

Statement on behalf of the Working Group on Sterling Risk-Free Reference Rates – Recommendation of Successor Rate for fallbacks in bond documentation referencing GBP LIBOR¹

The Working Group on Sterling Risk-Free Reference Rates (the "**Working Group**"), the Bank of England, and the Financial Conduct Authority made clear, in a statement published on 11 January 2021², that, in future, they anticipate that the large majority of sterling markets will be based on overnight SONIA, compounded in arrears, to provide the most robust foundation for the overall market structure.

Indeed, one of the Working Group's 2021 Top Level Priorities, as set out in the *Working Group Roadmap*³, has been to: "Continue to enable and promote widespread use of SONIA compounded in arrears throughout wholesale sterling markets".

For the purposes of the operation of fallbacks in bond documentation⁴, the Working Group carried out a *Consultation on successor rate to GBP LIBOR in legacy bonds referencing GBP LIBOR* (the "Consultation")⁵. The [Summary of Responses to the Consultation](#) (the "Responses") confirmed that it would be helpful for the Working Group, in its capacity as a relevant nominating body, to make a recommendation on the successor rate to GBP LIBOR for fallbacks in bond documentation that envisage the selection of a recommended successor rate.

The Responses also identified a strong consensus in favour of overnight SONIA, compounded in arrears, as the recommended successor rate to GBP LIBOR for the purposes of the operation of such fallbacks.

In light of this, the Working Group recommends the use of overnight SONIA, compounded in arrears⁶, as the successor rate recommended to replace GBP LIBOR for the purposes of the operation of fallbacks in bond documentation that envisage the selection of a recommended successor rate.

In addition, a majority of the Responses concluded that any further detail on the conventions to be used to accompany the recommended successor rate, such as use of observation lag or shift, should be left to the issuer to agree on a case-by-case basis.

The Working Group's recommended successor rate is intended solely for bond documentation referencing GBP LIBOR that contains contractual fallbacks which result in the selection of a recommended successor rate as a fallback. Where relevant, regard should also be had to the Working Group's recommendation⁷ in September 2020 of a credit adjustment spread methodology when calculating the credit adjustment spread which should then be applied to the recommended successor rate for contractual fallbacks in cash market products referencing GBP LIBOR.

¹ The overall objective of the Working Group on Sterling Risk-Free Reference Rates (the "Working Group") is to catalyse a broad-based transition to SONIA by the end of 2021 across the sterling bond, loan and derivative markets, in order to reduce the financial stability risks arising from widespread reliance on GBP LIBOR. The Bank of England and the Financial Conduct Authority ("FCA") are each ex-officio members of the Working Group. The views and outputs set out herein do not constitute guidance or legal advice from the Bank of England (including the Prudential Regulation Authority ("PRA")) or the FCA and are not necessarily endorsed by the Bank of England (including the PRA) or the FCA.

² [The final countdown: completing sterling LIBOR transition by end-2021 | Bank of England](#)

³ [RFR Working Group Roadmap \(bankofengland.co.uk\)](#)

⁴ Including (but not limited to) floating rate notes, securitisations, covered bonds, capital securities and structured products.

⁵ [Consultation on successor rate to GBP LIBOR in legacy bonds referencing GBP LIBOR \(bankofengland.co.uk\)](#)

⁶ This may be by reference to an index for compounded daily SONIA rates, whether administered by the administrator of SONIA or provided by another information service from time to time, or otherwise.

⁷ [Recommendation of Credit Adjustment Spread Methodology for fallbacks in cash market products referencing GBP LIBOR – September 2020 \(bankofengland.co.uk\)](#)