OUT OF THE ORDINARY

CLIENT REMEDIATION FACTSHEET

Credit Adjustment Spread (CAS)

REV: 06/21

What is a Credit Adjustment Spread?

LIBOR and SONIA rates differ in the way they are calculated. LIBOR is based on submissions provided by a panel of banks to reflect the interest rate at which banks could borrow money in the wholesale markets, it is not based on actual transactions and incorporates a credit premium to reflect the risk.

Risk free rates are based on actual transactions and reflect the average of the interest rates that banks pay to borrow overnight from other financial institutions, because these are based on actual transactions, no credit premium is applied.

The Credit Adjustment Spread is the term used for the adjustment between LIBOR and Risk Free Rate to reduce or eliminate the economic value transfer between the lender and the borrower when the index changes from LIBOR to the replacement Risk Free Rate.

Credit Adjustment Spread – Industry standards/recommendations

Five year historical median

The Sterling Risk Free Rates Working Group (SRFRWG) has recommended the use of a five year historical median calculation for the Credit Adjustment Spread for loans transitioning on LIBOR cessation; it is based on the difference between GBP LIBOR and SONIA compounded in arrears over a five year lookback period.

Following the pre cessation announcement on the 5th March 2021 the five year historical median Credit Adjustment Spread rates have been fixed for GBP and all tenors providing certainty for both lenders and borrowers as to the rates that will apply to their loans on LIBOR cessation 31st December 2021. The rates that have been published by Bloomberg for GBP are:

Tenor	Spread Adjustment (bps)
1m	3.26
3m	11.93
6m	27.66

Forward Approach

The forward looking Credit Adjustment Spread calculation is based on the forward looking basis swap transactions market, which is used to calculate the implied future difference between GBP LIBOR and SONIA and is subject to sufficient liquidity in the market being observed. By comparison, the five year historical median will sometimes be below or above these prices on any given day.

Which option is supported by Investec?

Investec can support both the five year historical median and forward methodologies, we recognise that both options have a place in the market.

In line with the aforementioned industry recommendations, Investec will only offer the five year historical median rates for loans that will remediate on LIBOR cessation at 31 December 2021 (including those with the next reset date following cessation)

For those clients that wish to remediate prior to LIBOR cessation, both options may be available and we will work with you to agree the most appropriate conversion arrangement dependent on the structure and nature of your agreement.

Further information regarding the Credit Adjustment Spread can be found here.