Transitioning from LIBOR

The London Interbank Offered Rate (LIBOR) is one of the most well-known interest rate benchmarks used globally and comprises five currencies (British Pound Sterling, Euro, Japanese Yen, Swiss Franc and US Dollar) and seven tenors (overnight, 1 week, 1, 2, 3, 6 and 12 months). LIBOR represents the average rate at which banks are willing to borrow wholesale, unsecured funds. It is referenced in several hundred trillion dollars' worth of financial products as a reference rate, including for calculating interest.

The reason for change

Regulators worldwide have highlighted the structural issues of the market underlying LIBOR and the sustainability of panel-based methodologies. In 2017, the Bank of England Financial Policy Committee agreed that market reliance on the LIBOR benchmark created a financial stability risk*. The UK's Financial Conduct Authority has announced that from the end of 2021, it no longer intends to compel panel banks to submit the information used to determine LIBOR. As a result, global regulators and central banks have strongly encouraged market participants to seek alternative reference rates. It is uncertain whether LIBOR term rates will continue to be produced and published after the end of 2021.

Recent developments

Over the last few years, industry working groups, led by central banks, have identified certain alternative benchmark rates in each of the five LIBOR currencies, as alternatives to LIBOR. As an example, in April 2018, the Bank of England began publishing the reformed Sterling Overnight Index Average (SONIA).

Benchmark interest rate reforms are also being made in many other jurisdictions, where a dual rate approach is being taken. This means identifying an alternative benchmark rate alongside the interbank offered rates ("IBORs") that are typically used in those jurisdictions. The Euro Short Term Rate ("€STR") has been launched as a near-risk free overnight rate to replace the Euro Overnight Index Average ("EONIA") at the end of 2021. At this stage, no potential cessation date has been given for the Euro Interbank Offered Rate ("EURIBOR").

Transition to alternative benchmark rates will not be a simple matter of replacing old rates with new ones, as the new rates are calculated on a different basis to LIBOR. Whilst LIBOR may be available until the end of 2021, the market will need to address the challenge that many contracts using the benchmark will mature post-2021. For LIBOR and other IBOR rates, the proposals are at a different stage, vary in scope and timing and continue to evolve.

Preparing for LIBOR transition

Barclays is playing an active role along with regulators, central banks, industry bodies and trade associations in the global effort to shape the future of financial markets post LIBOR and we are on hand to answer questions from our clients in relation to the transition.

We have launched a dedicated website (including information about the potential risks of continuing with LIBOR) to help you understand how this change may impact you. The website can be accessed at **home.barclays/libor-transition**. We encourage you to keep up to date with the latest industry developments in relation to LIBOR transition and to begin to consider its impact on you. We will regularly update the content of our website and encourage you to use this resource, as well as other public sources, such as monitoring the websites of the relevant global regulators, central banks and industry working groups.

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If you have any questions, please get in touch with your usual Barclays contact or seek independent professional advice.

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*"BoE Financial Policy Committee", 22 March 2017, www.fca.org.uk/news/speeches/libor-preparing-end

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