

LIBOR transition 2021 – FAQs

The London Interbank Offered Rate ('LIBOR') is an interest rate benchmark, which is used to calculate the interest rate in financial products. It is written into loans, bonds and mortgages and many other contracts. LIBOR will cease to be in effect from 31 December 2021. Businesses will need to ensure that all financial products and contracts remove their dependence on LIBOR before that date.

What will replace LIBOR?

LIBOR is currently used in 5 currencies, and each jurisdiction will establish an alternative benchmark rate, including SONIA in the UK. Alternatively, lenders may switch to the Bank of England Base Rate for smaller loan values.

What's the difference between SONIA and LIBOR?

SONIA is not a like-for-like replacement for LIBOR and cannot just be directly substituted into your contract. While LIBOR is fixed for a set period (often multiple months), SONIA is an overnight rate. It is measured each day over the interest period to determine the final interest rate at the end of the period. It does not include any term bank credit risk or liquidity premium. These differences will impact how the interest rate is calculated.

What do I need to do?

Establish what your exposure to LIBOR is. Mortgages, loans, derivatives, deposit facilities, floating rate notes, commercial contracts and company pension schemes may all refer to LIBOR. It is important to understand what will happen to each of those contracts after 31 December 2021. You should also understand how SONIA works and how it will affect you.

Given the differences between SONIA and LIBOR you may need to change your systems to ensure a smooth transition. You may also want to speak to advisers to make sure you are taking advantage of the commercial opportunities that the transition will provide.

What if my contracts have "fallback terms"?

Some contracts may have "fallback terms" in the event that LIBOR is not available. However, these are not likely to provision for the permanent cessation of LIBOR. It is therefore important to get such terms checked by a lawyer.

Where can I find out more information?

We would be delighted to discuss what the transition means for you. We can give you tailored advice so you know exactly what you need to do, and how you can take advantage of the commercial opportunities that are available. Get in touch with banking and finance expert Patrick Keown.



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