

**COMMERCIAL BANKING****LOOKING TOWARDS THE FUTURE**

Welcome to our Newsletter. This is our seventeenth edition providing an update on the transition away from the London Interbank Offered Rate (LIBOR) and other Interbank Offered Rates (IBORs). There are a number of important topics this month, which include:

- **KEY MESSAGES FROM THE OFFICIAL SECTOR**
- **WARNINGS FROM ISDA**
- **THE FINANCIAL SERVICES ACT AND SAFE HARBOUR**
- **MORE US TOUGH LEGACY LEGISLATION**
- **ARRC ON TERM RATES AND FAQs**
- **IBA CONSULTS ON GBP LIBOR SWAP RATE CESSATION**
- **NEWS FROM JAPAN**
- **A CLOSER LOOK: EURIBOR**

Please contact your Relationship Team if you have any questions or queries on the contents.

**KEY MESSAGES FROM THE OFFICIAL SECTOR**

At a [SOFR Symposium](#) hosted by the Alternative Reference Rates Committee (ARRC) on 11 May 2021, Andrew Bailey, Governor of the Bank of England and John Williams, President of the Federal Reserve Bank of New York both emphasised the central role that risk-free rates such as the Sterling Overnight Index Average (SONIA) should play in transition away from LIBOR in order to support global financial stability into the future. Term rates were also a topic of conversation at the event.

Andrew Bailey [reminded](#) the audience of “the important role benchmarks play in the financial system and why financial firms and borrowers would be well served in choosing the most robust alternative reference rates that meet their use case.” He pointed out that “UK supervisors have been consistent and clear that they support the industry agreed [milestones](#) of the Working Group on Sterling Risk-Free Reference Rates (BoE WG) and have set their expectations in line with these.”

Some of the key milestones include:

- **by end-Q1 2021, cease initiation of new sterling LIBOR-linked loans, bonds, securitisations and linear derivatives that expire after end of 2021 (except for risk management of existing positions)**
- **by end-Q2 2021, cease initiation of new sterling LIBOR-linked non-linear derivatives that expire after the end of 2021 (except for risk management of existing positions)**
- **by end-Q3 2021, complete active conversion of all sterling contracts where viable**

**WARNINGS FROM ISDA**

The milestones for transition in sterling markets were not the only focus this past month. Scott O'Malia, CEO of the International Swaps and Derivatives Association (ISDA), [published](#) an article on 22 April 2021 noting that whilst it may be tempting to look at the 30 June 2023 date, which has now been set for the cessation of most US dollar LIBOR settings, as an 18-month delay, the reality is “that firms need to prepare to use alternative reference rates for most new trades from the start of next year, irrespective of which LIBOR they use.” US regulators have been very clear that US-supervised entities should stop using US dollar LIBOR for new trades after the end of 2021.

“There are a few exceptions to this – for example, new transactions that reduce or hedge existing US dollar LIBOR exposure will be allowed – but the direction of travel is unambiguous”, he wrote.

Speakers on a LIBOR panel at the ISDA Annual General Meeting on 10 May 2021 [reiterated](#) the message that continued publication of certain US dollar LIBOR settings until mid-2023 should not be interpreted as a delay, and firms should step up their efforts to prepare to use alternative reference rates for all new trades by the end of this year.

The release of the article was followed by the publication on 27 April 2021 of the [ISDA quarterly review](#) of the transition to risk-free rates (RFRs).

---

## FINANCIAL SERVICES ACT & SAFE HARBOUR

On 29 April 2021 the Financial Services Bill [received](#) Royal Assent and became an Act of Parliament. The Act makes extensive amendments to the legislative and regulatory framework of the UK's post-Brexit financial services landscape. Of relevance to LIBOR transition are amendments to the on-shored UK Benchmarks Regulation which provide the Financial Conduct Authority (FCA) with additional powers to manage an orderly wind-down of a critical benchmark (such as LIBOR) and extends the transitional period for third country (non UK) benchmarks. These powers include the ability to designate a “synthetic” LIBOR for use in “tough legacy” cases.

Earlier in the month, the Chair of the BoE WG, [wrote](#) a letter to the UK Treasury noting the absence of safe harbour protections within the Bill as envisioned in a previous consultation and asking whether any would be forthcoming. The letter made reference to recently introduced New York State LIBOR legislation, which includes a safe harbour provision for contracts governed by New York law. In their [response](#) to this letter HM Treasury advised that the UK Government does intend bringing forward further legislation to address the issues identified in the consultation.

---

## MORE US TOUGH LEGACY LEGISLATION

In the US, following passage of NY State LIBOR legislation, the US House Committee on Financial Services' Sub Committee on Investor Protection, Entrepreneurship and Capital Markets has [considered](#) the [Adjustable Interest Rate \(LIBOR\) Act](#). The act will allow contracts referencing USD LIBOR without adequate fallback provisions upon USD LIBOR's discontinuation, to reference the Secured Overnight Financing Rate (SOFR) without the need for amendment or the concern of becoming subject to litigation. The legislation requires the Federal Reserve Board to establish regulations regarding how either SOFR or an adjusted SOFR should be used as a replacement reference interest rate for certain US dollar LIBOR-based contracts. Both the [Structured Finance Association](#) (SFA) and [the Securities Industry and Financial Markets Association](#) (SIFMA) expressed their support for the legislation.

---

## ARRC ON TERM RATES AND UPDATED FAQs

Term Rates were also a topic of conversation at the *SOFR Symposium*, and followed [publication](#) by the ARRC of a set of market indicators that it will consider in recommending a forward-looking SOFR term rate. These market indicators are: continued growth in overnight SOFR-linked derivatives volumes; visible progress to deepen SOFR derivatives liquidity, consistent with ARRC best practices and visible growth in offering of cash products, including loans, linked to averages of SOFR, either in advance or in arrears. Term rates have become a hot topic over recent months, for more information please see the *A Closer Look* section of our April 2021 [newsletter](#).

The ARRC also [released](#) a Guide to Published SOFR averages to provide market participants and non-financial corporates with key information on LIBOR transition, including how the published SOFR averages can be used today and what factors market participants should consider before selecting the alternative rates they use. The guide was released on the day of the SOFR Symposium to complement discussions.

An updated version of the ARRC's [FAQs](#), which provide further information about the work of the ARRC and market developments were published on 27 April 2021.

---

## IBA CONSULTS ON STERLING LIBOR SWAP RATE CESSATION

On 7 May 2021 ICE Benchmark Administration (IBA) [published](#) a consultation on its intention to cease the publication of GBP LIBOR ICE Swap Rate settings for all tenors (from one to 30 years) immediately after publication on 31 December 2021. The consultation is open for feedback until 4 June 2021 and IBA will publish a feedback statement after the feedback period has closed. It was emphasised that

the consultation is not, and must not be taken to be, an announcement that IBA will cease or continue the publication of GBP LIBOR ICE Swap Rate, or any other ICE Swap Rate settings, after 31 December 2021, or any other date.

---

## NEWS FROM JAPAN

The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks (BoJ WG) [updated](#) its “Roadmap to Prepare for the Discontinuation of Japanese Yen LIBOR” on 16 April 2021. This was to include a transition plan for interest rate swaps referencing Japanese yen LIBOR and maturing after the end of 2021.

Then, on 26 April 2021 the BoJ WG issued a statement that QUICK Benchmarks Inc. had begun publishing [production rates](#) for the Tokyo Term Risk Free Rate (TORF) for use in actual transactions. The rates are being made available on QUICK information terminals and the [website of QUICK Corp.](#); they can also be accessed via the Bank of Japan’s [Interest Rate Benchmark Reform website](#).

---

## A CLOSER LOOK: EURIBOR

Whilst Euro LIBOR (EUR-LIBOR) and the Euro Interbank Overnight Rate (EURIBOR) may sound similar they are completely different benchmarks. [EURIBOR](#) is widely used globally with, [according to a report](#) from the BoJ WG in July 2019, an estimated 150 trillion USD of outstanding transactions; this compares to “only” 2 trillion USD for EUR-LIBOR

The major difference in regard to transition is all EUR-LIBOR tenors are due to cease after 31 December 2021, while EURIBOR can continue to be used in new and legacy contracts for the foreseeable future. EURIBOR owes its extended life to methodological changes conducted over the course of 2019, which were aimed at making the benchmark more reflective of real marketplace transactions.

Notwithstanding this new lease on life, since 1<sup>st</sup> January 2018 it has been mandatory under Benchmark Regulations in the EU and the UK that all new regulated contracts which reference a benchmark (such as EURIBOR), include fallback provisions to deal with potential cessation and unrepresentativeness. Given the extensive use of EURIBOR in the European Union (EU) in July 2020 the European Central Bank (ECB) [highlighted](#) as an example of good practice that banks develop and implement fallback provisions for all affected contracts, irrespective of date, in order to be prepared for worst-case scenarios, such as the future unavailability or discontinuation of benchmark rates such as EURIBOR.

Supporting this regulatory initiative has been a primary focus of the Working Group on Euro Risk-Free Rates (EU RFR WG). In January 2019, it published a [paper](#) outlining some guiding principles for fallback provisions in new contracts for euro-denominated cash products.

More recently, on 11 May 2021, the EU RFR WG [published](#) its recommended EURIBOR fallback trigger events and rates which are intended to support market participants in developing contractual fallback provisions for a scenario in which EURIBOR may cease to exist. The recommendations are based on the feedback received from the public consultations on [EURIBOR fallback trigger events](#) and on [€STR based EURIBOR fallback rates](#).

In summary, even though EURIBOR will be available for the foreseeable future, market participants must still ensure adequate fallback provisions are in place. A statutory replacement rate mechanism for contracts referencing critical benchmarks like EURIBOR, that are without appropriate fallbacks, does now exist for EU supervised entities after the EU [amended](#) the European benchmark regulation on 13 February 2021, with the terms of any change of replacement rate would ultimately at the discretion of the European Commission; whereas UK supervised entities would be subject to the FCA exercising the recently granted powers under the Financial Services Act.



**Cris Kinrade**  
IBOR Transition Programme  
Bank of Scotland Commercial Banking

---

## DISCLAIMER

This communication, its contents and any related communication ("this communication") was prepared by Bank of Scotland (for the purposes of this notice "Bank of Scotland" means Lloyds Banking Group plc, its subsidiaries and any of its group companies). This communication (1) shall not be relied on in connection with or be construed as a contract or commitment and shall not form the basis of or be relied on in connection with any transaction, contract or communication whatsoever; (2) is for information purposes only and is not intended to form and should not form the basis of any investment decision; (3) is not and may not be treated as investment research, a recommendation, an opinion or advice of any kind (including without limitation legal, compliance, financial, accounting and/or taxation); (4) is subject to the copyright of Bank of Scotland; (5) is based on current public information and is in summary form and, therefore, may not be complete; and (6) may only be accessed by recipients lawfully entitled to do so. By receiving this communication, you agree to its contents and requirements.

Bank of Scotland has exercised reasonable care in its preparation, but no representation or warranty is made by Bank of Scotland, and its or their directors, officers, employees, associates and agents (together the "Bank of Scotland Persons") as to the accuracy, suitability, fairness, adequacy, correctness or completeness of the information or opinions herein. In particular, no Bank of Scotland Person is, and none should be considered to be, giving an accounting opinion or advice and you should conduct your own independent enquiries and obtain independent professional advice. Any transaction which you may enter into with Bank of Scotland will be on the basis that you have made your own independent evaluations, without reliance on Bank of Scotland, and based on your own knowledge and experience and any professional advice which you may have sought in relation to all aspects of the transaction including without limitation legal, compliance, financial, accounting and/or taxation advice. You will not use this communication to the detriment of any Bank of Scotland Persons.

No Bank of Scotland Person is acting as a fiduciary in relation to you. Bank of Scotland Persons and their clients (i) may engage in transactions in a manner inconsistent with any statement or opinion in this communication; (ii) may trade as principal in securities and/or assets and/or derivatives and/or any other financial products. Information may be available to Bank of Scotland Persons which is not reflected in this communication. Bank of Scotland may have a perceived or actual conflict of interest in relation to the matters referred to in the communication. Bank of Scotland has internal systems, controls and procedures to ensure that conflicts of interest are identified and appropriately managed.

This communication is current at the date of publication and the content is subject to change without notice. Information and opinions herein have not been independently verified or reviewed, and Bank of Scotland is not obliged to update or correct this communication. This communication may contain forward-looking statements or refer to future events or results not within the control of Lloyds Bank Persons. No representation or warranty is made as to the correctness of any forward-looking statement or whether any such event or result will occur. To the fullest extent permitted by applicable law and regulation, no Lloyds Bank Person accepts any responsibility for and shall have no liability for any loss (including without limitation direct, indirect, consequential and loss of profit), damages, or for any liability to a third party however arising in relation to this communication (including without limitation in relation to any projection, analysis, assumption and opinion in this communication). In no circumstances will any Lloyds Bank Persons be responsible for any costs, taxes or expenses incurred by any recipient in connection with any investigation of this communication or any subsequent transaction.

No Bank of Scotland Person provides legal, compliance, financial, tax, professional, regulatory or accounting advice. Accordingly, any statements contained in this communication on tax matters were neither written nor intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on such taxpayer.

Bank of Scotland Persons may participate in benchmarks in any one or more of the following capacities: as administrator, submitter or user. Benchmarks may be referenced by Bank of Scotland Persons for internal purposes or products, services or transactions provided to or engaged in with you. More information is found in the Benchmark Transparency Statement on our website.

Bank of Scotland is a trading name of Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc. Bank of Scotland plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Bank of Scotland plc. Registered Office: The Mound, Edinburgh EH1 1YZ. Registered in Scotland no. SC327000. Lloyds Bank Corporate Markets plc. Registered office 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 10399850. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration numbers 119278, 169628 and 763256 respectively.

**Please seek independent financial and legal advice if you have any questions about any of the issues raised in this communication**

---