

# IBOR TO RISK FREE RATES TRANSITION – DEVELOPMENTS AT JULY 2020

## INTERNATIONAL IBOR TRANSITION

### INTERNATIONAL STANDARD SETTERS

- **1 July 2020:** FSB [statement](#) on the impact of COVID-19 on global benchmark reform
- **11 April 2020:** FSB Chair [confirms](#) FSB report to G20 due July 2020.
- **2 April 2020:** FSB [confirms](#) transition deadline remains end-2021 despite COVID-19.

### JAPAN (TONAR)

- **1 June 2020:** Bank of Japan [writes](#) to CEOs of major financial institutions on LIBOR transition.
- **26 February 2020:** Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks [selects](#) Quick Corp. as a suitable calculating and publishing entity of prototype rates for Term Reference Rates (TRRs).

### UNITED STATES (SOFR)

- **30 June 2020:** ARRC [releases](#) Updated Recommended Hardwired Fallback Language for Syndicated Loans
- **29 May 2020:** ARRC newsletter [includes](#) best practices for achieving transition milestones.
- **17 February 2020:** ARRC [announces](#) Key objectives for 2020.

### 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

- **29 June 2020:** BoE [publishes](#) feedback to its consultation on introducing a SONIA Compounded index; Index to be published from August 2020.
- **23 June 2020: Tough Legacy Issues:** [Chancellor](#) and [FCA](#) statements on amendments to retained Benchmark Regulation; FCA issues a [webpage](#) outlining its proposed new powers.
- **11 June 2020:** FICC Markets Standards Board [publishes](#) Spotlight Review on navigating conduct risks in LIBOR transition.
- **1 June 2020:** FCA and PRA resume full supervisory engagement with firms on their LIBOR transition progress (see [PRA statement](#)).
- **29 May 2020:** Sterling RFR Working Group [publishes](#) paper on identification of **Tough Legacy Issues**
- **29 May 2020:** LMA [launches](#) LIBOR transition glossary of terms.
- **20 May 2020:** LMA [publishes](#) a list of RFR-referencing bilateral and syndicated loans.
- **14 May 2020:** ISDA [publishes](#) Report summarising final results of its consultation on pre-cessation fallbacks for LIBOR.
- **7 May 2020:** Interim Financial Stability Report [highlights](#) continued importance of transition away from LIBOR.

### PRODUCT FOCUS

#### BILATERAL LOANS

- **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.
- **June 2019:** Natwest [executes](#) its first debt loan referencing SONIA, a revolving credit facility, with National Express.

#### SYNDICATED LOANS

- No forward-looking SONIA-based term rate developed yet.
- **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.
- The LMA is also working on exposure drafts of a multi-currency facility agreement, and a facility agreement involving a switching mechanism. A switching mechanism was used in BAT's [March 2020](#) SONIA and SOFR linked revolving credit 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

### 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