

ATFS Bulletin May 2021 - LIBOR-SONIA Transition Update

Following our update in March 2021 the LIBOR-SONIA Transition process is gathering pace. This update focuses on timescales and our experience of the process to date.

The Risk Free Reference Working Group (“RFRWG”) announced the following on **5th March 2021**:

- LIBOR rates would no longer be published beyond **31st December 2021**.
- The Fallback Spread Adjustment published by Bloomberg was to be fixed from **5th March 2021**.

We are assisting several clients in meetings with lenders to consider their proposals and the options being tabled. The FCA wishes to see all lenders having consulted with their borrowers before 30th September 2021. This has led to increased activity among lenders as they try to get ahead of the deadline and the summer break.

Lenders are offering clients the choice of whether to transition when LIBOR ceases to be published on 31 December 2021 (“Transition at Cessation”) or to transition during 2021 (“Active Transition”). See table below for further details.

	Transition at Cessation	Active Transition
Reference Rate	LIBOR to 31 Dec 2021 then SONIA or Bank Rate	SONIA or Bank Rate
Credit Adjustment Spread	5-Year Historic Median (5YHM) fixed as at 05 March 2021	5YHM or Forward calculation
Transition Date	At the start of the first interest period in 2022	Pre-agreed date in 2021
Margin	No change	No change

The **Credit Adjustment Spreads** for Transition at Cessation are illustrated in the table below.

Interest Period	SONIA	Bank Rate*
1 month	0.0326%	-0.0074%
3 months	0.1193%	0.0793%
6 months	0.2766%	0.2366%
12 months	0.4644%	0.4244%

Source: Bloomberg Finance LP

*In accordance with regulators’ expectation the CAS for Bank Rate will be adjusted down 4bps (0.04%) for each interest period published by Bloomberg.

We recommend that all our clients engage with their lenders as soon as possible to discuss available options for conversion from LIBOR. ATFS can advise on the implications of each option, the commercial technicalities of documentation changes and how transition affects interest rate risk management and treasury operations.

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