Infrastructure and Projects Authority

PFI Guidance Note

Discontinuation of LIBOR – applied to PFI Projects

October 2021

Infrastructure and Projects Authority

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Introduction

1. The purpose of this guidance note is to update PFI procuring authorities regarding the forthcoming change in the UK finance markets resulting from the cessation of LIBOR which will impact the majority of Private Finance Initiative (PFI) projects. This note updates the previous IPA guidance note published in February 2021[1] and the IPA update published in July 2021[2].

2. This note is structured as follows: Part 1 provides some background to the cessation of LIBOR and the transition to its recommended[3] replacement interest benchmark rate (SONIA[4]) ("the Transition"). Part 2 provides some guidance and considerations that procuring authorities should consider in respect of the Transition. Part 3 provides some illustrative questions and answers (Frequently Asked Questions) to support the authorities when dealing with the Transition.

3. Appendix One to this guidance note is a specimen Consent Letter[5] for the Transition. Although the precise drafting of actual consent letters may vary from project to project, the version provided at Appendix One is one which IPA would recommend authorities use for consent. Appendix Two details key amendments to the PFI finance documents which should be required to help implement the Transition.

4. It is important to recognise that the Transition is not PFI specific. It applies across all major financial markets. It has been described by the Bank of England (BoE) as follows: "*This issue touches numerous parts of the economy. LIBOR has been embedded in the financial system for many years, used to calculate interest in everything from corporate borrowing and intra-group transfers, to complex derivatives. It is also utilised in accounting practices, system infrastructure and other supporting functions. All of these will need to be ready to use alternative reference rates, such as SONIA, by the end of this year*"[6].

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[1] PFI Guidance Note - Discontinuation of London Interbank Offered Rate - applied to PFI Projects – February 2021

[2] Infrastructure and Project Authority Update in relation to Discontinuation of LIBOR applied to PFI

[3] Recommended by the Working Group on Sterling Risk-Free Reference Rates

[4] Sterling Overnight Index Average

[5] The Specimen Consent Letter included in Appendix One includes two letters. Firstly, a request for consent to the Transition letter from the SPV to the authority, and secondly the authority consent letter reply.

[6] https://www.bankofengland.co.uk/news/2021/january/the-final-countdown-completing-sterling-libor-transition-by-end-2021

5. IPA and BoE's expectations are that, in the majority of cases, SONIA will be implemented for PFI transactions as an appropriate and robust alternative benchmark interest rate to LIBOR. For most PFI projects that utilise bank debt[7], the Transition should be a straightforward, largely administrative process. In a limited number of PFI projects, there may be more complicated financing arrangements or difficulties with the implementation of the Transition which will require greater scrutiny by authorities.

Key Recommendations from this guidance

6. In respect of the Transition, authorities should not mandate or direct any particular course of action to the PFI Special Purpose Vehicle (SPV). Such a direction could result in the change being treated as a qualifying change of law, which could impose additional liabilities on the authority.

7. The Unitary Charge that an authority pays should be unaffected, regardless of what the SPV's new benchmark interest rate is.

8. Although the Transition is a Refinancing[8], as long as the SPV is subject to the same new benchmark interest rate on both its loan and swap arrangements, there should usually be no Refinancing Gain for the SPV[9]. If there is no Refinancing Gain, the Transition will not be a Qualifying Refinancing. Furthermore, if new SONIA credit adjustment spreads (CAS) are being adopted by the SPV's lenders from the established market CAS rates (as described in paragraph 22 below), authorities should be comfortable with this pricing change.

9. For projects where authority consent for the Transition has been requested by the SPV, as long as suitable information in relation to the proposed Transition has been provided to the authority by the SPV[10], and there are no project-specific circumstances that may invalidate the 'no Refinancing Gain' assumption referred to above, it is our recommendation that the authority should consent to the Transition. This consent should be provided to the SPV as soon as it is practicable.

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[7] As noted in paragraph 15, the Transition may not be relevant for PFI projects that are bond financed. Furthermore, for some earlier (pre-SoPC) PFI projects, the PA may have different (or no) Refinancing provisions and authority consent for the Transition may not be relevant.

[8] As defined in most PAs, as the Transition will involve amendments to the financing agreements.

[9] IPA recommends that procuring authorities should view the Refinance Gain calculation as being for the complete Transition i.e. from LIBOR to SONIA. Procuring authorities should not base any Refinance Gain calculations on the use of a financial model that assumes the use of hypothetical long-term fall-back interest rates for periods after 31 December 2021.

[10] Refer to paragraph 42 for what information the authority should expect in any request for consent letter sent by the SPV.

10. Authorities should avoid linking their consent to this Transition to the agreement of any other commercial issues or disputes that are currently the subject of discussions or negotiations with the SPV. To do so may unnecessarily delay a Transition that is largely regulatory and administrative in nature.

11. Other than consent for the Transition itself, authorities should not consent to accepting any additional risks or liabilities arising out of the Transition (e.g. higher compensation liabilities on a future early termination) without first obtaining departmental, and/or external advice.

12. It is expected that, for most projects, the authority's consent for the Transition should require minimal external advisers' costs if the parties follow recommended industry practice, guidance, and market standard documentation[11]. If incurred, these authority advisers' costs should be reimbursed to the authority by the SPV. In circumstances where the Transition is more complex, or where additional consents are requested by the SPV (e.g. consent for higher authority liabilities), it is expected that additional external adviser costs may be necessary.

13. It is recommended that, where practicable, parties should broadly follow the form of Consent Letter appended to this guidance note as Appendix One. If the form of specimen consent letter is adopted, when completed, it should usually provide sufficient information and transparency for the authority to provide consent without incurring substantial advisor costs. To the extent there are significant departures from the standard, authorities should satisfy themselves as to the nature of these departures and obtain advice as necessary before providing their consent.

[11] Including, as far as practicable, minimal departures from the specimen Consent Letter attached as Appendix One to this guidance note.

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Part 1 – Background

What is LIBOR

14. LIBOR is a forward-looking interest rate benchmark. It measures the rate of interest banks charge other financial institutions for short-term loans. The loan maturities to which it applies vary from one day to one year. LIBOR acts as a benchmark for short-term interest rates for various types of variable rate loans, and also forms the basis for interest rates, floating to fixed rate swap, and other interest rate derivative hedging arrangements.

15. In PFIs LIBOR is typically used as the floating rate reference cost of private sector debt finance that is lent by banks to SPVs. Financier's credit margins and other fees are added to this. This base cost of debt finance then forms a significant element of the Unitary Charge that the authority pays to the SPV to enable the SPV to cover its finance costs. LIBOR is not used for PFI projects that are financed by bonds, so the Transition should not be relevant for those projects. Although LIBOR is not mentioned in most PFI Project Agreements (PA)[12], it will be relevant in PFI financing agreements, especially for refinancing, termination and other finance related provisions.

16. In the UK, the Financial Conduct Authority (FCA) announced, on 5 March 2021, that a majority of LIBOR rates will cease on 31 December 2021. However, some LIBOR rates may continue as 'synthetic LIBOR' (as noted below in paragraph 25) to continue to support some legacy LIBOR referencing finance agreements[13]. Where possible, LIBOR linked agreements will need to be amended to ensure they continue to operate effectively once LIBOR is no longer available. For most sectors in the UK it has been recommended that LIBOR should be replaced by a new benchmark interest rate called SONIA. Where certain LIBOR rates continue (as synthetic LIBOR), this will be a temporary arrangement and synthetic LIBOR will be calculated very differently from historical sterling panel bank LIBOR, which will no longer be available.

17. For interest rate derivatives the proposed change also involves interdealer brokers (IDBs) moving the primary basis of their pricing screens and curve construction for interest rate swaps from LIBOR to SONIA. As we get nearer to the cessation of LIBOR on 31st December 2021, SONIA is increasingly becoming the primary pricing point, such that LIBOR swaps are now being priced by reference to SONIA (adjusted for LIBOR-SONIA basis).

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[12] LIBOR may occasionally be referenced in some PFI PAs. For example, in the calculation of interest on late payments.

[13] On 29 September 2021 the FCA published a consultation on its proposed decision to permit legacy use of synthetic LIBOR in all contracts except cleared derivatives in 2022.

What is SONIA?

18. Unlike LIBOR, SONIA is based on large volumes of actual transactions. It reflects the average of the interest rates that banks have paid to borrow sterling overnight from other financial institutions and other institutional investors. SONIA is administered and produced by the Bank of England.

19. The main differences between LIBOR and SONIA include:
    - *Backward vs forward-looking*: SONIA is a reflection of overnight borrowing costs whereas LIBOR is a forward-looking expectation of rates[14];
    - *Term*: LIBOR rates are published at several different maturities (for example overnight/spot, one week, one month, two months, three months, six months and one year), whereas SONIA is currently only published as an overnight or spot rate without incorporation of a term element[15]; and
    - *Bank credit risk*: LIBOR is unsecured and includes an element of bank credit risk. Whilst SONIA is also an unsecured rate, because it is a measure of overnight borrowing costs and does not incorporate bank credit risk, it operates as a near proxy for a risk-free rate.

20. As noted above, LIBOR includes a credit element to reflect the cost and risk to banks of lending over a term period. Conversely, because SONIA is an overnight rate, the risk of lending is lower and the SONIA rate is therefore typically lower than LIBOR. The intention of the FCA has been to try and make the transition from LIBOR to SONIA broadly neutral from a cost perspective. To ensure a fair conversion of existing contracts from LIBOR to SONIA, a small adjustment is therefore needed to account for this credit difference. This adjustment is being achieved by the addition of a CAS to SONIA to bring the adjusted SONIA rate back up to being something nearer to historical LIBOR.

21. There has been significant consultation in the market as to the best way to adjust SONIA in a fair way. In the derivatives market, this work has been led by ISDA. Following these consultations, the preferred methodology to translate SONIA into a broadly equivalent LIBOR rate is to use the median difference (spread) between LIBOR and SONIA calculated over the previous 5-year period. This methodology has been put forward by ISDA, and has been supported by the Working Group on Sterling Risk-Free Reference Rates (which includes the FCA and the BoE) ('the Working Group').

[14] An extrapolated forward version of SONIA may also be relevant in the future e.g. Synthetic LIBOR

[15] SONIA can be made into a term rate through compounding.

22. The ISDA fall-back CASs were fixed on 5 March 2021. These SONIA CAS rates are now being widely adopted by the market, and are:
    - 0.0326% CAS between 1-month GBP LIBOR and 1-month SONIA compounded in arrears;
    - 0.1193% CAS between 3-month GBP LIBOR and 3-month SONIA compounded in arrears; and
    - 0.2766% CAS between 6-month GBP LIBOR and 6-month SONIA compounded in arrears.

    These CAS rates will therefore be added to the relevant compounded SONIA rate to determine the new (adjusted) SONIA rate that will form the new benchmark interest rate cost for most PFI bank loans and swap arrangements.

23. IPA's recommendation to authorities is that, as long as these agreed market CAS rates are being applied to the correct compounded SONIA tenor (e.g. 3 or 6 month), authorities should be comfortable with the new benchmark interest rates, and should not need any external advice to validate this pricing change.

24. Conversely, if the new SONIA rates are calculated by the SPV or its banks on an alternative CAS methodology leading to alternative CAS rates, authorities should verify with the SPVs the justification for deviating from industry recommended approaches, and obtain external advice as they see fit.

Tough Legacy Contracts – Synthetic LIBOR

25. In May 2021 the FCA published a consultation on its proposed policies on the exercise of two new powers introduced through amendments to the Benchmarks Regulation under the Financial Services Act 2021. These policies are intended to ensure that the FCA has the appropriate regulatory powers to help reduce risks to market integrity and consumer protection in the wind-down period before LIBOR ceases permanently. In June 2021 the FCA consulted on using its powers to implement synthetic LIBOR rates for six sterling LIBOR rates. Synthetic LIBOR would be available for a time limited period for the benefit of those products that are not able to transition to alternative rates before panel bank LIBOR ceases at 31 December 2021.

26. Where synthetic LIBOR is permitted for use, it will be a continuation of LIBOR i.e. from a legal perspective a contract that references LIBOR should be interpreted as referencing synthetic LIBOR. This is despite the fact that synthetic LIBOR will be calculated very differently from historic panel bank LIBOR[16].

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[16] The Government introduced the Critical Benchmarks (References and Administrators' Liability) Bill to Parliament on 8 September 2021. This followed the Financial Services Act 2021 which established a legislative framework for the creation of synthetic LIBOR.

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27. In June 2021 the FCA stated that they would *'require a synthetic LIBOR to be calculated using a forward-looking term version of the relevant risk-free rate (ie SONIA for sterling and TONA for yen) and the fixed ISDA spread adjustment'*[17]. Historic SONIA rates use the compounded (in arrears) SONIA rate for a similar tenor (e.g. 3 months), whereas synthetic LIBOR will use an extrapolated forward SONIA rate[18] (plus the same CAS). These two differently composed rates are not expected to be significantly different to each other, but small differences are expected as one rate is derived from the markets, and one is derived from compounding actual historical transactions.

28. It is possible that certain private finance products used within the PFI sector (e.g. loans and/or swaps) may be designated as (or interpreted as) qualifying as tough legacy, and thereby qualifying to use synthetic LIBOR. The FCA will decide before 31st December 2021 which legacy contracts are permitted to use synthetic LIBOR rates. On the 29th September 2021 the FCA published a consultation on its proposed decision to permit legacy use of synthetic LIBOR in all contracts except cleared derivatives in 2022. Going forward, SPVs will need to understand how their contracts interact with the FCA's powers and proposed decisions regarding synthetic LIBOR.

29. It appears therefore that PFI financial products will be permitted to use synthetic LIBOR in 2022. However, the use of synthetic LIBOR is nevertheless only intended to be temporary. The FCA guidelines say that the new synthetic LIBOR benchmark would be published for a maximum of 10 years, and will be re-assessed by the FCA every year during that period for continuing applicability. Even if products used within PFIs are deemed by the FCA as tough legacy contracts, it will only delay the process of switching from LIBOR to SONIA as many PFI finance arrangements have more than 10 years remaining.

30. The Government recently introduced legislation (The Critical Benchmarks (References and Administrators' Liability Bill) to Parliament to provide legal certainty that synthetic LIBOR is a continuation of LIBOR. As synthetic LIBOR will (legally) be treated as LIBOR for the purposes of legal interpretation of the PFI financing contracts, the use of synthetic LIBOR instead of historic LIBOR means that no contractual change to the financing contracts in respect of LIBOR has arisen, and no Refinancing has occurred.

[17] https://www.fca.org.uk/news/statements/fca-consults-proposed-decision-require-synthetic-libor-6-sterling-and-japanese-yen-settings

[18] For example, it may use the IBA 3 Month Term SONIA Reference Rate (TSRR)

Part 2 – Guidance to Procuring Authorities

Procuring authority considerations for the Transition

31. The responsibility for the Transition should be managed primarily between the SPV, their lenders and interest rate swap/hedge counterparties. If LIBOR is replaced with SONIA, in the first instance it should not impose any contractual obligations on the authority. For example, although the Transition may arguably constitute a general change in law, it is not a qualifying change in law for which the authority may be liable. In addition, the Transition would not constitute any type of compensation or relief event.

32. As usually the Transition will not result in a Refinance Gain, it is not expected to result in any change to the Unitary Charge that the authority pays the SPV. This applies irrespective of whatever rate the SPV and its financiers agree to use as the SPV's new benchmark interest rate.

33. The specimen Consent Letter at Appendix One includes drafting whereby if the Transition does in fact lead to a Refinance Gain, the Refinancing provisions in the PA would apply. In that scenario it is possible that the Unitary Charge paid by the authority could reduce if the authority has the right to a share of the Refinance Gain, and if the authority elects to take the share as a reduced Unitary Charge.

34. In respect of the Transition, authorities should not mandate or direct any particular course of action to the SPV. If such a direction were considered to be project specific, it could result in the change being treated as a qualifying change of law, rather than a general change in law, which may consequently impose additional liabilities onto the authority. It is for the private sector equity and debt financiers to resolve this issue between themselves.

35. There should be minimal (if any) changes to the PA required due to this Transition[19]. There will however be drafting changes required in the financing agreements, including the interest swap agreements[20]. Any administrative costs driven by these contract document changes should be solely for the account of the private financiers and the SPV incurring them. Authorities should not contribute to any SPV costs incurred in respect of the Transition. Where practicable, the authority should assist the SPV in minimising its administrative costs by making the Transition as efficient as possible, whilst ensuring that the authority does not take on any additional risks or liabilities.

36. Although the Transition does not directly impact authorities, it is possible in many cases that they may be requested by the SPV to consent to the Transition. Authorities may also be requested to consent to a possible increase to the Authority's Compensation on Termination (CoT) liabilities that may possibly arise as a result of the Transition. An acceptable form of Consent Letter is included in Appendix One to this guidance. Guidance on whether these consents should be provided by the authority is included below.

37. There is a risk (albeit highly unlikely) that, for a small number of PFI projects, the Transition may enable an SPV's swap counterparty to enforce an acceleration of the SPV's swap payment liabilities via provisions in the financing documents[21]. This could conceivably lead to an SPV having a significant and unexpected financial (cash) liability that could threaten the SPV's financial position. Feedback from the PFI market is that this is not a credible risk, as the vast majority of swap counterparties will seek to stay invested in the projects. Further, most swap arrangements would not allow a swap counterparty to accelerate their swap payments/assets in this way.

38. In the highly unlikely event of the Transition leading to such a situation, the risk lies fully with the private sector, and in that scenario, we recommend that authorities flag the issue with the IPA and their sponsoring departments. As this issue could conceivably lead to an SPV insolvency event and possible service disruptions, it is worth authorities to be aware of the possibility. However, it is not the recommendation that authorities interfere, or take on any private sector liability or risk in this scenario.

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[19] If the PA does refer directly to LIBOR, such as for interest on late payments, the relevant PA LIBOR references could be updated to the new (adjusted for CAS) SONIA rate that is being used by the SPV as its benchmark interest rate. If tough legacy (synthetic LIBOR) applies, it may be that no PA changes are required.

[20] Appendix Two includes some key considerations that authorities should be aware of in respect of these financing agreement amendments.

[21] Due to the much lower current base interest rates compared to those at financial close, most PFI swap arrangements will be 'out of the money' for the SPV, and 'in the money' for the swap counterparty.

Authority Consent for the Transition

39. The Transition is expected to meet the definition of a Refinancing (as it will involve amendments to the financing agreements). However, it is expected (and feedback from various PFI investors so far has confirmed) that for the vast majority of PFI projects subject to the Transition there should not be a Refinancing Gain within the SPV as a result of the Transition. This assumes the calculation of Refinancing Gain is viewed as the complete Transition from LIBOR to SONIA. We recommend that the Refinance Gain should not be calculated on the basis of an interim position where Transition is assumed not to occur, and the use of fall-back rates is projected in the financial model.

40. The reason there should usually be no Refinancing Gain is that the PFI market will usually try to apply the same new benchmark interest rates (whether it's SONIA plus CAS, or Synthetic LIBOR) to both the SPV bank loan and the SPV swap[22]. As a majority of bank financed SPVs are effectively hedged (i.e. close to 100% hedged) on their fixed interest payments, whatever the SPV is paying as a new benchmark interest rate to its loan provider will also be what the SPV is receiving from its new arrangement with its swap/hedge counterparties under the floating leg of the swap. This should make the Transition broadly cash neutral for the SPV. Furthermore, the SPV will be incurring administrative costs (e.g. legal costs) to implement the Transition which should also ensure there is no overall Refinancing Gain (it is likely that in many situations there may actually be a loss for the SPV because of the administration costs).

41. If there is no Refinancing Gain, for most PFI contracts (written under SoPC) the Refinancing would not be a Qualifying Refinancing under the PA. If the Transition is not a Qualifying Refinancing, there should be no contractual requirement for the SPV to ask for, or obtain, the authority's consent in respect of the Transition. Nevertheless, to avoid the risk of the SPV being challenged in the future that the Transition was in fact a Qualifying Refinancing[23], many SPVs are considering asking for authority consent for the Transition.

42. Where an authority is asked to consent to the Transition, our recommendation is that the authority should first obtain written confirmation[24] from the SPV including:

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[22] In the case of synthetic LIBOR, applying the rate to both the loan and the swap would pre-suppose that synthetic LIBOR is available for both financial products.

[23] For example, if future calculations of SONIA were such that in retrospect there was a small Refinancing Gain, the Transition would have been a Qualifying Refinancing and authority consent would have been required.

[24] All this information should be included in the SPV's consent letter that is provided to the authority. Refer to Appendix One – Specimen Consent Letter.

- what the new benchmark interest rate is (and that the financiers are applying the market standard five-year median CAS rates, referred to in paragraph 22 above);
- that the same new benchmark interest rates apply to both the SPV loan and the SPV swap;
- that the SPV is effectively hedged (e.g. 100% or thereabouts) against benchmark interest rates;
- that the SPV expects the Transition will be materially cash neutral for the SPV, will not give risk to a Refinancing Gain, and will not change the SPV's Equity IRR;
- that there are no other changes to the financing documents other than those specifically needed to give effect to the Transition (subject to paragraph 43); and
- that the SPV, its lenders and hedging counterparties have agreed, and documented the Transition arrangements.

43. The only permitted exception to the confirmation that there are no other changes to the financing documents other than those specifically needed to give effect to the Transition is where the project lenders/finance parties include one or more EEA regulated institutions. Under the Bank Resolution and Recovery Directive (EU Directive 2014/59) (BRRD), where such an institution enters into or materially amends a financial contract governed by the law of a non-EEA state such as the UK, market standard "Bail-in" provisions may also be included.

44. If the preceding information/confirmations have been received, and provided there are no project specific circumstances that could invalidate the 'no Refinancing Gain' assumption, it is our recommendation that the authority should consent to the Transition. The consent should be provided by authorities as soon as it is practicable for them to do so. Furthermore, in this scenario, it is expected that the authority will likely only require minimal external advice.

45. If an authority has reason to believe that, due to circumstances specific to the relevant PFI project, the Transition may cause a Refinancing Gain it should firstly discuss this concern with its sponsoring department, and/or its external advisors. In this case, additional analysis by the authority is necessary.

Increase in Compensation on Termination ("CoT") Liability

46. In addition to being requested to consent to the Transition, it is possible that some authorities will be requested by the SPV to consent to an increase in the authority's future (hypothetical) CoT liabilities to the extent such liability increase was caused by the Transition. If such a consent request is received by an authority, it should obtain guidance from its sponsoring departments, and/or external advisers to clarify its risk position.

47. A major difficulty in determining whether the CoT liabilities have relatively increased or decreased is that, in future, LIBOR will not exist in the same way (either at all or potentially only for a limited period as synthetic LIBOR for tough legacy finance contracts). It will therefore be very difficult to accurately calculate whether any CoT liability change was created by the Transition or not.

48. This additional consent may be requested by the SPV because, in most UK PFI contracts subject to standardised drafting, there will be a clause which prescribes that '*no amendment.....under any Financing Agreement or Ancillary Document shall have the effect of increasing the authority's liabilities on early termination of this Contract unless: (a) the Contractor has obtained the prior written consent of the Authority to such increased liability......or (b) it is an Additional Permitted Borrowing*[25].

49. In some possible termination scenarios (e.g. Voluntary Termination, Authority Default, Corrupt Gifts), the Transition could conceivably impact an authority's CoT liability by changing the cost of the interest rate swap break fee payable (as the basis of calculating interest rate payments will have changed).

50. Given the specifics of each PFI project, the possible different termination scenarios, and the specifics of swap interest break fee calculations etc. it is not possible to say definitively at this time that there may not be some additional termination liabilities arising as a result of the Transition. As a result of this, we do not recommend that authorities provide any consent or approval to proposals made as part of Transition arrangements in relation to CoT liabilities under the PA unless they have satisfied themselves as to their risk position.

51. This approach is commercially reasonable because, in the case of the Transition, there will usually not be a Refinancing Gain share for authorities, and therefore there is no value that is being provided by the SPV to the authority to compensate them for accepting any additional risk. Furthermore, in most cases it is not expected that a request for consent to increased authority CoT liabilities will be made by the SPV. For these reasons, the specimen Consent Letter at Appendix One does not contain any such request for consent to increased authority liabilities.

Consent not unduly withheld or linked to other issues

52. As noted above, authorities may be asked to consent to the Transition on the basis that it constitutes a Refinancing (even though the transition may not in fact be a Qualifying Refinancing).

[25] SoPC 4 – Required Drafting in Clause 22.3

53. PFI standard contract guidance is that, generally, authorities are encouraged to consent to refinancing proposals. Further, when considering a request for consent to a Refinancing the authority should assess the Contractors' proposals objectively, and should also not unduly delay its response to any proposal[26].

54. As noted in paragraph 44, unless there are circumstances specific to the relevant project, it is our recommendation that consent to the Transition should usually be provided by authorities as soon as is practicable. This is partly because most SPV's are aiming to have completed their transition away from LIBOR by 31 December 2021, after which most of the LIBOR rates cease.

55. Authorities should not link their consent to this Transition to the agreement of any other commercial issues or disputes that are currently the subject of discussions or negotiations with the SPV. To do so may delay the Transition until after 31 December 2021.

56. Conversely, where there are legitimate reasons for the authority to carefully consider their risk and reward position with respect to the Transition, they should do so. This may be the case where the request for consent is more complex e.g. where authorities are also being asked to consent to an increase in possible CoT liabilities. Even in such cases, however, authority deliberations should not be conflated with, or linked to the agreement of any other non-Transition related commercial issues or negotiations with the SPV.

Procuring Authority Costs and Reimbursement

57. It is expected that an authority's consent for the Transition should usually be relatively straightforward. For most projects the request for Transition consent should not require the authority to incur significant external adviser costs as long as the parties do not deviate significantly from recommended guidance and standard documentation (e.g. the use of an appropriate consent letter, such as that included in Appendix One). For a minority of more complex Transition arrangements, or where additional consents are requested by the SPV (e.g. CoT liability increases), more substantial external advice may be required by the authority.

[26] Refer to SoPC 4 – Clauses 34.3.2 and 34.3.3

58. To the extent that an authority does incur external adviser costs in respect of the Transition, they should be reimbursed for these external costs by the SPV. This is consistent with standardised drafting for Refinancing which states that '*The Authority should be reimbursed by the Contractor for its reasonable costs of engaging suitable advisers to review refinancing proposals and to support the Authority in connection with implementing an agreed refinancing*'[27]. In the case of this Transition, the requirement for the authority's analysis, and/or consents is being driven by the private sector, so it is reasonable that the SPV should fund it.

[27] SoPC 4 – Clause 34.6.3

Part 3 – Frequently Asked Questions

1. **What is LIBOR?** LIBOR is a forward-looking interest rate which UK banks charge other financial institutions for short-term loans.
2. **What is SONIA?** SONIA stands for the Sterling Overnight Index Average. Unlike LIBOR, SONIA is based on actual historic transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
3. **Will the Transition be considered a Refinancing under the Project Agreement (PA)?** Yes – the Transition will usually be a Refinancing under the PA.
4. **Will the Transition be an Exempt Refinancing under the PA?** No - it is unlikely the transition will be an Exempt Refinancing under the PA.
5. **Will the Transition be a Qualifying Refinancing under the PA?** For most projects the Transition will not result in a Refinancing Gain. As such, in most cases, it is expected that the Transition will not fall within the definition of a Qualifying Refinancing.
6. **If the Transition is not a Qualifying Refinancing, why are authorities being asked to provide consent for it?** Although most Transitions are not expected to be a Qualifying Refinancing, many of the private PFI investors wish to obtain authority consent for the Transition anyway. This is in order for SPVs to obtain certainty over the Transition. It will avoid the risk of the SPV being challenged in the future that the Transition was a Qualifying Refinancing (noting that even a Refinancing Gain of £1 can be a Qualifying Refinancing). If it were deemed to be a Qualifying Refinance in the future, it could possibly lead to a termination if there had been a wilful breach of the refinancing provisions by the SPV. However, the consent letter (see Appendix One) should mitigate this risk by specifying that, if it turns out in the future that the Transition was a Qualifying Refinancing, the usual PA Refinancing provisions should apply - including the sharing of any Refinancing Gain.
7. **What will happen if the authority doesn't give consent to the Transition?** – Since the Transition is not expected to be a Qualifying Refinancing, usually authority consent should not actually be required under the PA, and the SPV could Transition without consent. It is also possible that some PFI financial products may qualify for tough legacy status in which case synthetic LIBOR could be used by the SPV post 31 December 2021 if consent was not given (this has now been proposed by the FCA for 2022 for all legacy contracts except cleared derivatives). However, if consent were not given and synthetic LIBOR were not available, it is possible that the SPV would not be able to Transition or to use synthetic LIBOR. It may then have to use fall-back interest rates specified in the current financing agreements. In the unlikely event that the Transition is a Qualifying Refinancing, consent will be required under the PA from the authority. That authority consent should not be unduly delayed or withheld unless there are valid commercial and/or financial reasons to do so (refer to SoPC 4 Clause 34.3 for additional guidance).

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8. **How long do authorities have to give consent to the Transition?** There is no specific time period in most PFI contracts. Standard guidance merely requires that the authority (as well as the SPV) act in good faith, and that the authority should not unduly delay its response to any Refinancing proposal. There is an important practical consideration of which authorities should be aware. The Transition will usually need to be consented and implemented by 31 December 2021 after which most LIBOR rates will cease to exist.
9. **What are the likely or possible financial impacts on the Authority of the Transition?** There should be no direct financial costs for the authority as a result of the Transition. Assuming there is no Refinancing Gain, the Unitary Charge will not change at all as a result of the Transition. Theoretically, if there was a Refinancing Gain, the authority may benefit from its share of any Refinancing Gain as specified in the PA. For most projects we do not expect there to be any Refinancing Gain as a result of the Transition. Any other financial or risk impacts arising as a result of the Transition (e.g. administration costs of the Transition) should be paid for in full by the private sector.
10. **Who should pay for any external advisor cost incurred by authorities in providing consent to the Transition?** Authorities should request the SPV to reimburse any external advisory costs. The requirement for the authority's analysis, and/or consents is being driven by the private sector, so it is reasonable that the SPV should fund it. For most projects the request for consent to the Transition should not usually require the authority to incur significant external adviser costs as long as the parties do not deviate from the recommended guidance and standard documentation (e.g. an appropriate consent letter like that included in Appendix One). For a minority of more complex Transition arrangements, or where additional consents are requested by the SPV (e.g. CoT liability increases), more substantial external advisers' input may be required.
11. **What benchmark interest rate will the SPV use if we do not Consent?** It is expected that the SPVs will have to use an alternative (to traditional LIBOR) benchmark interest rate irrespective of authority consent. This is because LIBOR rates will cease after 31 December 2021. It is expected that SPVs will either amend the reference rate used to a robust alternative such as SONIA rate (plus relevant CAS), rely on existing contractual fall-backs, or they will temporarily use synthetic LIBOR. If, as proposed on 29th September 2021, the FCA allows the temporary use in 2022 of synthetic LIBOR for all legacy contracts except cleared derivatives, then this proposal would permit the use of synthetic LIBOR for PFI financial products in 2022.

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12. **If the Transition happens without Authority Consent, will it constitute a breach of contract by the SPV?** If a transition is a Qualifying Refinancing (i.e. it incorporates a Refinancing Gain), authority consent is usually required in the PA, and the lack of consent could be a breach of the Refinancing provisions, if the breach is wilful. In such cases, the authority could terminate the PA for breach of the Refinancing provisions. We expect that, in the majority of cases, the Transition will not usually result in a Refinancing Gain. It will not therefore be a Qualifying Refinancing, and will not require authority consent. In such cases, there would be no breach of the Refinancing provisions if the Transition is completed without authority consent. Furthermore, in some earlier (pre-SoPC) PFI Projects, the PA may have different (or no) Refinancing provisions. In those cases, authority consent may also not be relevant.
13. **What changes will be required to the Project Documents?** There should be no changes to the PA, unless LIBOR is directly mentioned in which case any direct reference to LIBOR should be amended to the new benchmark interest rate used. The financing documents (including swap/hedging arrangements) will need to be amended to replace references to LIBOR with references to SONIA (plus CAS) and other associated changes. At the time of the request for authority consent, the SPV should send the authority details of all proposed changes to the finance documents. This may be in the form of a marked-up existing finance document. Alternatively, it may be in the form of an Amendment Agreement which details all financing agreement changes. Some examples of key financing agreement amendments are included as Appendix Two to this guidance note. Any changes in addition to those listed in Appendix Two should be carefully considered by the authority and its advisers.
14. **Is the Transition an opportunity for authorities to leverage other concessions from the SPV?** It is not recommended that the Transition be used by authorities as an opportunity to leverage other concessions. SPVs will usually have to Transition to a new benchmark interest rate by the end of 2021 irrespective of what the authority does. The authority should assist the SPV to undertake the Transition (which is largely regulatory in nature) in an efficient manner. This is consistent with the contractual requirements for the authority to act in good faith, and not to unduly delay providing a consent to Refinancing.
15. **Is there a draft form of request for a consent letter?** Yes – this is included in this guidance note as Appendix One.

16. **What details in relation to the Transition should we ask to be provided with by the SPV?** It is expected that the information the authority should require to get comfortable to provide consent for the Transition will form part of the consent request letter it receives from the SPV. As a minimum, the letter should include what the new benchmark interest methodology and rate will be. It should also set out if the new benchmark rate is being applied to both the SPV loan and the SPV swap arrangements. If this is the case, the Transition should have no material impact on SPV equity cash flows, and the SPV's should therefore be able to confirm that in their opinion there is no Refinancing Gain, and no impact on Equity IRRs arising as a result of the Transition. Further, the consent letter should summarise any additional costs or risks (including potential liabilities) that the Transition may transfer to the authority. A specimen consent request letter (including the authority's consent letter) is attached as Appendix One.
17. **Can/should authorities ask to see an updated financial model (Base Case)?** There should not usually be any major changes to the financial model due to the Transition. This is because the Unitary Charge should not change, there will usually be no Refinancing Gain to share, any impact on the SPV's costs of funds will be minimal, and the Transition should be materially net cash neutral for the SPV. However, if the authority has any specific concerns and wishes to verify the financial model, the standard drafting in most PFI contracts usually allows them to do so. Further, any amendments to the financial model as a result of the Transition will need to be incorporated into a revised Base Case update at some stage as part of normal PFI contract management.
18. **What new documents should the SPV be producing?** Depending on the SPV approach to the amendments to the financing documents, there may be no new documents arising as a result of the Transition if the SPV just makes minor changes to existing financing documents. Alternatively, the SPV may produce a separate new Amendment (Override) Agreement stating all the changes that will be made to the finance documents. There may also be some minor amendments required to the PA to the extent that LIBOR is explicitly referenced.
19. **Should authorities be consenting to multiple LIBOR-SONIA Transitions across different projects in the same Consent?** No – this is not recommended. For transparency, each individual PFI Project should have a separate Transition consent (if required).
20. **Should the documents for the Transition be settled before we Consent?** Yes – and the authority should have seen all the proposed changes to documents.
21. **What should authorities do if the SPV wants to make other contractual changes at the same time as the Transition?** Authorities should attempt to dissuade SPVs from doing this. It is not recommended that SPVs should link other project changes to the Transition. If an SPV includes other changes into the Transition, if these other changes are unacceptable to the authority, it would be a legitimate reason for the authority to withhold consent to the Transition.

22. **Should authorities appoint their own external advisers?** Ultimately, it is up to the authority to determine whether or not to appoint external advisors. It is recommended that authorities seek guidance from their sponsoring departments before seeking external advice. It is expected that for most PFI projects, the requirement for external advisors will be minimal, as long as the parties have used market standard benchmark pricing, and market standard documentation. Where the Transition on certain PFI projects is more complex, or where additional authority consents are requested by the SPV (e.g. increase in CoT liabilities), it is more likely that additional external advice will be required.
23. **Should authorities expect to receive requests for Transition consent in relation to every bank financed PFI project they manage?** The Transition should be relevant for most bank financed PFI projects, although it is much less likely to be relevant for bond financed PFI projects. Some older (pre-SoPC) bank financed PFI projects may have different (or no) Refinancing provisions in their PA. In those cases, it may not be necessary to obtain authority consent under the PA.
24. **What should authorities do if they do not receive a consent request?** There may be no contractual requirement for the authority to do anything if it does not receive a request for consent from the SPV. As noted above, it is likely that most Transitions will not be a Qualifying Refinancing and may, therefore, not actually require an authority consent. As such, some SPVs will not feel the need to approach the authority for consent to the Transition. Where there is no contractual requirement for the authority to do anything in such cases, the authority may nevertheless choose to raise the issue with the SPV to ensure the SPV is progressing the issue appropriately. As noted elsewhere, the risk of the Transition ultimately lies fully with the private sector.
25. **Is the Transition still relevant to PFI projects which are very close to expiry?** Usually the answer will be yes but, if the project has already reached the point where all LIBOR related finance (i.e. Senior Bank Debt) has been paid off, it is unlikely that the Transition will be relevant.
26. **If a PFI project is currently in the process of being terminated, should authorities still provide consent to the Transition?** Our recommendation is that consent to the Transition should be kept separate to all other ongoing commercial issues. As such, the process for consent for the Transition as described in this guidance note should still be followed despite any ongoing termination process.

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Appendix One – Specimen Consent Letter

To: [DESIGNATION AND ADDRESS OF THE AUTHORITY] (the "Authority").

From: [DESIGNATION AND ADDRESS OF PROJECTCO] ("ProjectCo").

Date:

Dear Sirs

Project Agreement dated [ ] between (1) the Authority and (2) ProjectCo (as amended, supplemented, varied, extended or restated from time to time) (the "Project Agreement")

LIBOR Transition

1 INTRODUCTION

1.1 We refer to:

1.1.1 our letter of [●] 2021 providing the background on the cessation of LIBOR and its impact on the Project; and

1.1.2 the more detailed briefing pack in relation to the proposed amendments to the Financing Agreements for the purpose of LIBOR transition provided to you on [●] 2021,

together the "**Background Information**".

1.2 We also refer to the Project Agreement. Unless otherwise defined in this letter, words and expressions used in the Project Agreement shall bear the same meaning in this letter.

1.3 In accordance with the Project Agreement, we have attached at Appendix 1 to this letter:

1.3.1 a certified conformed copy of the amendment agreement dated [●] 2021 (the "**Amendment Agreement**") that we have entered into in relation to the [Facilities Agreement][28] to provide for the replacement of LIBOR with an interest rate based on the [Compounded Reference Rate][29] (as defined in the Amendment Agreement); and

1.3.2 a certified conformed copy of each of the [Hedging Amendment Agreements][30] (as defined in the Amendment Agreement) that we have entered into in relation to our interest rate hedging agreements to provide for those interest rate hedging agreements to reference the SONIA (sterling overnight index average) reference rate instead of LIBOR,

together the ("**LIBOR Transition Amendments**").

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28 Tailor to actual finance documents.

29 Tailor to term used in the Amendment Agreement.

30 Tailor to term used in the Amendment Agreement.

2 CONSIDERATIONS UNDER THE PROJECT AGREEMENT

2.1 Under the Project Agreement:

2.1.1 we require the Authority's prior written consent to any amendment of any Financing Agreement if the same may reasonably be expected to have a material adverse effect on the ability of the Contractor to perform its obligations under the Project Documents or the Project Agreement;

2.1.2 no amendment of any Project Document or Financing Agreement that has the effect of increasing the Authority's liabilities on early termination of the Project Agreement can be made without Authority consent;

2.1.3 we are required to notify you of any Refinancing; and

2.1.4 we require your prior written consent to any Qualifying Refinancing and we and you are obliged to act in good faith in respect of any Refinancing.

2.2 We do not expect the LIBOR Transition Amendments (i) to have a material adverse effect on the ability of the Contractor to perform its obligations under the Project Documents including the Project Agreement; or (ii) to have the effect of increasing the Authority's liabilities on early termination of the Project Agreement.

2.3 The LIBOR Transition Amendments will constitute a Refinancing under the Project Agreement.

2.4 The LIBOR Transition Amendments have been based on the [methodology proposed by The Working Group on Sterling Risk-Free Reference Rates (which includes representatives of the Bank of England)] and we are hereby notifying you of them.

2.5 As is set out in the Background Information:

2.5.1 the same LIBOR replacement rate (SONIA compounded in arrears plus the same fixed credit adjustment spread will be applied under both the Amendment Agreement (in relation to the [Facilities Agreement]) and the Hedging Amendment Agreement (in relation to the interest rate hedging agreements);

2.5.2 ProjectCo's interest rate exposure under the [Facilities Agreement] is effectively hedged via its interest rate hedging agreements;

2.5.3 given paragraph 2.5.2 above, the use of the same LIBOR replacement rate under both the Amendment Agreement and the Hedging Amendment Agreements should mean that the LIBOR Transition Amendments are materially net cash neutral for ProjectCo;

2.5.4 ProjectCo therefore expects that the LIBOR Transition Amendments will not increase its Equity IRR; and

2.5.5 the amendments are targeted specifically to address LIBOR transition under the Finance Documents, a transition which is a regulatory requirement. All other project documentation will remain unchanged and, subject to paragraph 2.6 below, there will be no change to the Unitary Charge as a result of the LIBOR Transition Amendments.

As a result of the above, ProjectCo does not consider that a Refinancing Gain will result from the Refinancing constituted by the LIBOR Transition Amendments and, as such, does not consider it to be a Qualifying Refinancing.

2.6 We agree that, if it becomes apparent to us at any time after the date of this letter that the LIBOR Transition Amendments constitute a Qualifying Refinancing (due to a Refinancing Gain having arisen because of the LIBOR Transition Amendments), we will promptly notify you of the same. We acknowledge that the provisions of clause [ ] (Refinancing) the Project Agreement shall apply in respect of any Refinancing Gain that has arisen as a result of the LIBOR Transition Amendments.

2.7 For the avoidance of doubt, when determining whether a Refinancing Gain has occurred as a result of the LIBOR Transition Amendments for the purposes of this letter and the Consent Letter, any base case updates immediately prior to the Refinancing without taking into account the effect of the LIBOR Transition Amendments shall be calculated on the basis of LIBOR (including any synthetic version thereof) being payable under the relevant provisions of the [Financing Agreements] and not on the basis of any other terms set out therein and which are stated to apply in circumstances where LIBOR is not published, is otherwise not available or ceases to be a representative rate.

3 NEXT STEPS

3.1 As set out in the Amendment Agreement, the grant of Authority consent to the LIBOR Transition Amendments is a condition precedent to their effectiveness. We would therefore be grateful if the Authority would provide its consent to the LIBOR Transition Amendments as soon as possible by signing and returning to us the consent letter in the form set out in Appendix 2 to this letter (the "**Consent Letter**").

3.2 The LIBOR Transition Amendments will become effective upon receipt of the Consent Letter from the Authority. However, the switch to the Compounded Reference Rate (as defined in the Amendment Agreement) will only take place when the Rate Switch Date (as defined in the Amendment Agreement) occurs (principally when LIBOR ceases to be published or is otherwise unavailable). The FCA has announced that this will be immediately after 31 December 2021.

4 MISCELLANEOUS

4.1 This letter shall be governed by the same governing law as applies to the Project Agreement.

4.2 The existing provisions of the Project Agreement shall continue in full force and effect.

4.3 Please do not hesitate to let us know if you require any further information from us in order to grant the consent requested in this letter, or if you would like to discuss its subject matter further. We would be happy to do so.

Yours faithfully,

For and on behalf of
[PROJECTCO] acting by

…………………………………………………	………………………………………
Full Name (Director)	Signature of Director

Infrastructure and Projects Authority

APPENDIX
Part 1
Amendment Agreement

Part 2
Hedging Amendment Agreements

APPENDIX 2
Authority Consent Letter

To: [DESIGNATION AND ADDRESS OF PROJECTCO] ("ProjectCo").

From: [DESIGNATION AND ADDRESS OF THE AUTHORITY] (the "Authority").

Date:

Dear Sirs

Project Agreement dated [ ] between (1) the Authority and (2) ProjectCo (as amended, supplemented, varied, extended or restated from time to time) (the "Project Agreement")

LIBOR Transition

1 INTRODUCTION

We refer to the Project Agreement and your letter to us dated [ ] 2021 (the "**Letter**"). Unless otherwise defined in this letter, words and expressions used in the Letter shall bear the same meaning in this letter.

2 CONSENT[31]

In consideration and on the basis of the Letter and the Background Information, we hereby:

[31] This assumes any advisory cost implications for the Authority have been pre-agreed prior to any consent provision. Refer to latest IPA guidance (PFI Guidance Note - Discontinuation of LIBOR – applied to PFI Projects) - October 2021

consent to the Refinancing constituted by LIBOR Transition Amendments as the same exist as at the date of this letter.

agree that if ProjectCo complies with paragraph [2.6] of the Letter and the terms of clause [ ] (Refinancing) of the Project Agreement are applied to any applicable Refinancing Gain which has arisen or will arise as a result of the LIBOR Transition Amendments (and taking account of paragraph [2.7] of the Letter), ProjectCo will not, with respect to the LIBOR Transition Amendments only, be treated as having breached such clause as a result of the LIBOR Transition Amendments having given rise to a Refinancing Gain and being classified as a Qualifying Refinancing.

Our consent above is only for the LIBOR Transition Amendments expressly contemplated by the Letter and does not constitute consent to or approval of any other effects of the Refinancing that may arise including, but not limited to, any potential change in termination liabilities for the purposes of clause [insert clause reference in the project PA equivalent to Cl. 22.3 SOPC4 dealing with increase in CoT liabilities] of the Project Agreement.

This letter shall be governed by the same governing law as applies to the Project Agreement.

Yours faithfully

Authorised Signatory
For and on behalf of
[Authority]

Infrastructure and Projects Authority

Appendix Two - Key Financing Agreement Amendments

	Subject	Illustrative LIBOR to SONIA Loan transition terms[32]
1.	General	Terms and conditions to be based on the Loan Market Association (LMA) recommended form for a single currency RFR (Risk Free Rate) facilities agreement incorporating backward-looking compounded rates (lookback without observation shift), latest version published on 28 May 2021 (the "LMA Form"). Capitalised terms used but not otherwise defined shall have the meaning given to them in the LMA Form.
2.	RFR	SONIA (sterling overnight index average) reference rate displayed on the relevant screen of any authorised distributor of that reference rate.
3.	Interest	Aggregate of: a) Margin (no change to existing margin); and b) Reference Rate. [LIBOR/SONIA Floor: [ ] [*Only if relevant in existing documents. Likely to replicate the existing position*]
4.	Reference Rate	Aggregate of: a) Daily Non-Cumulative RFR Rate for the relevant RFR Banking Day (methodology as below); and b) Credit Adjustment Spread (methodology as below).
5.	Daily Non-Cumulative RFR Rate	Compounded in arrears in accordance with the calculation methodology for the Daily Non-Cumulative RFR Rate specified in the LMA Form, with a lookback of 5 RFR Banking Days and using the "*without observation shift*" methodology. Neither Margin nor the Credit Adjustment Spread will be compounded.
6.	Credit Adjustment Spread	Credit Adjustment Spread(s) based on a published rate as fixed and defined by the market and published by Bloomberg. Loan: 5-year Historical median basis if 100% hedged - 27.66bps for 6m LIBOR settings; 11.93bps for 3m LIBOR settings. Swap: 5-year Historical median basis - 27.66bps for 6m LIBOR settings; 11.93bps for 3m LIBOR settings.
7.	RFR Banking Days	A day on which banks are open for general business in London.
8.	Rounding conventions	Daily Rate and Annualised Cumulative Compounded Rate to be rounded to 4 decimal places. Per the LMA Form, interest, commission and fees will be calculated without rounding, save that amounts payable by a Borrower/Obligor will be rounded to 2 decimal places.

[32] These are *illustrative* LIBOR to SONIA transition terms only based on some PFI LIBOR-SONIA transitions seen to date, to help inform Authorities of the main relevant terms and common approaches likely to be taken by many SPVs and Lenders. While many projects will adopt the similar or even the same terms, some differences or bespoke approaches to certain components and aspects can be expected between different parties or for different project financing structures and so this list is not intended to be definitive or prescriptive.

9.	Day count	Actual / 365.
10.	Business day convention	[Modified following.]
11.	Daily Rate Fallbacks	a) Central Bank Rate plus Central Bank Rate Adjustment; and b) Historic Central Bank Rate (no more than 5 RFR Banking Days prior) plus Central Bank Rate Adjustment, "Central Bank Rate" means the Bank of England's Bank Rate as published by the Bank of England from time to time. ["*Central Bank Rate Adjustment*" means, in relation to the Central Bank Rate prevailing at close of business on any RFR Banking Day, the 20 per cent. trimmed arithmetic mean (calculated by the Agent, or by any other Finance Party which agrees to do so in place of the Agent) of the Central Bank Rate Spreads for the five most immediately preceding RFR Banking Days for which the RFR is available. For the purpose of this definition, the 20 per cent. trimmed arithmetic mean shall be calculated by removing the lowest and the highest of the Central Bank Rate Spreads over that relevant period. "*Central Bank Rate Spread*" means, in relation to any RFR Banking Day, the difference (expressed as a percentage rate per annum) calculated by the Agent (or by any other Finance Party which agrees to do so in place of the Agent) between: (a) the RFR for that RFR Banking Day; and (b) the Central Bank Rate prevailing at close of business on that RFR Banking Day, which may be, for the avoidance of doubt, a negative or a positive number.]
12.	Cost of funds	[Shall]/[shall not] apply.
13.	Market Disruption	[Shall]/[shall not] apply.
14.	Break costs	[No break costs payable.]
15.	Interest rate swap	Associated interest rate hedging is amended so that the floating rate leg payable to the Borrower is: a) SONIA; plus b) Credit Adjustment Spread (based on the amount/methodology above). [Calculation methodologies and fallbacks under the loan and swap are aligned to avoid material basis risk.]/[Differences between loan and swap methodology/fallbacks are: [ ].]

Infrastructure and Projects Authority

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