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## The Bank of England is taking over the replacement for Libor



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LONDON – The Bank of England will start setting the interest rate benchmark to replace Libor in April 2018.

The central bank will take over the administration of the SONIA rate – which stands for the Sterling Overnight Index Average – on April 23.

A panel of banks including Goldman Sachs, Barclays and Deutsche Bank voted to recommend an [alternative to Libor for use in sterling derivatives](#) in April of this year.

A [Bank of England working group](#) approved SONIA as its preferred short-term interest rate benchmark thereafter.

The SONIA index tracks the rates of actual overnight funding deals on the wholesale money markets, rather than relying on submitters like the Libor benchmark does. SONIA's use will minimise "opportunities for misconduct," the Bank of England said at the time of the working group's decision.

The group chose the SONIA rate with a more than two-thirds majority "based on robust transaction volumes" and how well it measures overnight interest rates "that are considered close to risk-free." SONIA has been around for 20 years.

The Libor manipulation scandal, which hit four years after the 2008 financial crisis, risked breaking trust in London's ability to function as a financial centre.

Libor, a benchmark underpinning more than \$300 trillion in loans and derivatives, was set by a panel of banks that submitted short-term borrowing rates to the British Bankers' Association at the time of the scandal.

Regulators found that traders and rate-setters had colluded to shift the rate, benefiting the traders' positions and leading to billions of pounds in fines from US and UK regulators. Libor has since been reformed and is no longer compiled by the BBA.

The Financial Stability Board, which is chaired by BoE Governor Mark Carney, started to reform interest rate benchmarks in 2014 and the central bank set up its working group on Libor alternatives in 2015.



The Bank of England.

*Jim Edwards*