Ulster Bank
help for what matters

LIBOR Transition

Five steps you can take to start preparing for the anticipated end of LIBOR

What's happening?

LIBOR (London Inter-bank Offered Rate) is expected to be phased out and replaced by various alternative risk-free-rates (RFRs) across global financial markets.

Based on statements by the Financial Conduct Authority (FCA), the expectation is that LIBOR will be phased out by the end of December 2021.

This change may impact products you have or may be considering purchasing from Ulster Bank.

To help guide you through the upcoming phasing out of LIBOR, we've laid out some information you should know at this stage – together with five practical steps you can take now to start preparing for this transition.

Did you know?

LIBOR is calculated and published daily across five currencies (GBP, USD, EUR, JPY and CHF) and seven maturities (overnight, one week, and 1, 2, 3, 6 and 12 months) by the Intercontinental Exchange Benchmark Administrator (ICE BA).

It's based on submissions by a number of panel banks using available transaction data and their expert judgement. LIBOR should provide an indication of the average rate at which each panel bank can borrow unsecured funds in the London inter-bank market for a given period, in a given currency. This rate is published and used by the financial markets.

April 2018
1st SONIA future

June 2018
1st SONIA FRN from EIB

September 2018
Lloyds SONIA Covered Bond

April 2019
1st public SONIA RMBS, Nationwide Silverstone

June 2019
NatWest Market's 1st Corporate SONIA FRN for Associated British Ports

July 2019
NatWest's 1st SONIA loan for National Express

2015

LIBOR review
Bank of England (BoE) Working Group on Sterling RFR founded

2017

Andrew Bailey announcement
FCA announced that they will not persuade or compel banks to submit the inputs used for LIBOR after 31 December 2021

2018 H1

SOFR data published in US
The planned replacement of USD LIBOR, Secured Overnight Financing Rate (SOFR), did not exist historically

BoE publishes reformed SONIA
The Sterling Overnight Index Average rate (SONIA) was chosen as the BoE's preferred RFR to replace GBP LIBOR

SONIA linked issuance
First FRN issuance linked to SONIA

2018 H2

Regulatory announcements
Co-ordinated UK and US regulatory statements that LIBOR discontinuation "is a certainty"

€STR announced
ECB proposes €STR as replacement of EONIA

SOFR activity
Financial institutions begin SOFR-linked issuance in the US

SOFR swaps to be cleared on CME

BoE Term SONIA Working Group
Consultation paper issued

Banks submit detailed LIBOR transition plans to FCA/PRA

2019

Drive to future state
Development of the TSRR continues

€STR (EUR RFR) publication starts

EURIBOR decision on EU Benchmark compliance

Regulatory responses to banks' LIBOR transition plans

BoE issue summary SONIA Conventions discussion paper

31 Dec 2021

EU Benchmark Regulation
Transition period ends, only EU Benchmark Regulation compliant benchmarks allowed in new contracts

EONIA will no longer be compliant

RFRs in place
Banks no longer compelled to submit LIBOR

There is still considerable work being done across the industry and applicable jurisdictions to develop new RFRs. Given the complexity of changes to these critical benchmarks we want to share some information with you now about the anticipated transition. It's likely that the process to replace LIBOR will have an impact on both new and existing transactions.

LIBOR is expected to be phased out by the end of December 2021

Step one

Get up to speed on what's changing

Major interest rate benchmarks are to be phased out globally and replaced by RFRs.

LIBOR is one of a number of Inter-bank Offered Rates (IBORs) that are used in global financial markets.

It's used as a key interest rate benchmark across a number of products such as Bonds and Loans, as well as for banks and other financial institutions own funding and capital needs.

Financial regulatory authorities have expressed their concern that the inter-bank lending market, which LIBOR is intended to reflect, is no longer sufficiently active or liquid.

The Financial Stability Board (FSB) has advised that near risk-free rates, which are based on more active and liquid overnight lending markets, are used instead of LIBOR.

Work is also underway to reform or replace other global IBORs (such as the Euro Inter-bank Offered Rate – EURIBOR and the Euro Overnight Index Average – EONIA).

GBP LIBOR is expected to be replaced by SONIA across global financial markets by the end of 2021 (according to the FCA). The table below sets out the likely replacement benchmarks for LIBOR:

Currency	GBP	USD	EUR	CHF	JPY
Alternative rate	**Reformed SONIA[2]**	**SOFR[1]**	**€STR[2]**	**SARON[1]**	**TONAR[2]**
	The Bank of England's (BoE) Working Group has recommended that Sterling Overnight Index Average rate (SONIA) is the preferred rate to replace sterling LIBOR. SONIA is already widely used for derivatives and bonds, of which NatWest Markets provides various products. Recognising that certain markets may prefer forward-looking term characteristics, the BoE and FCA have consulted the market for views on a forward-looking Term SONIA RFR (TSRR). A decision is expected in late 2019. A summary of consultation findings can be found on: www.bankofengland.co.uk	In the US, the Alternative Reference Rate Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) to replace US Dollar LIBOR. The requirement for a Term SOFR is also being considered by the industry and ARRC. Derivative and bond products are developing as markets are adopting the SOFR.	In Europe, the European Central Bank (ECB) has set out its plans for the adoption of the Euro Short-Term Rate (€STR) to replace the Euro Overnight Index Average (EONIA) rate. The ECB has signalled that EURIBOR will continue on a reformed basis.	Local regulators have introduced new RFRs to replace LIBOR.	Local regulators have introduced new RFRs to replace LIBOR.

1 Overnight, Secured
2 Overnight, Unsecured

Step two

Take stock of where you have LIBOR exposure

Identification of your LIBOR exposure is a priority and will enable your business to start detailed planning for the transition.

LIBOR may not be limited to just your banking products. It may be:

- Used within your own commercial contracts (e.g. late payment clauses).
- Embedded in your financial forecasting and budgeting process, including financial system requirements.
- Part of your trade financing arrangements (e.g. supplier finance).
- Used in pricing any inter or intra company financial arrangements.
- Part of your company pension scheme management.

In addition, depending on the products you hold, you may need to start investigating the impacts from:

- Hedging of discount rates and/or inflation in respect of defined benefit pension liabilities or other post-employment liabilities.
- Swapping a debt obligation in one currency to another currency using a cross-currency swap that involves an IBOR.
- Discount rates for valuation purposes.
- Performance benchmarks for money market funds and/or other asset manager funds.
- Long-term project finance contracts/joint ventures.
- Hedging the variable interest rate on a floating rate debt obligation by swapping to a fixed rate.
- Swapping a fixed-rate to a floating rate using an interest rate derivative.

Step three

Consider what the anticipated end of LIBOR could mean for you

This change could be relevant to some products you have already purchased or may be thinking about purchasing from Ulster Bank or any other subsidiary owned by NatWest Group plc.

While the market for RFRs is still developing, LIBOR continues to be a widely accepted benchmark in financial markets. For products that may be affected the industry is working together to find the best solution to transition to RFRs by the end of 2021, or in some cases earlier.

Ahead of the discontinuation of LIBOR, market participants need to think about how to review and amend documentation and processes for any existing contracts that reference LIBOR and mature after the end of 2021.

Did you know?

Products already referencing a Base Rate, such as overdrafts and credit cards are not affected by the LIBOR transition.

How LIBOR compares with RFRs

LIBOR Forward looking 'term rates'	**RFRs** Overnight rates
Includes an element of credit spread reflecting the borrowing risk in the interbank market.	Based on actual transactions and reset daily in arrears, removes any expectation of future events inherent in a term rate.
Provides a known interest rate and amount of interest due at the end of the borrowing term, something that some customers may find helpful for cash flow forecasting.	SONIA is likely to be a less volatile rate known only at the end of the borrowing term. Customers may favour this rather than a more volatile term rate known at the start of the borrowing term. Development of a TSRR would provide borrowers with a rate at the beginning of the borrowing term, similar to LIBOR, although it wouldn't include a credit spread. Alternative term RFRs are being considered in the US and Europe that may operate in different ways to a TSRR.

Additional product implications:

General market consensus is to include fallback provisions in contractual documentation in case LIBOR stops being used before the relevant transition is completed.

Fallbacks may take the form of a roadmap to determine a replacement rate or reference to a specific replacement rate.

As RFRs develop, differences could occur in relation to fallbacks for different products. These could be, for example, different trigger events, timings, or even a different fallback rate.

Multi-currency products

RFRs may change how a multi-currency product operates. The industry is working together to find the best solution.

Step Four

Consider alternatives to LIBOR

You may find it helpful to contact your independent professional advisors (such as accountants or lawyers) to help establish what this transition could mean for you and what alternatives to LIBOR already exist – such as using a Base Rate product where appropriate.

Step Five

Look out for further guidance and support from us

We'll continue to work closely with market participants, industry bodies and trade associations to consider how the regulatory objective of eliminating reliance on IBOR to improve global financial stability can best be implemented.

We'll update you on developments throughout the transition process including, how these market-wide changes are likely to affect your day-to-day relationship with us and the products that you have purchased or may be considering purchasing from NatWest Group plc owned companies such as NatWest, The Royal Bank of Scotland, Ulster Bank, NatWest Markets and Lombard.

Above all, we remain committed to supporting you through this transition and will always strive to support you and meet more of your financial needs.

Glossary of definitions

ARRC	Alternative Reference Rate Committee	€STR	Euro Short-Term Rate (€STR)	IBOR	Inter-bank Offered Rate	SOFR	Secured Overnight Financing Rate
BoE	Bank of England	EURIBOR	Euro Inter-bank Offered Rate	ICE BA	Intercontinental Benchmark Administrator	SARON	Swiss Average Rate Overnight
ECB	European Central Bank	FCA	Financial Conduct Authority	LIBOR	London Inter-bank Offered Rate	SONIA	Sterling Overnight Index Average
EIB	European Investment Bank	FRN	Floating Rate Note	PRA	Prudential Regulation Authority	TONAR	Tokyo Overnight Average Rate
EONIA	Euro Overnight Index Average	FSB	Financial Stability Board	RFR	Risk Free Rate	TSRR	Term SONIA Reference Rate

There is no immediate action for you to take and we'll continue to provide timely updates to support you through this transition.

For further information and the latest LIBOR news – please visit the dedicated website **digital.ulsterbank.ie/business/support/libor-transition.html**

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