

Loans Enablers Task Force

Path to discontinuation of new
GBP LIBOR lending by end-Q1
2021

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Key messages

- A key priority for the Working Group on Sterling Risk-Free Reference Rates (RFRWG) is the recommended milestone set out in its [roadmap](#) to cease issuance of sterling LIBOR-based loan products maturing beyond Q4 2021 by the end of Q1 2021.
- A Senior Advisory Group to the RFRWG (comprising senior managers at some of the UK's largest financial firms) has also expressed its support for this milestone, and the Bank of England's Financial Policy Committee recently noted the need for market participants, particularly in the loan markets, to focus on moving new business onto alternative risk-free rates.
- This document provides an indicative path toward the Q1 2021 milestone, 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

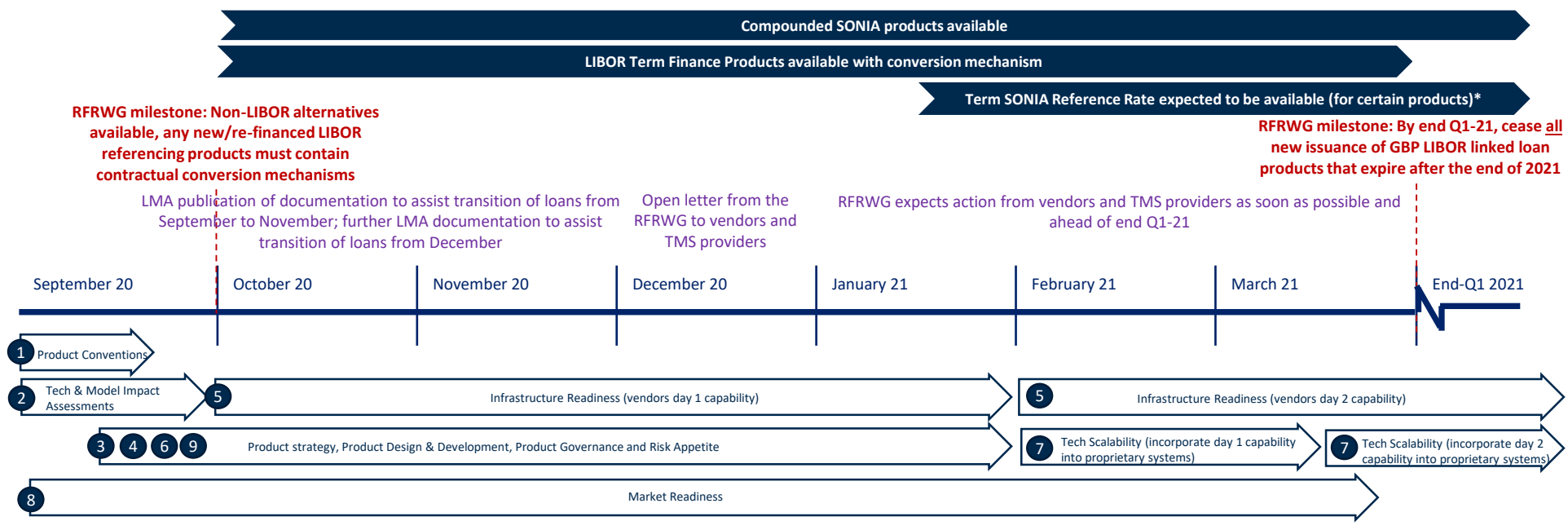
- To help meet the Working Group's Q1 milestone a Loan Enablers Task Force (the Task Force) was established to identify and overcome perceived barriers to moving new flow to alternative reference rates in the sterling lending market. The Task Force is made up of representatives from a broad cross-section of market participants, both lenders and borrowers, working with representatives from the Bank of England and the Financial Conduct Authority in their capacity as ex-officio members of the RFRWG.
- The discontinuation path produced by the Task Force has been approved by the RFRWG. This is intended to act as a guide for market participants to assist them in determining how they can meet the Q1 milestone, 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.
- This document is focused primarily on the development of products referencing compounded SONIA. The RFRWG's Term Rate Use Case Task Force expects that use of SONIA compounded in arrears will 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.

Notes

- On 9 December 2020, the RFRWG considered this roadmap and agreed to its publication. The RFRWG is particularly grateful to the Task Force for having developed this document.
 - The Bank of England and the Financial Conduct Authority ("FCA") are each ex-officio members of the RFRWG. The views and outputs set out in this document 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 document is not intended to impose any legal or regulatory obligations on market participants. This document has been prepared for the purpose of highlighting to market participants some of the potential considerations. It does not constitute a comprehensive outline of all relevant considerations and is not a substitute for market participants' own research and professional advice.
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Product availability
Lenders, Vendors, Borrowers



Recent Developments

July 20 - BoE published daily Compounded [Index](#)
- RFRWG published [Q&A](#) for end Q3 2020 loan milestones

September 20 – RFRWG published loan conventions [recommendation](#)

- Relevant to lenders
- Relevant to vendors
- Relevant to borrowers

Considerations for Lenders and Borrowers

- 1. Product Conventions** ●●●
 - Complete. Conventions recommendation statement published by RFRWG with supporting material. Recommendation made for use of compounded in arrears methodology using 5 banking day lookback without Observation Shift.
- 2. Tech & Model Impact Assessments** ●●●
 - Complete. 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** ●●●
 - Availability of vendor system updates to support SONIA products
- 6. BAU Product Governance** ●
 - Identify internal governance requirements and impact on timelines for readiness and incorporate into plans
- 7. Tech Scalability** ●●●
 - Incorporate vendor updates into proprietary systems
- 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)
 - Ongoing engagement between borrowers and lenders.
- 9. Risk Appetite** ●
 - Set risk appetite to drive decision making with consideration given to conduct risk, financial risk, economic risk and legal

* The prevailing view of the RFRWG is that overnight SONIA, compounded in arrears, will and should become the norm in most derivatives, bonds, and bilateral and syndicated loan markets given the benefits of the consistent use of benchmarks across markets and the robust nature of overnight SONIA. The future use of a forward-looking term rate in cash markets should be more limited than the current use of LIBOR. So, where possible, counterparties are encouraged to transition to overnight SONIA compounded in arrears.