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The Working Group on Sterling Risk-Free Reference Rates

Calling time on LIBOR: Why you need to act now

1 Interest rate benchmarks, such as LIBOR, are used to calculate the interest rate in financial products. These rates are written into loans, bonds and mortgages, and many other contracts.

2 LIBOR is the most common interest rate benchmark in the UK. LIBOR is expected to cease after end-2021. In particular, LIBOR-linked loans may not be offered after Q3 2020. This will impact the variable rate in LIBOR-linked financial products.

3 All financial products **will need to** remove dependence on LIBOR by end-2021. All users of LIBOR must act now.

What's happening?

LIBOR is being phased out

Since the 1980s LIBOR has been used widely as an interest rate benchmark for many products. LIBOR is based on banks' submissions of their interbank borrowing rates. However, since the financial crisis, banks no longer fund themselves in this way. The absence of an underlying active market means LIBOR is sustained by the use of "expert judgement". This cannot continue indefinitely, and 2021 is the last year panel banks have agreed to participate in providing their submissions to LIBOR.

LIBOR is expected to cease after end-2021

Public authorities, in the UK and internationally, have been clear that LIBOR is expected to cease to exist after 2021. For loans, LIBOR products may not be offered beyond Q3 2020. All counterparties to a financial product or contract that references LIBOR will need to take action to remove any dependence on LIBOR that remains after 2021.

Robust alternative benchmark rates have been established, such as SONIA* in the UK

LIBOR is available in five currencies. Each relevant jurisdiction has established an alternative to LIBOR. This includes **SONIA*** in the UK. Unlike LIBOR which is fixed in advance for a set period (e.g. 3 months), SONIA is an overnight rate, measured on each day over the interest period to produce a final interest rate at the end. It is a (nearly) risk-free rate as it does not include any term bank credit risk or liquidity premium. These differences between SONIA and LIBOR will impact how interest is calculated.

Transition from LIBOR is underway, but all users must take further action

You will need to discuss with your bank or provider how you will switch your contract away from LIBOR. It is important that all users of LIBOR understand how the new rates differ from LIBOR, so they are prepared when providers get in touch about transition and the actions needed.

What do I need to do?

1. Establish where your LIBOR exposures are

Mortgages, loans, deposit facilities, derivatives and floating rate notes may reference LIBOR. It can also be found in ancillary contract terms (leasing and servicing contracts), company pension schemes, commercial contracts and discount rates used in valuations. It is important to identify your exposure to LIBOR and to understand what will happen to these contracts if LIBOR is no longer available.

2. Check your contract terms

Your contracts may include "fallback" terms setting out what will happen when LIBOR is not available. However these terms often do not envisage that LIBOR could be permanently unavailable. Check the fallback terms, what that means for your financial product and whether they need to be amended.

3. Familiarise yourself with SONIA, and what it means for you / your business

In sterling, the overnight rate SONIA is an alternative benchmark to LIBOR. SONIA is not a like-for-like replacement for LIBOR and cannot be directly substituted into existing contracts. Given the differences between the two rates, you/ your business may need to make changes to systems in order to use SONIA.

4. Speak to your bank, product provider, consult with a financial services professional or advisor

Ask your bank what preparations they are making and what that means for you/your business. You can seek further advice from financial service professionals as you consider how to prepare for transition.

Where can I find more information?

Authorities have convened industry-led groups in each jurisdiction to take this work forward:

£ → ***SONIA** *(Sterling Overnight Indexed Average)*	$ → **SOFR**	€ → **€STR**
Sterling Risk Free Reference Rate Working Group website. In particular, the Working Group on Risk Free Rates' transition guide and the FCA/PRA statement on the largest banks' plans for transition may help you in preparing for LIBOR transition.	Alternative Reference Rate Committee (ARRC) website.	Euro Working Group website.

This document is not intended to serve as legal advice, or as a substitute for firms' conduct obligations when offering products linked to LIBOR or alternative rates. *There are risks to the valuation, pricing or cost of your LIBOR product in the event the rate is no longer published or based on reduced submissions. Replacing the rate may raise tax, accounting and/or legal risks. You should consider with your legal advisors whether there may be risks of contractual frustration if your products continue to reference LIBOR beyond 2021.*

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