



**BANK OF ENGLAND**

# News release

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## **Next steps for LIBOR transition in 2020: the time to act is now**

The Bank of England (the Bank), Financial Conduct Authority (FCA) and the Working Group on Sterling Risk-Free Reference Rates (RFRWG) have published a set of documents today, outlining priorities and milestones for 2020 on LIBOR transition.

This is a critical year for LIBOR transition. As the Bank's Financial Policy Committee (FPC) set out in December 2019, whilst good progress has been made, firms need to accelerate efforts to ensure they are prepared for LIBOR cessation by end-2021.

To help achieve this, the RFRWG has today published its priorities and an updated roadmap for the year ahead to highlight important events and clarify actions market participants should take to reduce LIBOR exposure and transition to alternative rates, including:

- Ceasing issuance of cash products linked to sterling LIBOR by end-Q3 2020;
- Throughout 2020, taking steps that demonstrate that compounded SONIA is easily accessible and usable;
- Take steps to enable a further shift of volumes from LIBOR to SONIA in derivative markets;
- Establishing a framework for the transition of legacy LIBOR products, in order to significantly reduce the stock of LIBOR referencing contracts by Q1 2021; and
- Considering how best to address issues "tough legacy" contracts.

The Bank and FCA support these objectives and have published two documents designed to further catalyse transition efforts:

- First, a joint letter that has been sent to major banks and insurers, supervised in the UK. This letter sets out the initial expectations of the FCA and PRA of firms' transition progress during 2020, including in relation to the targets set by the RFRWG, and highlights the FPC's close monitoring of the steps being taken.
- Second, a statement from the Bank and the FCA encouraging market makers to switch the convention for sterling interest rate swaps from LIBOR to SONIA on 2 March 2020. This is designed to help progress transition in the derivatives market.

The RFRWG has also published a series of documents today, including:

- A document setting out the RFRWG's views on which types of business and client should use overnight SONIA, relative to alternatives including forward-looking term rates. This concludes that use of SONIA compounded in arrears is appropriate and operationally achievable for 90% of new loans by value, which is consistent with the RFRWG's existing expectation that the use of forward-looking term rates will be more limited than the current use of LIBOR. The Bank and FCA supports this conclusion fully.
- A set of helpful 'lessons learned' from recent conversions of legacy LIBOR contracts.
- A factsheet that makes clear the "whys" and "whats" of LIBOR transition that sets out why all market participants need to act now.

Today's publications, along with an update in December (details in notes to editors), are a comprehensive suite of materials that support of the RFRWG's priorities and milestones. The time to act is now: with the tools published today and the support of the official sector domestically and internationally, market participants have what they need to leave LIBOR behind.

Tushar Morzaria, Chair, Working Group on Sterling Risk-Free Reference Rates, commented: *"2020 will be a pivotal year in the transition journey, with critical focus on enabling the flow of new business away from sterling LIBOR. The Working Group on Sterling Risk-Free Reference Rates has therefore defined a key priority to cease issuance of sterling LIBOR cash products by the end of Q3. In conjunction, the RFRWG fully supports the Bank of England and FCA initiative to encourage market makers to change the market convention for sterling interest rate swaps from LIBOR to SONIA in Q1 2020."*

Andrew Hauser, Executive Director for Markets at the Bank of England noted: *"Today's suite of publications helps provide greater clarity to the market on a number of issues central to LIBOR transition as we head towards the 2021 deadline. I am particularly encouraged by the ambitious goals that market participants have set for themselves this year – including the aim to cease issuance of cash products linked to sterling LIBOR by 2020 Q3 – and by the steps already taken towards those goals, including the creation of new SONIA-linked loans and the conversion of legacy bonds. The groundwork has been laid for a decisive shift away from LIBOR in 2020."*

Christopher Woolard, Executive Director of Strategy and Competition at the FCA, commented: *"In most products, market participants have made impressive progress in moving away from LIBOR. The time has come to draw to a close its remaining use. The Bank and the FCA have written to major banks and insurers to set out our expectations for transition progress during 2020 and to reaffirm our support for the Working Group's targets. Firms must act now to help meet these targets and ensure a smooth transition to alternative rates by end-2021."*

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## Notes to Editors:

1. The RFRWG documents that have been published today are listed below. They can be found via the following link: <https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>
  - a. The RFRWG's 2020 priorities and milestones.
  - b. A paper titled: *The Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives*.
  - c. Lessons learned from recent conversions of legacy LIBOR contracts.
  - d. A factsheet titled: *Calling time on LIBOR: Why you need to act now*.
2. The Statement from the Bank and FCA on OIS streaming conventions can be found via the following link: <https://www.bankofengland.co.uk/news/2020/january/fca-and-boe-joint-statement-on-sonia-sterling-interest-rate-swaps-in-q1-2020>
3. The joint letter from the Bank and FCA to senior managers of UK banks and insurers with regards to LIBOR transition can be found via the following link: <https://www.bankofengland.co.uk/prudential-regulation/letter/2020/initial-expectations-fca-pra-of-firms-libor-transition-progress-during-2020>
4. In December, a consultation was published considering the approach to use in order to determine the credit adjustment spread for inclusion in sterling cash products referencing LIBOR. To note that the window for feedback on this consultation paper closes 6 February 2020. <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/consultation-on-credit-adjustment-spread-methodologies-for-fallbacks-in-cash-products-referencing-gb.pdf?la=en&hash=D893C0D56C992CBB0F4F3B7FAD1F2421F831DD85>
5. Further information with regards to LIBOR transition can be found on the following webpage: <https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>
6. The Financial Stability Report referenced in the press release can be found via the following link. Box 10 relates to LIBOR transition: <https://www.bankofengland.co.uk/financial-stability-report/2019/december-2019>