



IBOR TRANSITION NEWSLETTER

First Edition: December 2019

I am delighted to introduce this, our first Newsletter dealing with the planned transition away from LIBOR and other Interbank Offered Rates (IBORs). As well as Sterling, we will also cover other IBOR regions and currencies.

What has happened so far

In the UK, during 2017 the CEO of the Financial Conduct Authority (FCA), Andrew Bailey, announced¹ that it was the FCA's intention that it would no longer be necessary for it to use its powers to persuade or compel the panel of banks that contribute to LIBOR to do so after 2021. Since then, working groups have been set up around the world to facilitate the transition. The Bank of England's Working Group on Sterling Risk-Free Rates (BoE RFR WG) has recommended SONIA as the alternative benchmark for GBP LIBOR.

In June this year the BoE RFR WG publicised a target that there should be no new Sterling issuance of LIBOR-based products maturing after 2021 from the end of Q3 next year. Clearly adherence to this will have far reaching implications for banks and clients alike.

In the last 6 months we have seen significant momentum from working groups and market bodies across the Sterling, Euro and Dollar markets. This included the Loan Market Association (LMA) and the Loan Syndications Trading Association (LSTA) developing draft documentation to support transition, and the completion of the International Swaps and Derivatives Association (ISDA) consultations on IBOR fallbacks ahead of publication of their revised definitions at the end of the year.

The loan markets are behind the derivatives markets in use of alternative risk-free rates, however almost all Sterling floating rate bond issuance, where maturity is after 2021, is now based on SONIA.

What has happened recently

The past two months have seen continued support for the adoption of risk-free rates from the Financial Stability Board (FSB) and its official sector working groups in the UK, Europe and the US.

In the UK the BoE RFR WG has taken the opportunity to highlight to the authorities some of the technical issues being faced by market participants whilst the FCA has published a Q&A for firms covering conduct risk.

The new Euro short-term rate (€STR) was published by the European Central Bank (ECB) for the first time on 2 October 2019 and the European Commission (EC) has launched a consultation on the Benchmark Regulation (BMR) which governs the use of all benchmarks, including the IBORs, within the European Union.

The recent focus in the US has been two-fold; supporting the development of the new Secured Overnight Financing Rate (SOFR) on the one hand whilst emphasising the imperative for firms to be in a position to transition away from USD LIBOR by the end of 2021 on the other.

ISDA has published the results of two consultations: the first on including an additional "pre benchmark cessation" trigger for the IBOR fallbacks; and the second on the parameter adjustments that will be applied to risk free rates when being used as the replacement rate once the fallback is triggered.

Elsewhere the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) has published a study covering the Implications of Financial Benchmark Reforms.

KEY RECENT DEVELOPMENTS

GLOBAL	<ul style="list-style-type: none">• ISDA publishes report on final parameter adjustments to IBOR fallbacks• FSB letter to ISDA on pre cessation triggers• ISDA publishes report on pre-cessation triggers
UK	<ul style="list-style-type: none">• FCA: Next steps in transition from LIBOR• FCA publishes Q&A on LIBOR transition conduct risk• UK Finance publish LIBOR guide• Sterling RFR WG sends letters to authorities on barriers to transition
EUROPE	<ul style="list-style-type: none">• EU RFR WG report on €STR fallback arrangements• EU RFR WG recommendations on accounting treatment for transition to risk free rates• EU RFR WG publish Q&As on euro risk free rates• EC launch consultation on the EU Benchmark Regulation (BMR)• New €STR and reformed EONIA rates published
US	<ul style="list-style-type: none">• ARRC publish summary of recommended fallback language• NY FED consultation on SOFR averages and SOFR index• FHFA instructs FHL banks to transition away from LIBOR• FED speech - LIBOR: The Clock is Ticking• ARRC releases a Practical Implementation Checklist for SOFR Adoption
Other Currencies	<ul style="list-style-type: none">• EMEAP publishes Study on the Implications of Financial Benchmark Reforms

For additional information from Lloyds Banking Group on the transition from LIBOR, please visit our website which includes our 'LIBOR: the countdown to 2021' paper and latest reference materials.

[Click here to visit our website >](#)

We are aiming to update you regularly

With 2021 fast approaching, we aim to keep you aware of key developments and plan to send this newsletter to you regularly throughout the period of transition. We hope you will find it useful.

Please let your Relationship Manager know if you have any feedback or suggestions.

Yours sincerely



Cris Kinrade
IBOR Transition Programme
Lloyds Bank Commercial Banking

Please feel free to get in touch with your relationship team to discuss any questions you may have. We would also encourage you to consult with your own advisors about these changes and any potential impacts for you.



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¹ www.fca.org.uk/news/speeches/the-future-of-libor

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