

COMMERCIAL BANKING

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, announced ¹ 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
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
