

Looking at a future with SONIA

There has been a lot of noise surrounding the SONIA/LIBOR transition, what it will look like and how we can best move from relying on LIBOR's forward-looking rates. Loan markets are in need of the forward-looking term rate that SONIA sets; it's easier to track and manage interest payments using SONIA because it is based on actual overnight rates collated by the Bank of England. This makes SONIA more objective compared to LIBOR.

According to the [Bank of England's roadmap](#), funders are to stop writing LIBOR-linked loans by the end of Q3 2020. Concerns over the practicalities of getting this transition ready during a pandemic, pushed the deadline back to Q1 2021. [The Working Group on Sterling Risk-Free Rates](#) noted that the planned Q3 2020 target was no longer feasible as it was necessary to continue use of new LIBOR linked loans into Q4 2020 in order to regulate flow of credit to the real economy in light of the pandemic. Lenders are now in a position where they must find the best transitional solution for them.

Lenders who are already moving away from LIBOR, may be using a compound SONIA and lag period/ observation shift to track rates. We know that the assumed SONIA rate is set by the preceding banking date – which can cause discrepancies when asking for rate quotes. The Bank of England announced in their roadmap that from August 2020, the index of compounded overnight SONIA rates will be published. As it will date back from 23 April, the published index will make it easier for you to track the effect of compounding SONIA rates across London's business days. By making the index public, this will cut down on the amount of calculations you will have to make. However, it does not prevent banks from quoting different rates. Keep in mind that the Bank of England's index uses the

observational shift method which is not as popular as the lag method – therefore, allowing for rate variations.

At CS Lucas, we are integrating a SONIA Rate Engine to help our consumers track and verify the rates quoted to them by banks. It will be hosted on a public web portal so that users can double check their rates against The Bank of England's figures. We, ourselves use the SONIA Rate Engine to work out payments and account for transactions. You can see how it works and find out how exactly you can utilise it for your needs during our webinar – hosted by the lead technician who built it, Ivan Parayno. Join us September 9, at [2PM BST](#) and again at [2PM SGT](#).