



**JOHN BYRNE**

CEO OF SALMON SOFTWARE

John is a Business graduate of University College Dublin. Prior to setting up Salmon Software, in 1985, John researched the markets and created INTUITION, the first CBT system on the market. This was a hugely successful product and its offspring system is still in use today.

Following that, he set up Salmon Software in 1985 and for over three decades he has been a strong advocate of independence, specialisation and innovation in the application side of Treasury Management Software.

During this time, he has led the development and innovation of our flagship system, Salmon Treasurer, to continuously incorporate new technology and new ideas to meet the demands of the increasingly complex nature of global financial markets.

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## INFORMATION FOR SONIA TRANSITION THIN ON THE GROUND

**JOHN BYRNE, OWNER OF SALMON SOFTWARE**

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Though there is no doubt that the London Interbank Offered Rate (Libor) is expected to cease by the end of 2021, many in the industry are still trying to get their heads around some of the calculations for the alternative - the Sterling Overnight Index Average (Sonia).

Since 2017, the UK's Financial Conduct Authority have spoken about the cessation of Libor, and the voluntary agreement by panel banks to maintain the reference rate until the end of 2021.

While there is a possibility that Libor will not completely disappear within this timeframe, regulators will have to negotiate whether or not the reduction of panel banks' contribution to the reference rate will be sufficient to continue publishing the rate after the cessation date.

However, Andrew Bailey, the incoming Governor of the Bank of England, in a [speech](#) in July 2019 said, "I can offer no certainty to those who have not taken steps to move off LIBOR by end-2021. Many market participants strive for certainty in their contractual arrangements. In order to achieve it, you do need to transition." This would strongly suggest that there will be no more LIBOR rates published after 2021. So, the message is clear – be prepared.

In a recent letter the FCA [said](#) that market participants should not expect the period for publishing a "non-representative Libor based on reduced panel bank submissions would last for more than a short period (i.e. a couple of months, not years)."

And the pressure to prepare is only increasing.

On January 16, the UK's Financial Conduct Authority (FCA) and Bank of England (BoE) [outlined](#) their expectation that market participants cease writing loans referencing Libor by October 2020, in a move to further encourage the transition to Sonia.

There are a limited number of cases where contracts that continue to reference Libor remains appropriate, and this only expected to decrease as we move closer to the end of 2021.

But there are clear signs that the industry has been making concrete moves in transitioning to Sonia.

According to the [FCA](#), in the past six months, over the counter (OTC) swaps referencing Sonia have increased to £4.5trn a month on average.

Despite these positive signals, many fundamental questions remain unclear about a post-Libor market.

For instance, the International Swaps and Derivatives Association on February 5 [announced](#) it will once again ask the market for feedback on whether swaps will need to fall back to the recommended risk free rates before the cessation of Libor at the end of 2021.

And pressure is mounting on technology vendors to provide all encompassing solutions to be ready for every scenario.

## Tech dependency

It is difficult to fully gauge the level of preparations of the market regarding necessary system updates required to implement Sonia.

For example, in the loan market, Finastra a tech vendor in the space made changes to its LoanIQ software to implement Sonia-linked functionalities. Approximately 15 out of 60 major financial clients serviced by Finastra - which are expected to update systems for the transition away from Libor - have actually completed the switch, Reuters [reported](#) on January 13.

The FCA recently approached the asset management industry seeking insight into preparations. In a [letter](#) sent to the chief executives of asset management firms on January 20, the FCA said it was collecting data from some firms' exposure to Libor risks.

“We expect to provide further communications on our specific expectations for Libor transition in due course,” the letter continued.

This also comes at a time when, in early February, the Alternative Reference Rate Committee – a group of market participants co-ordinated by the US Federal Reserve – sought [comment](#) from tech vendors regarding their preparations to transition away from USD Libor to the recommended alternative - the Secured Overnight Financing Rate (SOFR). And the BoE, on January 24, held a Sonia update meeting for UK vendors. While many expected the meeting to provide an in-depth insight into the calculations for various different instruments, conversation focused on reiterating previous warnings that firms must be ready before the end of 2021.

Regardless of the unanswered questions for a post-Libor market, and the current rate of updating systems, the regulators could not be clearer - Libor is going to end. And there is a competitive advantage for those that get ahead in their preparations.

In October 2019, we announced the upgrade of Salmon Treasurer to cater for the transition to Sonia for Salmon clients. This includes rates setting, interest calculations, accruals calculations and all related accounting journals.

For non-Salmon clients, in September 2020, we are introducing a new SaaS cloud based [Salmon Treasurer](#) – Sonia system and service. This service will be available to non-Salmon clients who are looking for a system to help them migrate their portfolio of loans and swaps from Libor to Sonia. It will include the following functionality:

- a. Recording and maintaining Sonia reference rates
- b. Uploading of their portfolio of loans and swaps
- c. Rates resetting
- d. Calculation of compounded interest following rates resets incorporating the lag
- e. Calculation of accruals
- f. Accounting journal postings
- g. Sophisticated dashboard reporting on their portfolios.
- h. Downloading of data from our system to Excel

A similar service will be available for the US equivalent to Sonia – the Secured Overnight Financing Rate (SoFr).

To find out more about this service, contact us at [info@salmonsoftware.ie](mailto:info@salmonsoftware.ie)