The Working Group on Sterling Risk-Free Reference Rates

December 2021

The GBP LIBOR panel ceases at end-2021: Are you ready?

The GBP LIBOR panel will cease in just four weeks' time, marking a critical milestone in the necessary transition to more robust reference rates. Sterling markets have led the way in the transition to Risk-Free Reference Rates ("**RFRs**") with the Sterling Overnight Index Average ("**SONIA**") now widely used across sterling floating rate products. However, the remaining stock of legacy GBP LIBOR contracts and a number of significant operational conversion events means there is continued work to be completed as we approach year-end. The Working Group on Sterling Risk-Free Reference Rates (the "**Working Group**") encourages market participants to:

- Use SONIA linked contracts, where appropriate, for all new business;
- Continue to pursue the active transition of legacy GBP LIBOR exposures to robust alternative rates such as SONIA wherever feasible; and,
- Ensure readiness for the implementation of contractual fallbacks, including planned conversion processes of central counterparties to RFRs and operationalisation of the ISDA 2020 IBOR Fallbacks Protocol.

Using SONIA linked contracts for new business

Following a number of milestones recommended by the Working Group, sterling markets have successfully transitioned away from LIBOR to SONIA for new business. Where appropriate the Working Group recommends SONIA should be used instead of GBP LIBOR.[1] SONIA linked markets are well established and a full range of lending and risk management products are widely available. SONIA linked derivatives now account for 92% of activity in new GBP linear cleared swap volumes and SONIA linked lending has quickly surpassed £100bn across a wide range of facilities being used by all types of businesses.

Continued active transition of legacy LIBOR contracts & 'synthetic' LIBOR as a temporary bridging tool

As announced by the Financial Conduct Authority (the "**FCA**") in March 2021, LIBOR panels for GBP, JPY, CHF and EUR currency settings will cease at the end of the year. Certain key USD LIBOR settings will continue until end-June 2023, but this is only to support the rundown of legacy contracts.

Both the Prudential Regulation Authority (the "**PRA**") and the FCA have said they will continue to monitor firms' efforts to remove any remaining dependencies on LIBOR across all asset classes, both leading up to and after end-2021. Further information is available from the Working Group website, relevant trade bodies and the official sector to support firms in executing transition plans with confidence and assist clear and transparent communication with clients.

The FCA has confirmed its decisions to compel the continued publication of 6 GBP and JPY LIBOR settings for a limited period after end-2021, using a 'synthetic' methodology. This is the respective Term RFRs plus the appropriate ISDA spread adjustment. In November 2021, the FCA said that, for now, the use of these synthetic rates is permitted in all legacy contracts except cleared derivatives. The FCA has been clear that synthetic LIBOR is a temporary bridging tool, and it will need to review its availability annually. The scope of legacy contracts permitted to use synthetic LIBOR could progressively reduce and continued focus on active transition of contracts rather than relying on synthetic LIBOR is encouraged, since availability of synthetic LIBOR cannot be assured beyond 2022. The active transition of legacy GBP LIBOR contracts, including the completion of current negotiations before end-2021 wherever practicable, remains the best way for market participants to retain control and certainty over their existing agreements.

[1] See the Working Group's paper on 'Use cases of benchmark rates' for further information.

Key operational events

The adoption of robust fallbacks has been a critical step in reducing the risks associated with LIBOR cessation or the loss of representativeness. Widespread adherence to the ISDA IBOR Fallbacks Protocol, combined with planned conversion processes by central counterparties ("**CCPs**"), have provided an orderly transition path for over 97% of GBP LIBOR interest rate derivatives. The ISDA IBOR Fallbacks Protocol remains open for adherence where firms have not yet done so.

The volume of contracts that will be transitioned through CCP conversion processes or via the implementation of fallbacks will see some of the largest single day switches from LIBOR to RFRs, and therefore presents increased operational risks to markets and their participants. The Working Group encourages firms to ensure they have clear plans, resourcing and oversight in place to support a smooth transition on the CCP conversion dates noted below, as well as the Index Cessation Effective Date (for the purposes of the ISDA IBOR Fallbacks Protocol and Supplement) for relevant GBP, JPY, CHF and EUR LIBOR settings on the first London Banking Day on or after 1 January 2022.[2] The Working Group has published a paper setting out some operational considerations for uncleared linear derivative fallbacks to assist market participants in these preparations.

Table 1: Planned CCP conversion processes of outstanding LIBOR contracts to RFRs

CCP	Product	Currency	Timing of planned conversion
LCH	Swaps	CHF, EUR, JPY GBP	4 - 5 December 18 - 19 December
CME	Swaps	CHF, JPY GBP	3 December (End-of-day) 17 December (End-of-day)
Eurex	Swaps	CHF, JPY GBP	3 - 5 December 17 - 19 December
ICE	Futures & Options Futures	GBP CHF	17 - 19 December 17 - 19 December
CurveGlobal Markets	Futures	GBP	11 - 12 December

Ceasing new use of USD LIBOR

Beyond its focus on the transition from GBP LIBOR to SONIA, the Working Group is supportive of the transition of other LIBOR currencies to RFRs. The use of USD LIBOR in UK markets is significant and it is the most widely used of the LIBOR currencies globally. The US Alternative Reference Rates Committee's (the "**ARRC**") recommended alternative is the Secured Overnight Financing Rate ("**SOFR**").[3] In November 2021, the FCA confirmed it would prohibit new use of USD LIBOR after end-2021 (with some limited exceptions) for UK supervised entities; this is consistent with the timeline put in place through supervisory guidance from US authorities. Additionally, there is broad international support for ceasing new use of USD LIBOR after the end of this year coordinated through the Financial Stability Board.[4] The ARRC has encouraged market participants to act now to slow use of USD LIBOR to be well positioned to meet the year-end supervisory deadline.

Next steps

The transition from GBP LIBOR has been a significant multi-year industry effort. As we enter the final month of the GBP LIBOR panel, the Working Group encourages the continued focus of market participants to help ensure a smooth transition to robust alternative rates such as SONIA, and the continued wind-down of any remaining GBP LIBOR exposures.

[2] ISDA guidance notes that the first London Banking Day on or after 1 January 2022 is expected to be Tuesday 4 January 2022, unless Tuesday 4 January 2022 is an unscheduled holiday.
[3] See the ARRC's website
[4] International Organization of Securities Commissions, Financial Stability Board, European authorities, Hong Kong Monetary Authority

Tushar Morzaria, Chair of the Working Group on Sterling Risk-Free Reference Rates, said:

"The Working Group is nearing completion of its primary objective to catalyse a broad-based transition to SONIA by end-2021. In a formidable effort spanning many years, the wide ranging membership have worked closely with a broad swathe of market participants to set out a clear roadmap for transition in the sterling loan, bond and derivative markets.

SONIA has become the reference rate of choice across sterling asset classes for new business. The active transition of legacy LIBOR referencing contracts should continue with full effort, where feasible, in line with industry and regulatory guidance. For the remaining contracts unable to transition by year-end, the FCA has provided a temporary bridging tool intended to mitigate cessation risks.

Whilst a few key deliverables remain in the coming weeks, this collaboration of industry and the official sector throughout the journey has well-served the common goal of transitioning the market in a fair and orderly manner."

Andrew Bailey, Governor of the Bank of England, said:

"The cessation of LIBOR has been on the horizon for a number of years. The underlying market that LIBOR seeks to measure – the market for unsecured wholesale term lending between banks – is no longer sufficiently active to support such a widely used reference rate. Through the clear milestones recommended by this group, sterling markets have led the way in building liquidity in more robust risk-free reference rates.

For all intents and purposes, across all currencies, LIBOR is closed for new business from end 2021. As we approach this significant milestone, I encourage all market participants to ensure they are ready to complete a smooth and orderly transition from LIBOR."

Nikhil Rathi, CEO of the Financial Conduct Authority, said:

"The transition from LIBOR to risk-free rates is one of the biggest changes to financial markets in modern financial history and will make them safer, more robust and transparent. This group has paved the way for transition efforts and helped set the pace internationally, which has been a testament to the joined-up efforts of industry and the official sector.

The FCA has now, through its enhanced powers and series of consultations, put in place many of the final pieces for the wind down of sterling LIBOR. While Synthetic LIBOR will give the market some additional time to adjust, it cannot be guaranteed after 2022, so it remains vitally important that firms continue to transition contracts from LIBOR to the more robust risk-free rates."