

# Debt advisory quarterly update

November 2019



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As we get closer to the 2021 discontinuation of LIBOR, the amount of Y2K-style panic over the estimated £300 trillion of LIBOR contracts will increase. The best fix for most borrowers: be aware, fix it now in any new loan, or swap deals you do.

**ANDREW SHEPPARD,**  
PARTNER – HEAD OF DEBT ADVISORY

## Goodbye LIBOR, hello SONIA

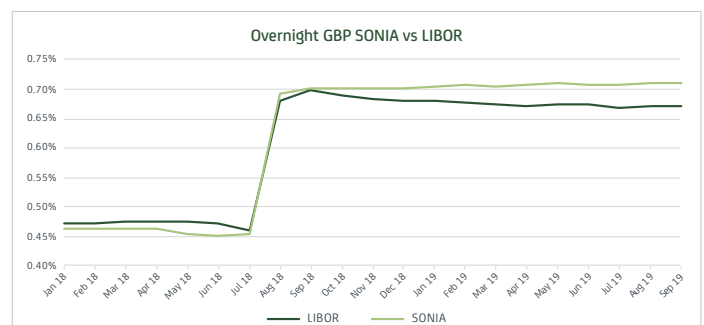
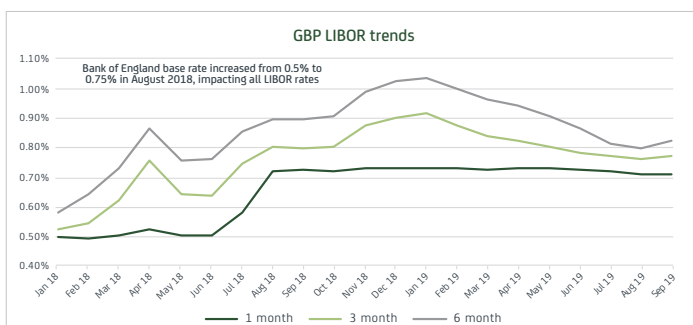
LIBOR, the London Interbank Offered Rate, is the interest rate that banks offer each other in the international market for short-term loans. It is used worldwide as a benchmark for many financial instruments, including the variable reference rate for most mid-market leverage lending. The Financial Conduct Authority (FCA) has recommended a move away from LIBOR which will be discontinued in 2021.

LIBOR has fallen out of favour in recent years for two reasons:

- Scandals that began to surface from June 2012 when Barclays was fined £290m for rigging the rate. Since then, UK banks have been fined hundreds of millions of pounds over this issue and over £1bn of fines have been applied worldwide
- The LIBOR lending market has reduced in size, meaning the rate is no longer underpinned by sufficient liquidity and has become less valid. Megan Butler, Executive Director of Supervision at the FCA, said in February 2019 that “LIBOR is essentially measuring the rate at which banks are not borrowing from each other”.

SONIA, the Sterling Overnight Interbank Average Rate, is proposed by the Bank of England as the replacement for LIBOR. SONIA tracks the actual rates offered on overnight funding in the wholesale money markets. Unlike LIBOR, it is widely traded, with volumes averaging £50bn per day. LIBOR transactions of three and six-month GBP LIBOR average under £190m and £90m a day respectively.

Those with LIBOR referenced loans should make sure they understand their rights under the replacement of LIBOR and make any changes to loan documentation sooner rather than later so they are prepared before 2021.



## Recent debt advisory deals

  <b>Collingwood</b> Insurance Services REFINANCING  <b>JZ International</b> Long Term Value Investor N/D	  <b>skin</b> ACQUISITION FINANCING  <b>TRISPAN</b>  £15M	  <b>GLADMAN</b> DEBT REFINANCING  <b>GUGGENHEIM</b>  £100M	  <b>LOD</b> <small>lawyers on demand</small> ACQUISITION FINANCING  <b>BOWMARK</b> CAPITAL  £35M
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