

LIBOR-SONIA newsflash 9th March 2021

Risk Free Reference Working Group (“RFRWG”) announces cessation of published LIBOR rates

On 5th March 2021 the RFRWG announced that ICE Benchmark Administration (“IBA”), which administers and publishes LIBOR settings for all currencies, will cease to publish such rates beyond **31st December 2021**. The Financial Conduct Authority (“FCA”) has confirmed that it will not compel any panel banks to submit LIBOR settings for sterling beyond this date.

The FCA will consult on whether IBA will be required to continue publishing LIBOR for 1,3, and 6 months using a changed methodology. This may be adopted if the FCA feels that continued publication of these rates will reduce market disruption where conversion of certain LIBOR contracts is not feasible.

In relation to derivatives, the International Swaps & Derivatives Association (“ISDA”) has issued a public statement that the FCA’s announcement constitutes an “Index Cessation Event”. Consequently, the Fallback Spread Adjustment published by Bloomberg is now fixed as at the date of the RFRWG announcement (5th March 2021).

What does this mean for clients with derivatives who have adopted the Fallback method for calculating the Credit Adjustment Spread? Figures in the table below, which are fixed, will be added to the relevant Sonia Compounded in Arrears period to calculate the underlying floating rate leg of derivatives once the switch from GBP LIBOR to Sonia takes effect.

Period (months)	Spread adjustment
1	0.0326%
3	0.1193%
6	0.2766%
12	0.4644%

Source: Bloomberg

We advise all our clients to engage with their lenders and derivative counterparties as soon as possible concerning conversion from LIBOR to SONIA.

ATFS can advise on the commercial technicalities of documentation changes, and the implications for interest rate risk management and treasury operations. Please contact:

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