UK Working Group on Sterling Risk-Free Reference Rates (RFR WG) 2020-21 Top Level Priorities

1. By end-Q1 2021, lenders and borrowers take necessary steps to cease issuance of LIBOR linked loan products that expire after the end of 2021, including by end-Q3 2020 making non-LIBOR alternatives available and including contractual conversion mechanisms in new or refinanced LIBOR products.

2. Take steps throughout 2020 to promote & enable widespread use of SONIA compounded in arrears

3. Take steps to enable a further shift of volumes from GBP LIBOR to SONIA in derivative markets

4. Establish a clear framework to manage transition of legacy LIBOR products, to accelerate reduction of stock of GBP LIBOR referencing contracts by end-Q1 2021 and complete active conversion where viable by end-Q2/3 2021.

5. Provide market input on issues around “tough legacy”
<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3 through to July; August continued overleaf</th>
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<tbody>
<tr>
<td><strong>Working Group Communications</strong></td>
<td><strong>RFR Working Group Deliverables</strong></td>
<td><strong>Market Developments &amp; External Dependencies</strong></td>
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<tr>
<td>Statement of 2020 RFR Working Group priorities and supporting documents:</td>
<td>Swaption conventions: anonymized survey feedback published</td>
<td>Term rate developments</td>
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<tr>
<td>• Factsheet for end-users</td>
<td>Cash credit spread adjustment: summary feedback published</td>
<td>Convention developments</td>
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<td>• Consent Solicitation statement</td>
<td>‘Tough Legacy’: paper published</td>
<td>Key market targets</td>
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<td>• Term Rate Use Case Paper</td>
<td>‘Tough Legacy’: paper published</td>
<td>Working Group deliverables</td>
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<td><strong>Term Rate:</strong> provisional development for dealers to stream prices to venues</td>
<td>Term Rate: providers publish an initial ‘beta’ term rate to be used for testing purposes</td>
<td>ISDA developments</td>
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<tr>
<td><strong>Q2 TARGET</strong></td>
<td>Non-linear legacy derivatives Task Force established</td>
<td>ISDA announce results of consultation on pre-cessation triggers</td>
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</table>

- **Q2 TARGET**
  Loan market participants to have addressed critical internal dependencies (e.g. updates to funds transfer pricing, intercompany loans and Asset Liability Management)
**UK RFR Roadmap | 2020-21 intermediate update**

**Q3**
- **Series of educational videos** for LIBOR transition
- **Series of industry videos** for LIBOR transition
- Ongoing communications to cash market stakeholders

**Q4**
- **Loan market conventions**: RFR WG recommends proposed conventions
  - Loans Enablers taskforce publish detailed roadmap to Q1 2021 target
  - Cash credit spread adjustment: RFRWG statement on credit spread methodology and successor rates
  - Cash legacy: RFRWG publishes papers on active conversion of bonds and loans

**Q1 2021**
- **Term Rate**: provisional live Term Rate published

**Q2**
- Q2/Q3 2021 TARGETS
  - Assess and actively convert LIBOR linked linear derivatives where viable
  - Cease new issuance of sterling LIBOR linked non-linear and cross-currency derivatives that mature after 2021

**Q3**
- Q3 20 TARGETS
  - Lenders are able to offer non-LIBOR alternatives to customers
  - Lenders include contractual arrangements in new and re-financed LIBOR-referencing loan products to facilitate conversion to SONIA or other alternatives
  - Key infrastructure available from Treasury Management Systems and loans vendors to use compounded SONIA
    - **Interest rate swap conventions**: Sterling swaps liquidity providers to adopt new quoting conventions based on SONIA on 27 October 2020*
    - ISDA expected to publish its protocol and updated definitions**
  - Widespread sign-up to the ISDA protocol achieved ahead of effective date

**Q4 20 TARGETS**
- Be operationally ready to support the development and market making of non-linear SONIA derivatives
- Progress active conversion of cash products where viable to reduce legacy volume
- Complete assessment of all post-2021 cash contracts to identify those that can be actively converted
- Accelerate active conversion of cash products where viable to reduce legacy volume

**Q1 21 TARGETS**
- Cease initiation of new Sterling LIBOR linked linear derivatives and cash products maturing after 2021
- Complete assessment of all post-2021 cash contracts to identify those that can be actively converted
- Accelerate active conversion of cash products where viable to reduce legacy volume

**Q2/Q3 21 TARGETS**
- Assess and actively convert LIBOR linked linear derivatives where viable
- Cease new issuance of sterling LIBOR linked non-linear and cross-currency derivatives that mature after 2021
- Complete active conversion of cash products. Where active conversion is not possible for loans, ensure robust fallbacks are adopted

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** Subject to relevant regulatory clearances. See: [https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor](https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor)
**Revised target milestones to manage transition away from Sterling LIBOR linked products by end 2021**

In support of the Working Group’s objectives to establish clear frameworks to cease trading of new LIBOR linked products and manage transition of legacy LIBOR products, the table below provides a product-by-product view of the steps needed to meet the key milestones established by the Working Group.

<table>
<thead>
<tr>
<th>By end of:</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2/Q3 2021</th>
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<tbody>
<tr>
<td><strong>Derivatives</strong></td>
<td>• Adhere to the ISDA protocol before the effective date*&lt;br&gt;• Be operationally ready to support the development and market making of non-linear and cross-currency SONIA derivatives&lt;br&gt;• Sterling swaps liquidity providers to adopt new interdealer quoting conventions based on SONIA and move to use of single period swaps rather than forward rate agreements on 27 October, subject to prevailing market conditions.</td>
<td>• Cease initiation of new Sterling LIBOR linked linear derivatives expiring after 2021 (except for risk management of existing positions)**&lt;br&gt;• Complete assessment of all post-2021 contracts to identify those that can be actively converted&lt;br&gt;• Accelerate active conversion where viable (e.g. auction / compression mechanisms) to reduce legacy volume</td>
<td>• Assess and actively convert where viable (e.g. auction / compression mechanisms)&lt;br&gt;• Cease trading of LIBOR linked non-linear derivatives, and cross-currency derivatives with a sterling leg, expiring after 2021 (except for risk management of existing positions)</td>
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| Bonds and securitisations | • Progress active conversion (e.g. consent solicitation mechanisms) where viable to reduce legacy volume | • Cease new issuance of Sterling LIBOR-referencing products maturing after 2021<br>• Complete assessment of all post-2021 contracts to identify those that can be actively converted<br>• Accelerate active conversion where viable (e.g. consent solicitation mechanisms) to reduce legacy volume | • Complete active conversion where viable |

| Loans | • Progress active conversion (e.g. at renewal, proactive negotiation, or using pre-agreed terms) where viable to reduce legacy volume | • Cease new issuance of Sterling LIBOR-referencing products maturing after 2021<br>• Complete assessment of all post-2021 contracts to identify those that can be actively converted<br>• Accelerate active conversion (e.g. at renewal, proactive negotiation, or using pre-agreed terms) where viable to reduce legacy volume | • Complete active conversion where viable<br>• Where active conversion is not possible, ensure robust fallbacks are adopted |

*Subject to individual firms’ usual governance procedures and negotiations with counterparties as necessary. Where the protocol is not used, other appropriate arrangements will need to be considered to mitigate risks.

**The RFRWG recognises that dealers and other market makers executing such trades for their clients may accumulate LIBOR risk as a result and that they cannot necessarily assess, or reasonably be expected to seek to discover, the intent of their clients when approached to initiate a LIBOR derivative trade. Discussions are ongoing on a conventions switch from LIBOR to SONIA in the derivative markets, and this includes non-linear derivatives, cross currency swaps and futures. It is acknowledged that non-linear and cross-currency RFR markets currently remain nascent, and that there will be further developments on the approach for transition of legacy non-linear derivatives during 2020.**