IBOR TO RISK FREE RATES TRANSITION – LIBOR TRANSITION TO SONIA

ADDLESHAW GODDARD

DEVELOPMENTS AT SEPTEMBER 2021

LATEST UPDATES

- **4 August 2021:** Sterling RFR WG publishes July 2021 newsletter
- **28 July 2021:** FICC Markets Standards Board finalises standard on use of Term Sonia reference rates
- **21 July 2021:** BoE and FCA encourage RFR based quoting conventions for cross-currency swaps from 21 September.
- **14 July 2021:** FCA consults on LIBOR transition and the UK MiFIR derivatives trading obligation
- **12 July 2021:** Sterling RFR WG publishes Active transition of legacy GBP LIBOR loan contracts – Timelines and considerations for borrowers
- **9 July 2021:** FCA clarifies UK MiFIR and UK EMIR reporting obligations in the context of LIBOR transition
- **5 July 2021:** FCA speech on LIBOR transition with six months to go
- **24 June 2021:** FCA consults on proposed UK BMR power to require synthetic LIBOR publication for 6 GBP and Yen settings

OUTLOOK FOR SEP - OCT 2021

- **Cessation of new sterling LIBOR business**. From 1 April 2021, no sterling LIBOR loan, bond, securitisation or linear derivatives business should be written by PRA and FCA regulated firms and groups, unless specifically permitted within the RFR WG milestones.
- **End-Q3 milestone** for active conversion of all legacy sterling LIBOR contracts where viable.

PRODUCT FOCUS

BILATERAL LOANS

- **March 2021:** The Guinness Group completes first SONIA revolving credit facility – SONIA Compounded in arrear with a lookback .
- **January 2021:** Hines Pan European Core Fund (HECF) completes a green loan facility - Compounded SONIA will be used for GBP, with a partial cash-flow hedge priced over SONIA.
- **December 2020:** Metropolitan Thames Valley (MTVH) agrees a three-year facility believed to be the first Risk Free Rate (RFR) sustainability-linked loan in the sector
- **September 2020**: Innova Energy completes £30m SONIA-linked term loan facility to fund renewable energy projects

SYNDICATED LOANS

- ICE Term SONIA reference rates and indices are available to licensees.
- **LMA** has updated exposure drafts as recommended forms of (i) compounded RFR facility agreements based on SONIA and SOFR. (ii) multi-currency facility agreements, and (iii) facility agreements involving a switching mechanism, with considerations for their use.
- Switching mechanism was used in, e.g.: (i) BAT's March 2020 SONIA and SOFR linked revolving credit facility (ii) ABP's May 2020 LIBOR and SONIA linked term loan facility (iii) Implenia AG's March 2021 multicurrency revolving credit facility with a built in switch from LIBOR to SARON.
- LMA issued further.documentation in June 2021 to assist firms in transition.

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. FCAs updated Q&A on conduct risk include treating customers fairly on active transition. March 2021 Dear CEO letter highlights conduct risk mitigation.
- FCA's forthcoming benchmark powers will help address mortgage tough legacy issues – FCA consulting on the exercise of its powers on legacy use until 27 August 2021.

FINANCIAL MARKETS (Bonds, securitisations, derivatives)

- **Bonds**: In the SONIA-referencing bond market, the convention has been to aggregate the daily SONIA rates on a compounded basis. Sterling FRF WG published feedback in March 2021 on successor rate to GBP LIBOR in legacy bonds referencing GBP LIBOR. In a publication from **April 2021**: **ICMA** update on consent solicitation issues
- **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. **Jan 2021**: AFME call to action – active transition of LIBOR linked securitisation
- **Derivatives**: **ISDA** IBOR Protocol effective from 25 January 2021.

CUSTOMER FOCUS

- **12 Feb 2021:** UK Finance guide advises comprehensive approach to customer outreach
- **28 October 2020:** UK Finance and Lending Standards Board publish best practice guidance on transitioning SME customers to non-LIBOR-linked products
- **16 September 2020:** UK Finance publishes guide to LIBOR discontinuation for business customers
- **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

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