

Loans Enablers Task Force

Path to discontinuation of new
GBP LIBOR lending by end-Q3
2020

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Key messages

- A key [priority](#) for the RFR Working Group in 2020 is the target to cease issuance of sterling LIBOR-based cash products maturing beyond 2021 by the end of Q3. This target has been endorsed by the Bank of England's Financial Policy Committee (FPC) in its December 2019 [Financial Stability Report](#) and by a [Senior Advisory Group](#) to the Working Group including senior managers at some of the UK's largest financial firms.
- This document provides an indicative roadmap toward the Q3 target, which is intended to act as a guide for **lenders, borrowers and infrastructure providers** in determining intermediate steps within their firms to meet that timeline.

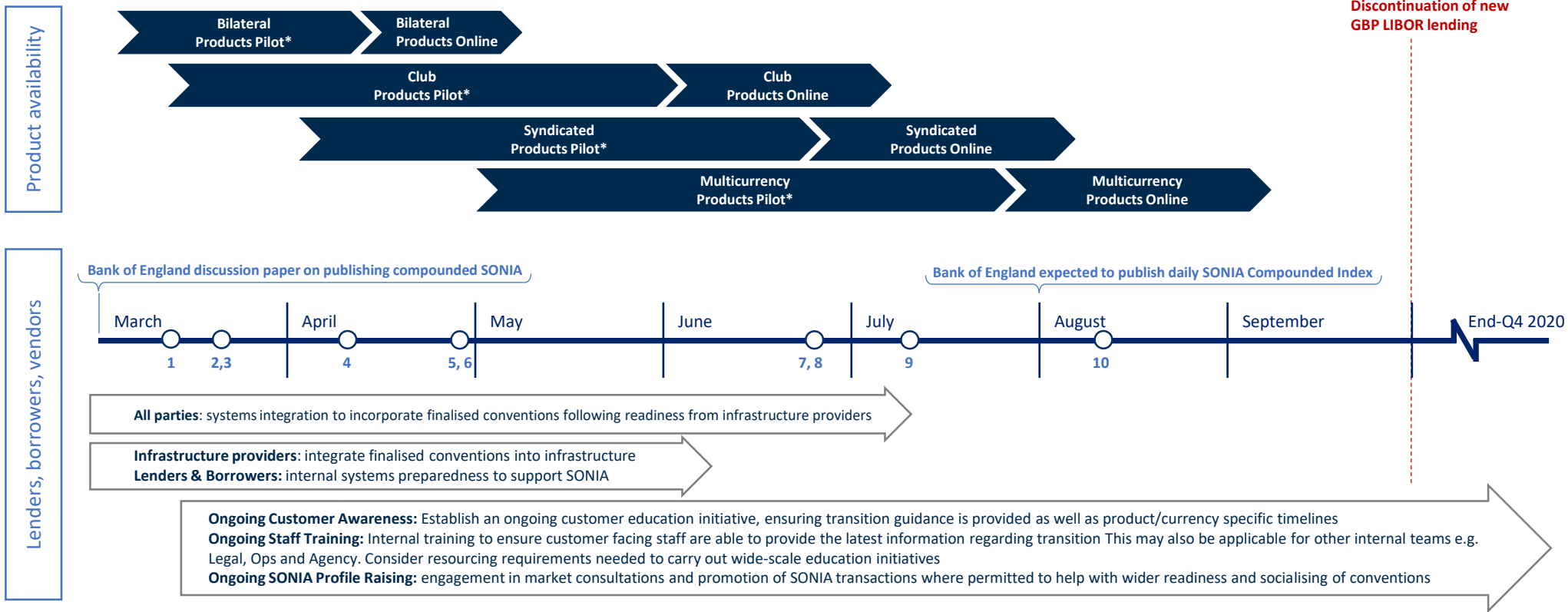
Context

- To help meet the Working Group's Q3 target a Loan Enablers Task Force was established to identify and overcome perceived barriers to moving new flow to alternative reference rates in the sterling lending market. The Task Force is made up of representatives from a broad cross-section of market participants, both lenders and borrowers, working with representatives from the Bank of England and the Financial Conduct Authority.
- The roadmap produced by the Task Force has been approved by the Working Group and endorsed by its Senior Advisory Group. This is intended to act as a guide for market participants to enable them to plan how they will meet the Q3 target, in terms of both activity and timelines. It is deliberately indicative rather than prescriptive, and is designed to be flexible enough to allow for adaptation for participants' particular customer, product or systems requirements and current readiness.
- The roadmap is focused particularly on the development of products referencing compounded SONIA as the primary risk-free rate in sterling markets. This is expected to be appropriate and operationally achievable for 90% of new loans by value, as described in [The Use Cases of Benchmark Rates](#), published by the Working Group in January 2020. The roadmap does not consider the development of products which may use an alternative reference rate.
- The intention is for the Task Force to supplement this roadmap in due course with additional materials such as a basic guide to compounding and a working paper on conventions to further support market participants' efforts to transition away from use of sterling LIBOR for new lending within the established timetable.

Notes

- This roadmap was considered by the Working Group on 25 February 2020 which agreed to its publication. The Working Group is particularly grateful to the Loan Enablers Task Force for having developed this document.
 - The Bank of England and the Financial Conduct Authority ("FCA") are each ex-officio members of the Working Group. The views and outputs set out in this Working Paper do not constitute guidance or legal advice from the Bank of England (including the Prudential Regulation Authority ("PRA")) or the FCA and are not necessarily endorsed by the Bank of England (including the PRA) or the FCA.
 - This paper does not constitute a comprehensive outline of all relevant considerations. Market participants should therefore consider their own position and seek their own advice
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1. Product Conventions

- Understand latest market conventions and methodologies to inform target product set in line with market standards, i.e. Pro rata vs Independent; 'observation shift' vs 'lag'; Balance vs Rate; Buy-in convention



2. Tech & Model Impact Assessments

- Carry out impact assessment across entire Tech & Models systems and processes, cognisant of ancillary systems which may be impacted
- Plan for vendor system updates that may be required ahead of alternative RFR functionality build



3. Product Strategy

- Determine target product set with which to meet client needs post transition



4. Product Design & Development

- Determine customer eligibility/suitability at product level and according to internal sales frameworks
- Obtain clarification on Tax & Accounting treatment for all new products (E.g. IFRS19)



5. Infrastructure Readiness

- Plan for system changes including vendor system updates to support SONIA products
- Consider a holistic approach to the product development process and subsequent engagement with stakeholders to ensure alignment across Operations, Treasury and Rate Risk management teams



6. BAU Product Governance

- Identify internal governance requirements and impact on timelines for readiness and incorporate into plans



7. Tech Scalability

- Consider what will be required to trade RFRs at scale and incorporate any necessary changes into plans



8. Market Readiness

- Assess risk appetite for Go/No Go Decision on full product launch against liquidity in SONIA lending market
- Consider readiness of peers and clients in relation to your transition plans (pertinent to syndicate market)



9. Risk Appetite

- Set risk appetite to drive decision making with consideration given to conduct risk, financial risk, economic risk and legal



10. SONIA Products Online

- Feed back learnings from pilot to establish product conventions or improvements which suit customer needs. Tailor products accordingly and initiate full launch via BAU processes in readiness for end of Q3 target date

* Note that 'pilot' in this context is an iterative process of pilot schemes for new products covering product design, infrastructure build and testing, customer suitability requirements and customer engagement, and integration of learnings in new product development