



THE END OF LIBOR: IMPACTS AND SOLUTIONS FOR INVESTORS

WHAT IS LIBOR?

LIBOR, or the London Inter-Bank Offered Rate, is a reference interest rate that is one of the most widely quoted interest rates in the world. LIBOR is used as a reference rate in a wide range of financial contracts, including derivatives, bonds and loans as well as fund benchmarks and for performance measurement. It is set for seven maturities, ranging from overnight to 12 months, and five different currencies for each maturity. LIBOR rates exist for the US dollar, sterling, euro, yen and Swiss franc. At its peak it underpinned in excess of \$300 trillion of financial instruments and investments.

WHY IS LIBOR ENDING?

A significant decline in interbank lending meant that this benchmark was becoming less relevant. A series of scandals involving manipulation of LIBOR rates further damaged confidence in the measure. Following a review by the Financial Stability Board in 2014, it was decided that LIBOR would be replaced by 'Risk Free Rates'.

WHEN IS IT ENDING?

In a speech by Andrew Bailey, then CEO of the FCA, it was confirmed that banks would no longer be compelled to make LIBOR submissions and LIBOR would cease to exist post 2021. It is therefore expected that LIBOR will cease after 31 December 2021.

WHAT IS IT BEING REPLACED BY?

Industry working groups were set up to develop new risk free rates. The new risk free rates are:

Currency	Risk Free Rate
GBP Sterling	SONIA (Sterling Overnight Index Average)
USD Dollar	SOFR (Secured Overnight Financing Rate)
JPY Yen	TONAR (Tokyo Overnight Average Rate)
CHF Swiss Franc	SARON (Swiss Average Overnight Rate)
EUR Euro	ESTR (Euro Short Term Rate)

TRANSITIONING FROM LIBOR TO RISK FREE RATES

Royal London Asset Management (RLAM) recognises the importance of the transition to Risk Free Rates and is aware that it will be of particular interest to our clients and other third parties. The impact of the transition will not be the same for all investment funds and portfolios that we manage and RLAM will work with our clients to understand the specific implications for them.

LIBOR TO RISK FREE RATES TRANSITION PROJECT

RLAM has set up a business wide project to manage the transition. Staffed by dedicated project management and by subject matter experts, the project will deliver RLAM's transition plan by the end of 2021.

To date the project has assessed the impacts of the cessation of LIBOR through both a business and client lens, quantified the exposures, and developed plans to transition to risk free rates whilst mitigating risk as much as possible.

In addition we are also participating and engaging with industry working groups, engaging with the FCA and the PRA to ensure best practice and to keep abreast of developments as these occur. Where needed the project will adapt its planning and implementation to take account of developments.

POTENTIAL CLIENT IMPACTS & SOLUTIONS

Throughout the project, RLAM has identified key areas in which the transition to risk free rates has an impact on clients. These include, but are not limited to:

1. Securities and Investments; RLAM has quantified its exposures to LIBOR and is working to reduce its LIBOR exposures through the normal course of business with a plan to have no LIBOR exposure from Q4 2021. From the 1st October 2020, LIBOR based investments will not be purchased except where a suitable transition plan is in place.
2. Derivatives; RLAM has quantified its exposures to LIBOR-based derivatives and is working to remove LIBOR-based derivatives through the normal course of business with a plan to have no LIBOR exposure from Q4 2021. From the 1st October 2020, no LIBOR derivatives will be purchased.
3. Performance Benchmarks and Performance Measurement; Selection of alternative benchmarks that do not include LIBOR. The most common practice will be to select Risk Free Rates as the base case with adjustments to ensure a fair outcome for clients.
4. Contractual terms contained with legal documentation and investment management agreements; In line with the replacement of benchmarks the most common practice will be to select an appropriate Risk Free Rate as the base case with adjustments to ensure a fair outcome for clients.
5. Funds: Certain investment funds managed by RLAM use LIBOR as a benchmark for fund performance. Changes to an alternative benchmark will be made during Q4 2020, subject to regulatory approvals and notifications. Any customers investing into those funds will be notified directly.

PLAN IMPLEMENTATION

RLAM is implementing plans approved by RLAM governance structures and committees. These are progressing as scheduled.

FURTHER COMMUNICATIONS

RLAM may issue further communications with regard to LIBOR cessation in due course. Clients directly impacted will be contacted directly.

FURTHER INFORMATION

Should you have any questions or comments, please contact your client account representative.

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