Transition from LIBOR to risk-free rates

LIBOR is an interest rate benchmark used in financial markets which is being phased out. From 1 January 2022, publication of most LIBOR settings ended. We are supporting firms to continue the active transition of any outstanding LIBOR exposures.

24 LIBOR settings are no longer available from end-2021

6 ‘synthetic’ GBP and JPY LIBOR settings are available for the duration of 2022\*. 5 USD LIBOR settings are available until mid-2023.

\*synthetic JPY LIBOR will cease at the end of 2022. Availability of synthetic GBP LIBOR is not guaranteed beyond end-2022.

* [Working Group on Sterling Risk-Free Reference Rates](https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/working-group-on-sterling-risk-free-reference-rates)
* [Key resources for firms transitioning from LIBOR](https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/resources-for-firms-transitioning-from-libor)
* [SONIA interest rate benchmark](https://www.bankofengland.co.uk/markets/sonia-benchmark)

**Overview**

LIBOR has historically been one of the main interest rate benchmarks used in financial markets. It determines interest rates for financial contracts around the world.

Since the global financial crisis in 2008-09, activity in the markets that LIBOR measures has reduced. The low volume of underlying transactions means that LIBOR is no longer sustainable. In line with **[announcementsOpens in a new window](https://www.fca.org.uk/news/news-stories/changes-libor-as-of-end-2021%22%20%5Ct%20%22_blank)** from the Financial Conduct Authority (FCA), publication of 24 of the 35 LIBOR settings ceased from 1 January 2022. Six sterling and yen LIBOR settings will continue for the duration of 2022 on a ‘synthetic’ basis. Five US dollar LIBOR settings will continue to be calculated using panel bank submissions until mid-2023, although its use for new business will be restricted from end-2021, with limited exceptions.

Risk-free rates (or RFRs), which are robust alternatives to LIBOR, are available. These include the [**Sterling Overnight Index Average (SONIA) benchmark**](https://www.bankofengland.co.uk/markets/sonia-benchmark), which we produce.

We have worked closely with the Financial Conduct Authority (FCA) and market participants to support a smooth transition to these alternatives. We will continue to support firms to actively transition any outstanding LIBOR exposures.

The industry-led [**Working Group on Sterling Risk-Free Reference Rates**](https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/working-group-on-sterling-risk-free-reference-rates) (the Working Group) leads this work in sterling markets. It produces [**guidance and support**](https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/resources-for-firms-transitioning-from-libor) for both financial and non-financial firms to help them with the transition. The Bank of England and the FCA participate as ex-officio members and provide administrative support to the group.

The FCA also provides [**guidance on the LIBOR transitionOpens in a new window**](https://www.fca.org.uk/markets/libor).

**Bank of England LIBOR news, events and publications**

**May 2022**

We issued a [**Market Notice**](https://www.bankofengland.co.uk/markets/market-notices/2022/may/the-banks-risk-management-approach-market-notice-19-may-2022) regarding our risk management approach to collateral referencing USD LIBOR, maturing after 30 June 2023, for use in the Sterling Monetary Framework (SMF). From 1 October 2022, the Bank will progressively increase haircuts on such collateral. Further, our eligibility criteria was updated to set out that collateral referencing USD Credit Sensitive Rates would be ineligible for use in the SMF, which reflects the [**FPC’s concerns**](https://www.bankofengland.co.uk/financial-stability-report/2021/july-2021#chapter-2) about the risks from these rates.

**February 2022**

The transition away from LIBOR reached a critical step on 31 December 2021, as most LIBOR settings were published for the final time. Alongside the FCA and the Working Group on Sterling Risk-Free Reference Rates, we [**released a statement**](https://www.bankofengland.co.uk/news/2022/february/sterling-risk-free-reference-rates-finalising-libor-transition) reflecting on achievements in sterling markets, setting out what more needs to done and providing an update on how the Working Group will operate in the future.

**December 2021**

We published our [**final policy**](https://www.bankofengland.co.uk/paper/2021/derivatives-clearing-obligation-introduction-of-contracts-referencing-tona-ps) on our proposal to introduce a clearing obligation for OIS that reference TONA. This change will come into force on 31 January 2022, to provide firms sufficient time to complete their preparations.

**September 2021**

We published our [**final policy**](https://www.bankofengland.co.uk/paper/2021/derivatives-clearing-obligation-modifications-to-reflect-interest-rate-benchmark-reform) on our proposal to modify the scope of contracts subject to the derivatives clearing obligation, to reflect ongoing reforms to interest rate benchmarks. We also published a supplementary [**consultation paper**](https://www.bankofengland.co.uk/paper/2021/derivatives-clearing-obligation-introduction-of-contracts-referencing-tona) which proposes to introduce a clearing obligation for OIS that reference TONA. The consultation closes on 27 October 2021.

**July 2021**

We issued a [**joint statement with the FCA**](https://www.bankofengland.co.uk/news/2021/july/fca-boe-encourage-market-participants-in-a-switch-to-rfrs-in-the-libor-cross-currency-swaps-market) supporting an ‘RFR First’ initiative for cross-currency swaps currently based on LIBOR, coordinated jointly across relevant jurisdictions. The FCA and the Bank of England support and encourage market participants in a switch to RFRs in the LIBOR cross-currency swaps market from 21 September this year. This is to facilitate a further shift in market liquidity toward RFRs, bringing benefits for a wide range of users as they move away from LIBOR.

**June 2021**

We issued a [**joint statement with the FCA**](https://www.bankofengland.co.uk/news/2021/june/fca-boe-encourage-market-participants-in-a-switch-to-sofr-26-july) supporting the US-led ‘SOFR First’ initiative. The FCA and Bank of England support and encourage market participants in a switch to SOFR in US dollar linear interest rate swap markets from 26 July this year. This is to facilitate a shift in market liquidity towards SOFR, bringing benefits for a wide range of users as they move away from LIBOR.

**May 2021**

We published a [**consultation paper**](https://www.bankofengland.co.uk/paper/2021/derivatives-clearing-obligation-modifications-to-reflect-interest-rate-benchmark-reform-amendments) on our proposal to modify the scope of contracts which are subject to the derivatives clearing obligation, to reflect ongoing reforms to interest rate benchmarks. The consultation closes on 14 July 2021.

The Governor, Andrew Bailey, joined the ARRC’s second SOFR Symposium event to discuss a sustainable transition from LIBOR. You can read the speech he gave at the event: '[**Descending Safely: Life after LIBOR**](https://www.bankofengland.co.uk/speech/2021/may/andrew-bailey-a-moderated-discussion-with-john-williams-president-of-ny-fed)'.

The third edition of the [**Regulatory Initiatives Grid**](https://www.bankofengland.co.uk/report/2021/third-edition-of-the-regulatory-initiatives-grid) notes LIBOR transition as a key initiative in the regulatory landscape.

We issued a [**joint statement with the FCA**](https://www.bankofengland.co.uk/news/2021/may/fca-and-boe-encourage-market-participants-in-a-switch-to-sonia-17-june) supporting and encouraging market participants in a switch to SONIA in the sterling exchange traded derivatives market from 17 June this year. This is to facilitate a further shift in market liquidity towards SONIA, bringing benefits for a wide range of users as they move away from LIBOR.

**March 2021**

We issued a [**joint statement with the FCA**](https://www.bankofengland.co.uk/news/2021/march/fca-and-boe-encourage-market-participants-in-sonia-switch-in-sterling-non-linear-derivatives-market) supporting and encouraging liquidity providers in the sterling non-linear derivatives market to adopt new quoting conventions for inter-dealer trading based on SONIA instead of LIBOR from 11 May this year. This is to facilitate a further shift in market liquidity toward SONIA, bringing benefits for a wide range of users as they move away from LIBOR.

The Prudential Regulation Authority (PRA) and FCA have written a [**joint letter to the CEOs**](https://www.bankofengland.co.uk/prudential-regulation/letter/2021/march/transition-from-libor-to-risk-free-rates) of supervised firms setting out supervisory expectations of the transition from LIBOR to risk free rates. The PRA and FCA expect all firms to meet the Working Group’s milestones and the targets of other working groups as appropriate. The letter sets out a list of priority areas where further action by firms is necessary to prepare for the cessation of LIBOR.

Following the [**FCA's announcementOpens in a new window**](https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf) confirming cessation dates for panel bank LIBOR settings, we issued a revised [**Market Notice**](https://www.bankofengland.co.uk/markets/market-notices/2021/march/risk-management-approach-to-collateral-referencing-libor-march-2021) regarding the use of LIBOR-linked collateral used in the Sterling Monetary Framework.

Alongside the Working Group and the Financial Conduct Authority (FCA), [**we welcomedOpens in a new window**](https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/statement-welcoming-proposed-market-standard-on-use-of-term-sonia-march-2021.pdf?la=en&hash=58AE4A317F7F544B8EA59F356767117EBF9A7DB8&hash=58AE4A317F7F544B8EA59F356767117EBF9A7DB8) a proposed market [**standard on the use of Term SONIA reference ratesOpens in a new window**](https://fmsb.com/wp-content/uploads/2021/03/FMSB-Term-Rate-Standard_TRANSPARENCY-DRAFT_Final.pdf), published by the FICC Markets Standards Board. We have encouraged widespread adoption of SONIA compounded in arrears in derivative markets in particular, keeping use of Term SONIA limited to specific use cases primarily in cash markets, to provide the most robust foundations for sterling interest rate markets.

We released a [**joint statement with the FCA**](https://www.bankofengland.co.uk/news/2021/march/announcements-on-the-end-of-libor), alongside the announcement of end dates on which panel bank submissions for all LIBOR settings will cease. At the same time, ISDA confirmed the cessation announcement would trigger the fixing of the ‘spread adjustments’ to be used in its IBOR fallbacks. Regulated firms should expect further engagement from their supervisors at both the Prudential Regulation Authority (PRA) and the FCA to ensure industry timelines for transition are met.

**January 2021**

Alongside the Working Group and the FCA, we released a [**statement**](https://www.bankofengland.co.uk/news/2021/january/the-final-countdown-completing-sterling-libor-transition-by-end-2021) to accompany an update to the Working Group’s [**priorities and roadmapOpens in a new window**](https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfr-working-group-roadmap.pdf?la=en&hash=92D95DFA056D7475CE395B64AA1F6A099DA6AC5D&hash=92D95DFA056D7475CE395B64AA1F6A099DA6AC5D)Opens in a new windowOpens in a new windowOpens in a new window, intended to help businesses to finish planning the steps they will need to take in the coming months.

The PRA published a [**consultation paper**](https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/solvency-ii-deep-liquid-and-transparent-assessments-gbp-transition-to-sonia) setting out its proposed approach to deep, liquid and transparent assessments and the transition of Solvency II technical information from LIBOR to SONIA in 2021. The consultation closes on 31 March 2021.

## SONIA

SONIA (Sterling Overnight Index Average) is an important interest rate benchmark.

We are the administrator for SONIA. That means we take responsibility for its governance and publication every London business day.

SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Financial businesses and institutions use SONIA in a variety of ways. For example, to calculate the interest paid on swap transactions and sterling floating rate notes . SONIA is used to value around £30 trillion of assets each year.

SONIA is the Working Group on Sterling Risk Free Reference Rates’ preferred benchmark for the [**transition to sterling risk-free rates from Libor**](https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor).

Our Monetary Policy Committee decides what monetary policy action we take as a central bank. We implement our monetary policy by taking an active role in the financial markets using our [**Sterling Monetary Framework**](https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide). SONIA is referenced in over £90 trillion of new transactions each year (based on LCH total volume of OIS cleared swaps during 2020).

SONIA was introduced in March 1997. We took responsibility for it in 2016 and, after consultation, we [**reformed it in 2018**](https://www.bankofengland.co.uk/markets/sonia-benchmark/administration-of-sonia#reform). The way we run SONIA [**complies with international best practice**](https://www.bankofengland.co.uk/markets/sonia-benchmark/administration-of-sonia#international) for financial benchmarks.

To support the Risk-Free Rate transition in sterling markets we began publishing the SONIA Compounded Index from 3 August 2020. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source.

## What is LIBOR?

LIBOR is an interest rate based on the rates at which banks lend to each other. LIBOR was one of the main interest rate benchmarks used in financial markets, but it is being phased out. Historically it has determined interest rates for financial contracts around the world, worth trillions of pounds.

LIBOR has been commonly referenced in both financial contracts, such as loans or deposit facilities, and non-financial contracts such as commercial leasing contracts and the discount rate for valuations.

## Why do firms need to transition from LIBOR?

Since the global financial crisis in 2008-09, activity in the markets that LIBOR measures has reduced. The low volume of underlying transactions meant that LIBOR is no longer sustainable. There are other more robust rates, including the [**Sterling Overnight Index Average (SONIA) benchmark**](https://www.bankofengland.co.uk/markets/sonia-benchmark), which the Bank of England produces.

Financial Conduct Authority (FCA), publication of 24 of the 35 LIBOR settings ceased from 1 January 2022. Six sterling and yen LIBOR settings will continue for the duration of 2022 on a ‘synthetic’ basis. Five US dollar LIBOR settings will continue to be calculated using panel bank submissions until mid-2023, although its use for new business is restricted, with limited exceptions.

## What does my firm need to do now?

It is important that your firm continues active transition to move its legacy sterling LIBOR contracts that currently reference temporary synthetic LIBOR to permanent robust alternative rates (such as SONIA). Find out more on next steps in LIBOR transition in this [**joint statement between the Bank of England, Financial Conduct Authority, and the Working Group on Sterling Risk-Free Reference Rates**](https://www.bankofengland.co.uk/news/2022/february/sterling-risk-free-reference-rates-finalising-libor-transition).

Market participants continue to work with the Bank of England and Financial Conduct Authority to support transition of any remaining LIBOR-linked contracts.

The [**Working Group on Sterling Risk-Free Reference Rates**](https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/working-group-on-sterling-risk-free-reference-rates) leads this work in UK markets, with support from the Bank of England and the Financial Conduct Authority.