

LIBOR, NO MORE

YOUR GUIDE TO THE LIBOR TRANSITION: WHAT IT MEANS AND HOW TO PREPARE

What is LIBOR?

LIBOR is the benchmark that lenders use to calculate the interest rate for financial products – it can also be found in other contracts. However, LIBOR is being replaced by a more transparent benchmark called SONIA in the UK.

When will this change happen?

Lenders will no longer be able to issue loans based on LIBOR from 1 April and new loans will need to reference a 'risk free rate' or an alternative non-LIBOR rate. Any existing contracts based on LIBOR will be switched to an alternate reference rate before 31 December 2021.

SONIA is an overnight rate based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other institutions.

Why must businesses prepare?

A change in interest rate could impact your business for existing loans and new financing. **It is important you understand if and how this affects you.** We know these are difficult times, with the pandemic putting focus on immediate cashflow needs or employee and customer concerns, so this may not be on your radar. However, COVID-19 has not changed the need to move away from LIBOR. The impact of an interest rate change needs to be looked at in **the bigger picture of all borrowing, timings and requirements**, so **make sure LIBOR is on your list.**

Key questions to consider

Your bank or lenders will be communicating with you. You should consider these questions:

- Where does my business use LIBOR?
- Are my LIBOR exposures referenced in a short-term agreement or in a facility which is likely to run beyond the end of 2021?
- What if I have facilities in currencies other than sterling?
- How can I plan to transition from LIBOR before the end of the year?

What steps can you take for your business?

Make an inventory of your LIBOR exposures

- Discuss the steps you may need to take to address your LIBOR exposures with your lender or finance provider (check your financial facilities first!)
- LIBOR can be found in other areas such as intra-group accounts (including transfer pricing documentation), as a calculation in a break clause for a fixed rate loan, in commercial contracts, internal financial analysis, pension funds and reporting
- Identify LIBOR exposures across currency, as it is not just GBP LIBOR which is due to end at the end of 2021. Different currencies may adopt different approaches and timelines to those applicable to pound sterling.

Analyse and assess affected instruments (e.g., if they run beyond 2021)

- Your lender may need to engage with you on whether additional fallback provisions may be required to provide you with clarity on what happens following LIBOR's termination
- If it is contained in other agreements (such as transfer pricing agreements) you will need to put in place a plan to re-paper these agreements.

Review alternative rates and their pros and cons

- Consider how a new rate may perform differently to LIBOR, LIBOR has a bank credit risk and liquidity component, SONIA does not
- Bank Rate does not include the same components and may not track LIBOR exactly
- It is likely that a spread or margin would need to be added to the chosen alternative rate to make it economically similar to LIBOR within existing contracts.

Consider other elements such as systems, accounting and tax matters

- Assess and update systems to allow for a change in benchmarks
- If you benefit from hedge accounting, engage with accountants and auditors as early as is appropriate to consider the impacts of the change for your firm
- There may also be tax implications resulting from changes in existing arrangements, which will need to be assessed and managed.

Useful resources to help you transition

- [Factsheet – Calling time on LIBOR: why you need to act now](#)
- [The Working Group for Sterling Risk-Free Reference Rates](#)
- [A treasurer's checklist – Transition to risk-free rate benchmarks](#)
- [Overnight risk-free rates: a user's guide](#)
- [FCA article – Transition from LIBOR](#)
- [An overview on the ICE benchmark administration](#)
- [Read the CBI and UK Finance's 'Discontinuation of LIBOR' guide for the full detail](#)
- [Read UK Finance's 'Help with the LIBOR rate change for SMEs' guide](#)