

SAFER RATES FOR BUSINESS

A simple introductory guide to the global transition away from (Sterling £) LIBOR

PUT LIBOR ON YOUR LIST

WHAT:

The LIBOR* benchmark that lenders use to calculate the interest rate for financial products will end after 2021 and move to a safer more transparent benchmark rate.



* London Interbank Offered Rate

WHEN:

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 alternative non-LIBOR rate. Any existing contracts based on LIBOR will be switched to an alternate reference rate before 31 December 2021.



ACTION:

A change in interest rate could impact your business both for existing loans and new financing so **it is important you understand if and how this affects you.** Your bank will be in touch to discuss the products you have affected by this, and the new rates.



WHO:

LIBOR is the most common interest rate benchmark in the UK and this will impact a significant proportion of British businesses.



DOES THIS AFFECT ME?

LIBOR can be found mainly in commercial loans, but also in leasing and servicing contracts, commercial contracts, discount rates used in valuations and company pension schemes.

IS YOUR LOAN...?

- ➔ A fixed rate loan (one exception - see below) — YES — NO IMPACT
- ➔ A variable loan tracking the base rate — YES — NO IMPACT
- ➔ A variable loan or other product based on LIBOR ending before 31 December 2021 — YES — NO IMPACT
- ➔ A fixed rate loan which does or could revert to a variable rate based on LIBOR that ends after 31 December 2021 — YES — THIS WILL IMPACT YOU
- ➔ A variable loan or other product on LIBOR that ends after 31 December 2021 — YES — THIS WILL IMPACT YOU

WHAT CAN I DO?

- 1. REVIEW** if you have any loans or products that are based on the LIBOR rate. Also identify where else in your organisation references LIBOR (e.g. accounting systems or late payment clauses)
- 2. ASSESS** the alternative rates being offered and assess what impact a rate change might have on your business as a whole — **LOOK AT THE BIGGER PICTURE**
- 3. PLAN** how you will transition away from LIBOR by the end of the year – your advisers can help you
- 4. SPEAK** to your bank, lender or financial advisor if you are unsure of your exposure or have any questions

WHY DO I NEED TO ACT NOW?

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, the impact of an interest rate change needs to be looked at in **the bigger picture of all borrowing, timings and requirements**. Additionally, the impact is not only on existing borrowing which you might have now, but also on any new finance you may seek in the future.

Flora Hamilton, Director, Financial Services at the Confederation of British Industry (CBI):

“Don’t let LIBOR transition fall off your radar as you deal with the challenges of coronavirus. The Bank of England and the Financial Conduct Authority (FCA) are committed to phasing out LIBOR before the end of 2021, so make sure you understand the milestones and challenges ahead so your business is prepared.”¹

THE REASON FOR THIS CHANGE

Public authorities globally have announced that LIBOR, the benchmark for interest rates based on interbank lending, is no longer sustainable and the market should move to **robust alternative rates**. In the UK, the Bank of England and the [Financial Conduct Authority \(FCA\)](#) have set out the need for this transition.

The new rates: In the UK the replacement rate is called ‘SONIA’ (Sterling Overnight Index Average), calculated on actual (and not predicted) transactions. This is a near ‘risk free rate’ as it does not include any term bank credit risk or liquidity premium. Other rates will also be available including fixed rates and the Bank of England policy rate, known as the Bank Rate or Base Rate.

This is a move to safer, more transparent rates for businesses and borrowers.

Andrew Hauser, Executive Director for Markets, Bank of England:

“We are acutely aware this is a difficult time for many businesses....But it’s just not safe to keep relying on Libor. And it’s not good for your business either.”²

INFORMATION AND HELP

- There **is a lot of further information** available to help you. Please see the links to resources below.
- **Your bank will be in touch** to discuss the products you have affected by this, and the new rates.
- As well as talking to your bank or lender, you can also **contact your financial or legal advisor or accountant** if you have any questions.
- **This guide is for Sterling LIBOR**. Similar transitions are happening in other currencies most notably US Dollar, please see further information links below for details.

FINAL NOTE

Government lending schemes - As a result of Covid-19 disruption, many businesses are accessing borrowing through UK government lending schemes. For the avoidance of doubt, borrowing under the **Bounce Back Loan Scheme is not impacted by this change**.

Borrowing under the Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Larger Business Interruption Loan Scheme (CLBILS) may be linked to LIBOR but is likely to include ‘fallback’ language setting out what will happen to your loan when LIBOR ceases. If in doubt, you can check with your bank or lender.

KEY DOCUMENT LINKS TO RESOURCE AVAILABLE FOR BUSINESSES

In the UK, the ‘Working Group on Sterling Risk-Free Reference Rates’ which includes lenders, professional services firms and business trade associations, as well as the Bank of England and the FCA as ex-officio members, are all working together to deliver a smooth transition. This national working group published two key documents in January 2020: a **factsheet** and an **outline** of the types of borrower and borrowing and their relative suitability for different replacement rates to LIBOR.

Other key documents, milestones and updates can be found at:
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>

FURTHER RESOURCE: (click on logo)



SOURCES:

¹ <https://www.ukfinance.org.uk/news-and-insight/blogs/the-end-of-libor-time-for-businesses-prepare-transition>

² <https://www.bankofengland.co.uk/speech/2020/andrew-hauser-recording-and-text-from-webinar-is-your-business-prepared-for-libor>

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