

# **P.R.I.M.E. Finance**

## **Panel of Recognized International Market Experts in Finance**

### **LIBOR Transition and Alternative Reference Rates: Sterling**



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# SONIA and Reformed SONIA

## SONIA

- Sterling Overnight Index Average
- Administered by Bank of England since April 2016
- Weighted average rate of all unsecured overnight sterling transactions brokered in London by WMBA members

## SONIA reforms

- Effective 23 April 2018
- Bank of England will take on calculation and publication
- To include bilaterally negotiated transactions
- Change in averaging methodology
- Evidence that changes will shift rates down by ca. 1.3 bps



# Transition

SONIA selected as preferred Sterling near RFR

- Preference of a private sector working group formed by Bank of England
- Incumbent rate in Sterling OIS market
- Widely used for discounting and for valuation and remuneration of Sterling cash collateral
- Administered by Bank of England

FCA announcement July 2017

- Signals replacement of LIBOR by end 2021
- Panel banks have agreed to support LIBOR in the meantime
- Possibility that LIBOR will be available post-2021

Likely staged transition

- OIS transition
- LIBOR transition (term rates; backward vs. forward-looking rates)
- Private sector working group mandate has been extended - to catalyse broad-based transition across bond, loan and derivatives markets - and participation has been broadened

# Transition Issues

## Term rates

- Evolution of markets to use of a backward looking average or compounded rate
- Construction of forward-looking term RFR

## New IBOR contracts

- When should fallback apply?
- Application of credit spread adjustment
- Article 28(2)

## Legacy contracts

- ISDA Protocol
- Potential margin consequences of addition or application of fallback