one-year extension options.