BANK OF SCOTLAND

IBOR TRANSITION NEWSLETTER

Second Edition: January 2020

COMMERCIAL BANKING

Welcome to our second Newsletter dealing with the planned transition away from LIBOR and other Interbank Offered Rates (IBORs). 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.

What has happened recently

The run up to Christmas saw the Financial Stability Board (FSB) publish its annual progress report on IBOR Transition across the globe which emphasised the risks that continued reliance upon LIBOR poses to financial stability.

In the UK the Sterling Risk Free Rate Working Group (BoE WG) outlined its priorities for the year ahead, highlighting important events and clarifying the actions market participants should be taking. This included establishing a framework for the transition of legacy LIBOR products, in order to significantly reduce the stock of LIBOR referencing contracts by Q1 2021 as well as making it simpler to adopt SONIA products in the cash and derivatives markets. There was also a re-iteration of their target that there should be no new Sterling issuance of LIBOR-based cash products maturing after 2021 from the end of Q3 this year.

In addition, the much awaited BoE WG Term Rate Use Case Report was published detailing the instances where a SONIA Term Rate might be relevant, most notably for certain trade finance products and lower value loans to a wide range of smaller borrowers. The report does stress the expectation that Overnight Compounded SONIA should be operationally achievable for approximately 90% by value of the Sterling LIBOR loan market.

Elsewhere, in the EU the phase in of contributors to the new EURIBOR methodology has been completed ensuring the benchmark's continued publication beyond the end of 2021.

The Alternative Reference Rates Committee in the US recently published a consultation on the adjustments to the risk-free rate SOFR where it is to be used as a fallback in cash products that reference USD LIBOR; this follows a similar consultation for GBP LIBOR fallbacks issued by the BoE WG during December. One of the key areas for discussion is around the methodology to be used to calculate differences between LIBORs and the risk-free rates.

The Bank of Japan published its final report on the appropriate choice and usage of Japanese yen interest rates.

KEY RECENT DEVELOPMENTS	
GLOBAL	• FSB publishes annual report on IBOR Transition
UK	• BoE publishes priorities for the year ahead and accompanying Factsheet • BoE WG term rate use case report • FCA and PRA expectations of firms' transition progress during 2020 • See consultation above
EUROPE	• EMMI granted authorisation for provision and administration of EONIA • EMMI confirms successful phase in of contributors to EURIBOR new hybrid methodology
US	• See consultation above
Other Currencies	• BoJ publishes final report on use of Japanese Yen interest rate benchmarks

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

Click here to visit our website >

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

Yours sincerely

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IBOR Transition Programme
Bank of Scotland Commercial Banking

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