



**BANK OF ENGLAND**

# News release

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## **The Working Group on Sterling Risk-Free Reference Rates News Release: Securing a SONIA-based sterling loan market**

In order to support a timely transition away from use of LIBOR ahead of the end of 2021, the Working Group on Sterling Risk-Free Reference Rates (the Working Group) has recommended for lenders to be ready by the end of September 2020 to:

- Offer non-LIBOR linked products to their customers; and
- Working with their customers, to include clear contractual arrangements to facilitate conversion of all new or refinanced LIBOR-linked products to SONIA, or other alternatives, ahead of end-2021.

And just six months later, by the end of March 2021, the Working Group recommends lenders to cease new issuance of all sterling LIBOR-linked loan products expiring after the end of 2021.

Given the impact of Covid-19, these timelines were revised to minimise the impact on firms in the earlier part of this year. But market volatility during that period has clearly illustrated LIBOR's longstanding weaknesses and its availability is only guaranteed until the end of 2021, so the importance of transition ahead of that point remains unchanged. A wide range of UK businesses will be affected by these changes. The Working Group will therefore be engaging with the corporate sector throughout September – from large firms to small – to raise awareness of the changes taking place in sterling loan markets and the actions they will need to take to prepare for use of alternative rates.

On 18 September, the Working Group will host a webinar in collaboration with the Association of Corporate Treasurers (ACT), the Confederation of British Industry (CBI), the Bank of England and the Financial Conduct Authority (FCA). This will provide an overview of what firms need to know, and what they need to do, building on a series of educational videos released over the course of the summer.

In addition, the Working Group has published a number of papers intended to support firms in the transition of their existing sterling LIBOR-linked contracts:

- The first paper seeks to familiarise firms with the fundamentals of active transition of legacy loan products.
- The second covers how issuers might consider converting existing bonds and securitisations, including the process of consent solicitation already used successfully to transition over £10bn of bonds these products to SONIA.
- And finally, following a consultation completed earlier in the year, the Working Group has released a formal recommendation on the appropriate 'credit adjustment spread' to be used in fallbacks for sterling cash market products referencing sterling LIBOR, which maintains consistency with ISDA's approach for derivatives.

Tushar Morzaria, Chair of the Working Group on Sterling Risk-Free Reference Rates said "The groundwork has been laid for a decisive shift in sterling loan markets, away from continued use of LIBOR. With lenders ready to offer new products by the end of this month, corporates seeking to borrow should now expect a conversation about alternative rates instead."

Andrew Hauser, Executive Director for Markets at the Bank of England said "Firms cannot rely on the continued publication of LIBOR beyond the end of 2021. Businesses of all sizes must now prepare for their borrowing to be linked to alternative rates such as SONIA, and the Bank is engaging closely with the Working Group to ensure they have the right support to do so."

Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA said "We welcome the Working Group's recommendation on a preferred approach to credit adjustment spreads for use in fallbacks to sterling LIBOR. Through use of the same approach taken by ISDA for derivative contracts, market participants will benefit from consistency between their products and from the extensive work undertaken by ISDA to identify a robust and fair approach."

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**Notes to editors:**

1. The Working Group's latest priorities and roadmap for 2020-2021 (published in July 2020): <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfr-working-group-roadmap.pdf>
2. The Working Group's webinar on 18 September, titled '*Is your business prepared for LIBOR transition?*' is aimed at informing the corporate sector on transition, and hosted in conjunction with the Association for Corporate Treasurers (ACT), the Confederation of British Industry (CBI), the Bank of England and the Financial Conduct Authority. For more information on this event, to attend or view the webinar, please see: [link](#)
3. The RFRWG has begun releasing a series of educational videos to raise awareness and provide end-users with the key concepts of LIBOR transition. The first of these videos (below) are available

on its webpage, with further episodes in the series to follow:

- i. [Introduction](#)
  - ii. [Why do I need to transition away from LIBOR?](#)
4. RFRWG paper on Active transition of GBP LIBOR referencing bonds is available via the following link:  
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>
5. RFRWG paper on Active transition of GBP LIBOR referencing loans is available via the following link:  
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>
6. RFRWG Recommendation of the credit adjustment spread methodology for fallbacks in cash products referencing GBP LIBOR is available via the following link:  
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>