

IBOR TO RISK FREE RATES TRANSITION – DEVELOPMENTS AT SEPTEMBER 2020

INTERNATIONAL IBOR TRANSITION

INTERNATIONAL STANDARD SETTERS

- **9 July 2020:** FSB/BCBS [report](#) and recommendations to support LIBOR transition
- **1 July 2020:** FSB [statement](#) on the impact of COVID-19 on global benchmark reform

JAPAN (TONAR)

- **7 August 2020:** Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks [launches](#) second public consultation on interest rate benchmark reform
- **1 June 2020:** Bank of Japan [writes](#) to CEOs of major financial institutions on LIBOR transition.

UNITED STATES (SOFR)

- **2 Sept 2020:** ARRC [RFP](#) for firms to publish indicative and static credit adjustment spreads
- **27 August 2020:** ARRC [Releases](#) Updated Recommended Hardwired Fallback Language for Bilateral Business Loans
- **30 July 2020:** ARRC [newsletter](#) on developments in June & July.
- **22 July 2020:** ARRC [releases](#) Conventions Related to Using SOFR in Arrears for Syndicated Loans

EURO AREA (€STR)

- **18 June 2020:** Working Group on euro RFRs [publishes](#) recommendation on legacy swaptions
- **13 March 2020:** Working Group on Euro Risk Free Rates [consults](#) on whether to recommend voluntary compensation and possible approaches for swaption contracts impacted by the CCP discounting transition to the €STR.

LIBOR TRANSITION TO SONIA

LATEST UPDATES

- **1 Sept 2020:** Sterling RFR WG [issues](#) statement on conventions for referencing SONIA Compounded in Arrears in bilateral & syndicated loans.
- **11 August 2020:** European Commission sets [6 October deadline](#) for comments on July legislative proposal to amend Benchmarks Regulation
- **3 August 2020:** FCA [discusses](#) critical tasks ahead in the second half of 2020
- **3 August 2020:** Sterling RFR WG [publishes](#) July 2020 newsletter.
- **29 July 2020:** ISDA Board [encourages](#) adherence to forthcoming ISDA fallback protocol.
- **24 July 2020:** European Commission legislative [proposal](#) to amend Benchmarks Regulation to address LIBOR cessation risks.
- **22 July 2020:** Bloomberg [begins publishing](#) calculations related to IBOR fallbacks
- **7 July 2020:** PRA [statement](#) on LIBOR transition and PRA resolution-related rules
- **29 June 2020:** BoE [publishes](#) feedback to its consultation on introducing a SONIA Compounded index; Index to be published from August 2020.

PRODUCT FOCUS

BILATERAL LOANS

- **July 2020:** Coastline Housing [completes](#) £30 million SONIA-Linked revolving credit facility based on LMA Exposure Draft SONIA Facility Agreement
- **April 2020:** Riverside Group [completes](#) what is thought to be the first SONIA-linked £100m revolving credit facility in housing sector.
- **October 2019:** Natwest [amends](#) existing LIBOR loan to South West Water to be SONIA based - methodology used is that also chosen by the bond market so far i.e. daily compounded SONIA; five-day lag reset; margin added after the compounding calculation.
- **June 2019:** Natwest launches pilot SONIA loan scheme for certain corporate clients.

SYNDICATED LOANS

- SONIA term rate under development – expected to be available early 2021.
- **LMA** has created [exposure drafts](#) of compounded RFR facility agreements based on SONIA and SOFR. Methodology follows that seen in the bond market and bilateral loan market with the lag period being left open to agreement. An [update](#) on **28 February 2020** set out outstanding issues before the exposure drafts can be finalised.
- **LMA** also working on exposure drafts of a multi-currency facility agreement, and a facility agreement involving a switching mechanism. Switching mechanism was used in: (i) BAT's [March 2020](#) SONIA and SOFR linked revolving credit facility. (ii) ABP's [May 2020](#) LIBOR and SONIA linked term loan facility

MORTGAGES & CONSUMER CREDIT

- **FCA** strongly encouraging mortgage lenders, intermediaries and mortgage borrowers to avoid new mortgage contracts that rely on LIBOR continuing beyond end-2021.
- Alternative RFRs being considered by the industry include SONIA, Bank Base Rate, and Standard Variable Rate.
- FCA's [forthcoming benchmark powers](#) will help address mortgage tough legacy issues

FINANCIAL MARKETS (Bonds, securitisations, derivatives)

- **Bonds:** no market consensus yet on a RFR alternative to LIBOR but we have seen daily compounding with a 5-day lag being used. Bond markets expected to follow developments in derivatives markets. **April 2020:** ICMA [discusses](#) challenges for legacy sterling LIBOR bond conversions.
- **Securitisations:** **AFME** [published](#) wording in April 2018 for a model condition for benchmark rate modifications in RBMS & other securitised debt. **February 2020:** Goldman Sachs begins [marketing](#) first SONIA-linked securitisation.
- **Derivatives:** **ISDA** [expects](#) to move forward on the basis that pre-cessation fallbacks based on a 'non-representativeness' determination and permanent cessation fallbacks would apply to all new and legacy derivatives referencing LIBOR that incorporate the amended 2006 ISDA Definitions. **ISDA IBOR protocol expected to launch Autumn 2020.**

CUSTOMER FOCUS

- **23 June 2020:** **AFME** [publishes](#) paper, LIBOR Transition: Managing the Conduct and Compliance Risks: Client communications.
- **17 December 2019:** **AFME** [published](#) a White Paper on managing the conduct and compliance risks of LIBOR transition - practical guidance for an effective corporate governance framework around LIBOR transition