ACT PRESS RELEASE

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ACT welcomes clarification on timelines for new loans referencing £LIBOR

The Association of Corporate Treasurers (ACT) welcomes the clarification of the interim timelines relating to LIBOR transition in the sterling market and in particular the announcement of a delay until Q1 2021 for the cut-off date for new loans referencing £LIBOR.

The ACT, as a member of the Working Group on Sterling Risk-Free Reference Rates (RFRWG), has worked closely with the FCA and the Bank of England as they considered the impacts of COVID-19 on LIBOR transition plans, contributing insights from the borrower community who are currently otherwise engaged in responding to the COVID-19 crisis.

The ACT also welcomes the provision of more granular guidance for lenders, setting out key stages in the move to offering non-LIBOR referencing solutions for borrowers.

In summary, the RFRWG recommends that:

- By the end of Q3 2020 lenders should be in a position to offer non-LIBOR linked products to their customers;
- After the end of Q3 2020 lenders, working with their borrowers, should include clear contractual arrangements in all new and re-financed LIBOR-referencing loan products to facilitate conversion to SONIA or other alternatives.; and
- All **new** issuance of sterling LIBOR-referencing loan products that expire after the end of 2021 should cease by the end of Q1 2021.

Welcoming the changes to the interim LIBOR transition timeline, Caroline Stockmann, ACT Chief Executive said:

" We are pleased that the RFR Working Group has recognised the challenges that the current environment has placed on financial markets - and on borrowers in particular – and that a pragmatic solution has been identified for new lending. The sequencing of the different deadlines for lenders and borrowers is helpful, to allow time for new conventions to be clarified and for systems software to be upgraded.

The statement released today by the RFRWG provides constructive guidance for new lending, for those involved in moving away from LIBOR. However, the ACT recognises that there is still much to be done to enable legacy transactions, currently referencing LIBOR that mature after 2021, to be re-denominated. The ACT welcomes that the RFRWG will continue to assess the evolving impact of COVID-19 on the transition timeline for these transactions too. We will continue to work tirelessly with RFRWG and corporate treasurers to facilitate a successful transition for those transactions."

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NOTES TO EDITORS

1. The relevance of LIBOR

LIBOR is the established interest reference rate used by companies in the majority of their short term and floating rate debt and interest rate hedging, and in commercial contracts of many kinds more widely.

- The use of LIBOR is endemic across firms, not only in financial instruments such as loans and derivatives, but also in commercial contracts such as payment terms, and valuation models
- There are legacy contracts for debt using LIBOR with maturities well into the future (the Wheatley Review found the longest at over 50 years)
- There are other legacy contracts - particularly swaps hedging future movements in LIBOR rates that were done to hedge expected LIBOR-based debt, both for those swapping from floating to fixed and fixed to floating according to their own contingencies
- For more information about the pervasive nature of LIBOR based products, see **'Transition to risk free rate benchmarks: a Treasurer's checklist'**

2. In the UK, the Financial Conduct Authority (FCA) is overseeing the reform of LIBOR (including sterling LIBOR) and the Bank of England is overseeing the development of sterling RFRs.

On 27 July 2017 Andrew Bailey (then FCA Chief Executive) announced that the FCA will no longer exercise its influence to facilitate the production of LIBOR after 2021. indicating that the survival of LIBOR post this period could not be guaranteed. A link to the speech is here: https://www.fca.org.uk/news/speeches/the-future-of-libor

The Working Group on Sterling Risk-Free Reference Rates was established in 2015 to implement the Financial Stability Board's recommendation to develop alternative risk-free rates (RFRs) for use instead of Libor-style reference rates. In April 2017, the Working Group recommended the SONIA benchmark as their preferred RFR and since then has been focused on how to transition to using SONIA across sterling markets.

https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor .

3. The ACT recognises and is fully supportive of the long-term objective to transition away from LIBOR as a benchmark reference rate and encourages its members to be prepared for the cessation of LIBOR after the end of 2021.

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ABOUT THE ACT

The Association of Corporate Treasurers (ACT) is the only professional treasury body with a Royal Charter. We set the global benchmark for treasury excellence and lead the profession through our internationally recognised qualifications, by defining standards and by championing continuing professional development. We are the authentic voice of the treasury profession representing the interests of the real economy and educating, supporting and leading the treasurers of today and tomorrow.

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Should editors wish to commission an article or comment from the ACT, please contact Anne Hogarth, as above.