In April, the Sterling RFR Working Group (RFR WG) published a further statement looking at the implications of Covid-19 on its recommended milestones for completion of transition away from LIBOR by end-2021. This April statement is available here - 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. While the statement has been broadly welcomed by the market as providing helpful clarity, particularly in providing some degree of flexibility on the more immediate short-term timelines, it is recognised that there are a number of areas of clarity around definitions and interpretations of the statement which the Sterling RFR WG may wish to provide. The Loan Enabler Task Force (the LETF), a sub-group under the Sterling RFR WG focused on loans, has been tasked with collating a Question and Answer document with the intention of such a document being discussed and published by the main Sterling RFR WG.

The Bank of England and the Financial Conduct Authority (the FCA) are each ex-officio members of the RFR WG. 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.

This Q&A has been prepared for the purpose of highlighting to market participants some potential considerations. It 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.

Category	Areas sought for clarification
Product scope	➢ **What is meant by "loans" and "loan products" in this context?** The terms "loan" and "loan products" are intended to cover cash loans that reference sterling LIBOR extended to borrowers through term loans and revolving credit facilities on a bilateral, club or syndicated basis whether secured or unsecured. All loan products, including commercial mortgages and mortgages on residential properties owned as commercial ventures with maturities beyond the end of 2021 are in scope. Other cash lending products such as trade finance or working capital solutions that reference sterling LIBOR would also be in scope of these definitions where the maturity of these products is beyond the end of 2021, although in many cases the terms of these agreements will tend to be shorter and therefore will not be captured by the recommendations. ➢ **What is meant by a "re-financed LIBOR-referencing loan product"?** A re-financed loan product in the context of the statement is an existing sterling LIBOR loan that is amended or renewed or extended in accordance with usual practice and continues to reference sterling LIBOR in the amended or renewed version. ➢ **Is the end Q3 milestone intended to cover LIBOR-linked facilities offered through Covid-related government guarantee schemes?** Yes. The end Q3 milestone is intended to cover all new and refinanced sterling LIBOR-referencing loan products. As referred to in the statement and explained in this document, there are a number of different ways in which lenders, working with their borrowers, can include clear contractual arrangements to facilitate conversion ahead of end 2021.

Product Offerings	➢ **After the end of Q3 2020, lenders are expected to offer alternative rate-linked products. They may not be able to offer this at scale initially, as automated systems to process such rates may not be ready. Should alternative rate-linked products be an option offered if the customer requests them, or are they expected to become the firm's default product offering?** After the end of Q3 2020 milestone, lenders are expected to be in a position to offer alternative rate-linked products to their customers by this date. The expectation is that lenders shall have alternative rate lending products available, approved for sale and on offer to borrowers wanting such products. The principal lending system providers are expected to have developed their platforms to meet this milestone. The RFR WG recognises that not all market participants may have implemented and tested their platforms by the end of Q3 however, so would expect to see product scale increasing over time. For those borrowers not operationally ready to take up alternative rate-based products (and lenders not yet able to do this at scale), sterling LIBOR products could be offered alongside alternative rate-based products. The RFR WG recommends that new and re-financed sterling LIBOR transactions include clear contractual transition mechanics setting out the manner in which conversion to an alternative rate will be achieved by the end of 2021. Alternative rate lending products mean any appropriate alternative rate such as SONIA (or a suitable SONIA-based rate), the Bank of England's bank rate ('Bank Rate', often referred to as 'base rate'), or a fixed rate. Products based on Bank Rate and fixed rates have formed part of many lenders' standard offering for some time. Overviews of, and use cases for, each of these rates is set out in the RFR WG's January 2020 paper titled 'Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives': 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. Please also refer to the table 'Customer/Product Rate Metric for domestic GBP lending' on the last page. ➢ **Do individual firms have flexibility to consider the means by which they will meet the recommended milestone?** Yes. While the milestone recommendation is clear, the means by which this milestone is met is a matter for individual firms. If appropriate, firms may look to discuss their individual plans and preparedness with their supervisors. ➢ **From the end of Q3 2020 should lenders withdraw existing sterling LIBOR based products and, if not will this mean that borrowers who are not ready to transition by this deadline should be able to choose existing sterling LIBOR products alongside alternative benchmark products?** Alternative benchmark products are expected to be ready and accessible by borrowers as of the end of Q3 2020. Sterling sterling LIBOR products need not be withdrawn from sale by Q4 2020, as the revised target for cessation of new loan products that expire after end of 2021 and reference sterling LIBOR is end Q1 2021. However, for new or refinanced sterling LIBOR products entered into after end Q3 2020 lenders should look to include clear contractual arrangements to facilitate conversion to another alternative rate ahead of the end of 2021.

Definition of 'issuance'	➢ **What is meant by 'issuance' and how does that apply to products that may be agreed and then drawn at a later date?** Issuance refers to the date of the relevant agreement, rather than the applicable drawing date(s). The RFR WG is aware that in the property lending market, a mortgage application may take some several weeks to approve and is normally valid for several months (although approval could be quicker or the validity period longer). Drawing of the loan would be expected to take place at (or shortly in advance of) completion of the related property purchase transaction. The RFR WG recognises that a sterling LIBOR-linked mortgage application could be approved prior to the applicable milestone and remain committed but not yet drawn as at end Q1 2021. In these circumstances, a committed but undrawn loan agreement would be seen as issued prior to the Q1 milestone notwithstanding that it is drawn after end Q1 2021. ➢ **What should lenders do?** In all cases, the RFR WG encourages lenders to work with borrowers to recognise the end Q1 2021 milestone and seek to limit any new sterling LIBOR issuance leading up to this date. In any event, the milestone envisages that new and re-financed sterling LIBOR transactions contain a transition mechanism from the end of Q3 2020. Therefore, it is expected that all contracts on sterling LIBOR entered into after end Q3 2020 and expiring after the end of 2021 will have clear contractual arrangements to facilitate conversion to an alternative rate.
Market conventions	➢ **What would the RFR WG's expectations be for the recommended timeline if delays continue in agreeing conventions and the subsequent development of an Index, particularly given recent developments in the US market?** The RFR WG, through the LETF, is working with industry participants in the UK to evaluate the consequences of the recent developments in the US market, aiming to rapidly reach consensus and provide clarity on the preferred SONIA compounded in arrears convention for the UK market. The LETF aims to avoid further delays and provide certainty to both market participants and vendors by making a recommendation during the summer of 2020. There is no change to the recommendation of the RFR WG that by the end of Q3 2020 lenders should be in a position to offer non-LIBOR linked products to their customers. In support of this, in June 2020 the Bank of England published a response to the feedback received on its discussion paper titled 'Supporting Risk Free Rate transition through the provision of compounded SONIA': https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/supporting-rfr-transition-through-the-provision-of-compounded-sonia-summary-and-response.pdf. Given near-unanimous support, the Bank of England confirmed that it will produce the SONIA Compounded Index using the methodology described in the discussion paper and set out in the response. The Bank of England also noted that it was aware of ongoing discussions on how best to use RFRs in sterling and non-sterling loan markets, but that any further work on proposals for additional indices or data would first require both a definitive market consensus on specific additional conventions, and a clear cost/benefit case. On that basis, the RFR WG encourages market participants to work toward meeting the timelines recommended by the RFR WG on the basis of the tools currently being made available. ➢ **At which stage, or date, does the RFR WG think further clarification on the impact of these potential blockers might require further analysis on the recommended milestones?** We are confident that remaining questions around market conventions will be resolved in time to make the end of Q3 2020 and end of Q1 2021 milestones achievable.

Contractual Arrangements to convert LIBOR loans ahead of 2021	➢ **What do you mean by 'clear contractual arrangements… to facilitate conversion ahead of end-2021' in new or re-financed LIBOR-referencing products either through 'pre-agreed conversion terms or an agreed process for renegotiation'?** The objective of this target is to avoid a continued increase in the stock of contracts with a reliance on sterling LIBOR beyond the end of 2021. It is recommended that after the end of Q3 2020, lenders and borrowers that are engaging in new sterling LIBOR referencing loan products, or are re-financing existing products of this type, should agree upfront to ensure that there will be no continuing reliance on sterling LIBOR in these products after the end of 2021, by including a contractual mechanism to facilitate conversion of the contract to a suitable SONIA-based, or other alternative, rate by 31 December 2021. As referred to in the statement, this could be achieved through pre-agreed conversion terms or an agreed process for renegotiation, to SONIA or other alternatives. Within this spectrum, the greatest certainty for borrowers and lenders will be achieved by setting out in advance the terms for conversion at a future date or, if that is not achievable, by aiming to come as close to this as possible to minimise the risk of protracted or unsuccessful negotiations at a later date. In either case, the conversion should take effect before the end of 2021. In any case, it is expected that these transition mechanisms are in addition to robust fallback mechanisms in all such contracts designed to deal with LIBOR cessation or a loss of representativeness. These would operate as a backstop to ensure conversion takes place at the point one of these events occurs, if this were to take place while the contract remains linked to sterling LIBOR (for example, if a renegotiation had failed to conclude before the end of 2021). ➢ **Will the RFR WG provide template language for contractual arrangements to switch to alternative rates?** No. Lenders and industry bodies should now be working on their own contractual language to satisfy the need for clear contractual arrangements to facilitate conversion through pre-agreed conversion terms. A number of recent syndicated loan transactions provide examples of this, which include an in-built switch from sterling LIBOR to the replacement reference rate upon specified triggers. In those cases, the loan documentation includes the mechanics and provisions necessary for transition to the use of that replacement reference rate, mitigating the risk of a further amendment process being required. ➢ **What else should lenders be doing to ensure that amendments to their contractual arrangements are implemented successfully?** Lenders should, among other things, embed front office process and training to adopt new commercial and contractual arrangements. Lenders will need to consider what other steps they will need to take to ensure these are adopted successfully. ➢ **Does the LMA Screen Rate Replacement language or other hardwired fallbacks as presently drafted satisfy the recommendation to have conversion contractual arrangements in place by end Q3 2020?** No. The recommendations part of the end Q3 2020 milestone go further than most existing documentation by including adoption of either pre-agreed conversion terms or an agreed process for renegotiation at a set point ahead of the end of 2021, which should ensure that the contract will not continue on a sterling LIBOR-linked basis beyond that point. As noted above, this should be in addition to fallback mechanisms designed to deal with LIBOR cessation or a loss of representativeness. The RFR WG understands that the Loan Market Association is producing a revised version of its Screen Rate Replacement language designed to meet this objective and expects to make this available as soon as possible.

	➢ **What else do firms need to take account of in the conversion process?** The RFR WG also considers it important for parties to consider related hedging and to consider reflecting the contractual arrangements to facilitate conversion in the related hedging arrangements, to avoid a potential mismatch if these rely only on the proposed ISDA fallbacks based only on cessation and pre-cessation triggers. ➢ **What safeguards will there be to ensure that borrowers are not penalised on loan pricing where a new product replaces a similar LIBOR-linked product after the Q1 2021 deadline?** Transition from LIBOR to risk-free rates is not an opportunity for lenders to move borrowers to higher rates, both when transitioning legacy contracts and negotiating new contracts. Lenders are encouraged to use established market consensus, particularly where this has resulted from a consultative process, which can help demonstrate a balanced calculation of replacement rates. Further information can be found in the FCA's conduct Q and A for LIBOR transition: https://www.fca.org.uk/news/statements/conduct-risk-during-libor-transition-questions-and-answers ➢ **Are contractual transition mechanics necessary for new LIBOR linked loans maturing before the end of 2021, as they will not result in additional LIBOR exposure maturing beyond LIBOR cessation?** Amendments to contractual arrangements are not necessary in instances where a new sterling LIBOR-based loan agreement is concluded with a maturity date before the end of 2021. In the event that a loan is subsequently extended beyond the end of 2021, lenders, working with the borrower, should look to include clear contractual arrangements to facilitate conversion, as more fully described above. ➢ **It would also be useful to clarify the treatment of loans which, though they expire beyond end 2021, have their last LIBOR fixing before LIBOR cessation, and would not therefore rely on a rate which has ceased to exist.** If the fixing takes place prior to the end of 2021 and the contract terminates at the maturity of this fixing in 2022 there will be no impact from any LIBOR cessation. If the sterling LIBOR set prior to the end of 2021 covers the entire fixing period, this transaction can be treated as if it were maturing before the end of 2021.
Specialist lenders	➢ **What are the RFR WG expectations for smaller and specialist lenders who are yet to be provided clarity from the wholesale markets as to their own financing? Is there recognition of the additional challenges in this case?** RFR WG targets should be seen as best practice for the market as a whole in order to appropriately mitigate risks ahead of 2021. If appropriate, individual firms may look to discuss the particular application of the RFR WG's recommendations to their business with their supervisors.
Mortgages (Buy-to-Let)	➢ **Would the contractual transition mechanics apply where a new mortgage contract is issued to reflect a change in circumstances without additional borrowing being agreed, where the original loan had completed based on sterling LIBOR? This could apply for example during a transfer of equity, a divorce, or porting of mortgage to a new property.** If amending or entering into a new mortgage after end Q3 2020 then the transition mechanic should be incorporated. If issuing a new mortgage after end Q1 2021, it should be an alternative rate referenced contract. Please also see earlier question on 'what is meant by a "re-financed LIBOR-referencing loan product'.

Transition of legacy transactions	➢ **The press release is silent on the previously announced timeline to significantly reduce the stock of sterling LIBOR referencing contracts by Q1 2021. In the light of the deferral of new transactions to Q1 2021, what is the implication for the timeline to reduce the stock of legacy contracts?** This recommended milestone has not changed. Reaching the recommended Q3 2020 milestone will assist with significantly reducing the stock of existing sterling LIBOR contracts and the RFR WG will provide further updates in due course.
Trade Finance products and Term SONIA	➢ **Should term rates be delayed further than Q3 2020, what are the expectations on firms where they are within the 10% of the market (use case papers) where a term SONIA rate was identified as being potentially appropriate?** The expectation is that sterling LIBOR referencing transactions that mature before the end of 2021 can be issued beyond end Q3 2020 without including new contractual arrangements for conversion to an alternative benchmark. For those products requiring a term rate and which have a maturity beyond the end of 2021, executed after end Q3 2020, these should include appropriate contractual arrangements to facilitate conversion to an alternative rate before the end of 2021. In this case, firms could consider an arrangement whereby the transaction switches to a Term SONIA Reference Rate (TSRR), if appropriate and available, and to an alternative reference rate, such as Bank Rate, if not. ➢ **For those products for which a term rate has been identified as necessary, can the timelines make clear these products will only be offered en masse once term rates are useable and lenders and borrowers have clarity on a market preferred term rate provider? A two-phased approach, requiring for example to offer a base rate option until a term SONIA rate available, could be confusing for customers and create conduct risk.** TSRRs are expected to be available for market participants to use in contracts before the end of the Q1 2021 deadline for ceasing sterling LIBOR issuance. With the deadline for cessation of sterling LIBOR issuance for contracts maturing beyond the end of 2021, having moved to end of Q1 2021, the delay in TSRR publication should allow this target to be met. For new and re-financed sterling LIBOR-referencing loan products maturing beyond the end of 2021 lenders are expected to include clear contractual arrangements for conversion to an appropriate alternative benchmark when available. ➢ **Is it intended that discount products, such as Receivables Finance where the LIBOR rate is fixed upfront, entered into late in 2021 and expiring beyond LIBOR cessation, continue to be issued past the Q1 milestone?** For those transactions where the last reference rate fixing/discount rate occurs before the end of 2021 and the rate is thus fixed for the final interest period or trade finance discount, there is no longer any floating rate/ LIBOR dependency and these could be issued beyond the end of Q1 2021. ➢ **When are the term RFRs expected to be available?** The four administrators (FTSE Russell, ICE Benchmark Administration, Refinitiv and IHS Markit) working on a TSRRs continue to make good progress and a number of these have begun publishing TSRRs as at end June 2020. The delays in publication are primarily as result of reduced liquidity in the derivative instruments used to construct the TSRRs as a result of COVID-19. These rates will be published for a “beta” period of observation expected to last for approximately 6 months to allow market participants to understand and assess the nature and behaviour of these rates before contractual usage in products can commence.

Customer/Product/Rate Matrix for domestic GBP lending:

Customer Category	Definition	Products	Suggested Rate Basis
Large Corporate / Leverage Finance	T/O > £25m	Loan Products Trade Finance (Discounted products) Trade Finance (Interest in arrears / Export Finance)	Compounded SONIA / Alternative Rate Term SONIA / Alternative Rate Term SONIA / Alternative Rate
Mid Corporate and Specialist Lenders	T/O > £6.5m/< £25m	Loan Products Trade Finance (Discounted products) Trade Finance (Interest in arrears / Export Finance)	Compounded SONIA /Alternative Rate Term SONIA / Alternative Rate Term SONIA / Alternative Rate
Small Commercial (Small & Medium Enterprise)	T/O >£2m / < £6.5m	Loan Products Trade Finance (Discounted products) Trade Finance (Interest in arrears / Export Finance)	Term SONIA / Alternative Rate Term SONIA / Alternative Rate Term SONIA / Alternative Rate
Retail and Wealth/Private Bank	T/O <£2m	Loan Products Mortgages	Term SONIA / Alternative Rate Term SONIA / Alternative Rate

Note: The above table is based on the Sterling RFR WG January 2020 paper, 'Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives'. The customer segments, definition, products and rate basis are high level summaries only. Please refer to the January 2020 paper for full detailed guidance.