

# From LIBOR to SONIA and what you need to know:

## What is SONIA?

Alastair Hughes – Senior Advisor to Risk-Free Rate  
Transition Team at the Bank of England

# Moving from LIBOR to new rates...

Robust alternative benchmark rates have been established to replace LIBOR, such as [SONIA](#) in the UK

GBP LIBOR	SONIA
Based on panel bank submissions, lacks an active underlying market	Deep and liquid underlying market, not based on panel bank submissions
Forward-looking term rate	Overnight rate
Is set daily for a range of lending periods e.g. 1 week, 3 months, 6 months, 1 year	Published daily reflecting economic reality, but needs to be aggregated for use over the lending period
Interest is known at the start of the period	Interest is not known at the start of the period
Exposes the borrower to movements in bank credit risk	Nearly risk-free rate, minimising term bank credit or liquidity premium

**SONIA is not a like-for-like alternative to LIBOR**

## Moving away from LIBOR...



Due to longstanding concerns with LIBOR<sup>1</sup>, in 2014 the Financial Stability Board recommended that countries reduce their reliance on LIBOR (and other benchmarks) and develop alternative near risk-free rates.



As a result of these recommendations, an industry-led working group was formed to choose an alternative rate to LIBOR. In the UK, the Sterling Overnight Index Average (SONIA) was selected.





SONIA was selected as it benefitted from being an established rate in Sterling markets. In addition, market transactions underpinning the SONIA rate are very liquid – at approximately ~£60bn<sup>2</sup> worth of daily transactions.

<sup>1</sup> For more detail please see the video [Why do I need to transition away from LIBOR?](#)


<sup>2</sup> Q2 2020, as reported in [Bank of England Interactive Statistical Database](#)

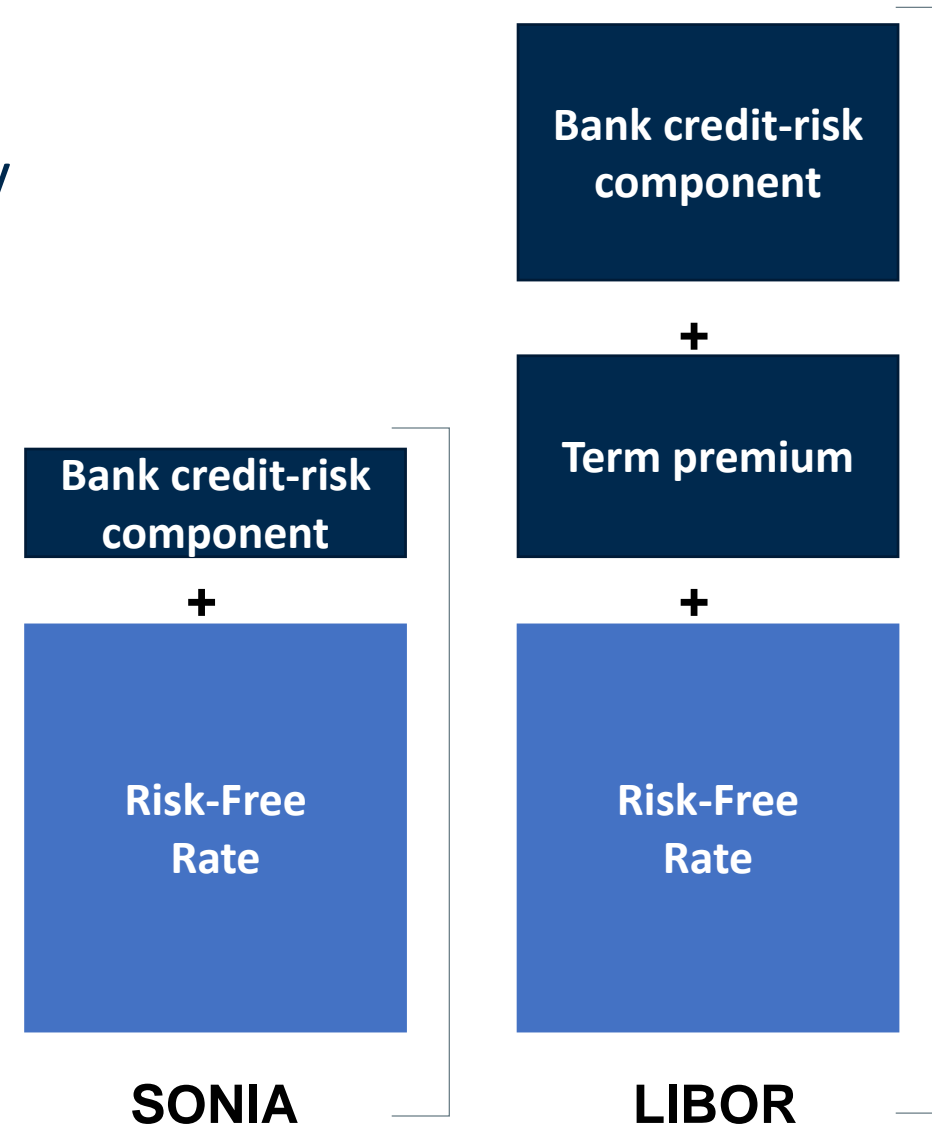
# What is SONIA?

 SONIA is published every London business day by the Bank of England.

 SONIA is an overnight rate, measured each day over the interest period to produce a final interest rate at the end.

 It is a (nearly) risk-free rate as it minimises any term bank credit risk or liquidity premium.

 SONIA is fully transaction based and more in line with the economic reality of inter-bank lending.



# Does SONIA move with Bank Rate changes?



SONIA has closely tracked Bank Rate.

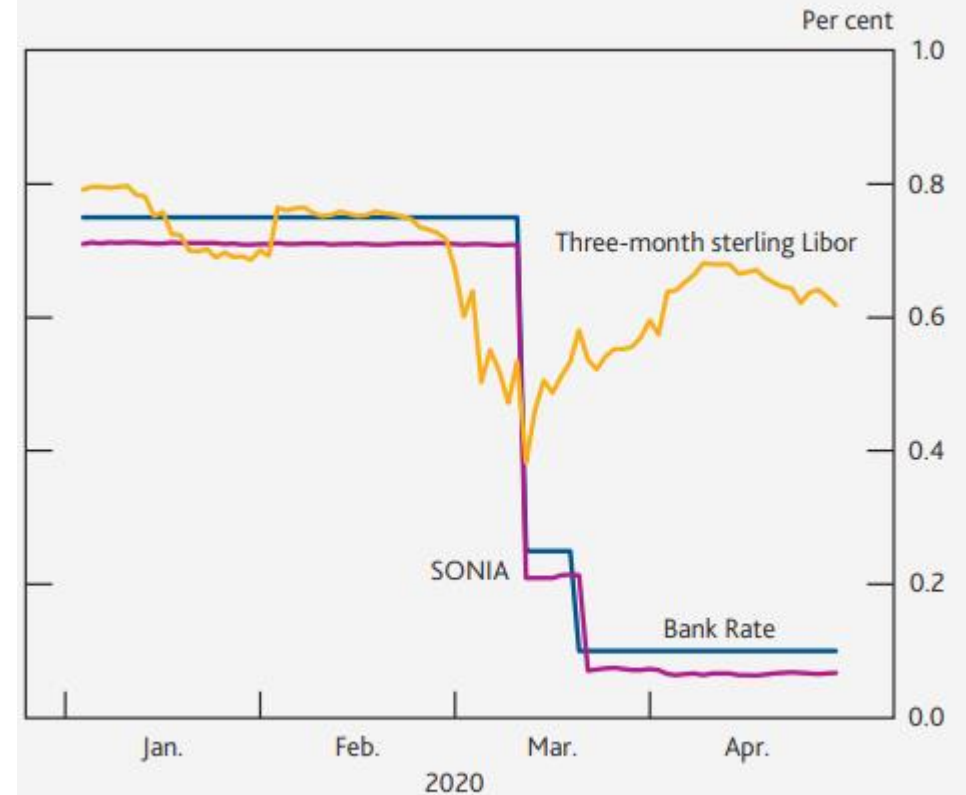


This was demonstrated in March 2020 when policy rates fell in response to COVID-19 disruption. However, LIBOR rates rose.



Households and businesses paying interest based on SONIA or Bank Rate would have benefitted directly from central bank policy action.

Movements in short-term sterling interest rates since January 2020



Sources: Bank of England, Bloomberg Finance L.P. and Bank calculations.

## Moving away from LIBOR...

- SONIA was selected as the alternative interest rate in Sterling markets. Alternative rates have been selected for all LIBOR currencies.
- Begin speaking to your bank about their alternative products, to reduce your reliance on LIBOR. Both for new borrowing and existing products that mature beyond 2021.

LIBOR currency	Alternative risk-free rates	Links to industry working groups on transition
£ Sterling LIBOR	SONIA – Sterling Overnight Index Average	The Working Group on Sterling Risk-Free Reference Rates <a href="#">website</a>
\$ US Dollar LIBOR	SOFR – Secured Overnight Financing Rate	Alternate Reference Rate Committee (ARRC) <a href="#">website</a>
€ Euro LIBOR	€STR - euro short-term rate	Working Group on Euro Risk-Free Rates <a href="#">website</a>
F Swiss Franc LIBOR	SARON – Swiss Average Rate Overnight	The National Working Group on Swiss Franc Reference Rates <a href="#">website</a>
¥ Yen LIBOR	TONA – Tokyo Overnight Average Rate	Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks <a href="#">website</a>

*To find out more about how to use SONIA in your contracts,  
please see further videos in this series*