

The Working Group on Sterling Risk-Free Reference Rates

Tim Bowler
CEO
ICE Benchmark Administration
Milton Gate
60 Chiswell Street
London EC1Y 4SA

18 September 2020

Dear Mr Bowler,

Supporting transition in non-linear derivatives – GBP LIBOR ICE Swap Rate (ISR)

I am writing to you on behalf of the market-led Working Group on Sterling Risk-Free Reference Rates (Working Group). The Working Group recently constituted a new Non-Linear Derivatives Task Force to support an orderly transition for non-linear derivative products by giving effect to a workplan to facilitate new flow using alternative risk-free rates and the transition of legacy GBP LIBOR referencing products of this type.

An area of discussion since the inaugural meeting of the Non-Linear Derivatives Task Force has been on the status of ICE Benchmark Administration's GBP LIBOR ISR page and the potential impact for legacy non-linear derivatives, such as swaptions and CMS products, in the following circumstances:

1. When GBP LIBOR is no longer being published as expected after the end of 2021; and
2. Prior to the effective date of the cessation of GBP LIBOR where there might no longer be sufficient liquidity in GBP LIBOR swaps to produce some or all tenors of GBP LIBOR ISR.

A potential approach the Task Force has been considering in these instances is whether the GBP LIBOR ISR could continue to be used as a reference for legacy trades only, if it were to be derived from a SONIA-based methodology instead. An appropriate methodology could use SONIA ISR with an adjustment for the credit spread which takes into account, for example, the ISDA historical five-year median approach. The resulting adjusted or 'legacy' GBP LIBOR ISR could be made available for all or individual tenors in order to support legacy trades that have not transitioned already. New product flow in sterling non-linear derivatives would be expected to reference the new SONIA ISR, and the Working Group is producing outputs to support this in due course.

If ICE Benchmark Administration considers the proposed approach for a legacy GBP LIBOR ISR to be feasible, the Task Force will engage in further discussion on the period for publication.

We see transition in sterling non-linear derivatives as a high priority and would appreciate the opportunity to better understand ICE Benchmark Administration's plans in the above circumstances and views on the proposed approach for a legacy GBP LIBOR ISR. Your input would be valuable to explore further available options for an orderly transition. If ICE Benchmark Administration would like to engage further on this, we would welcome your attendance at a future meeting of the Non-Linear Derivatives Task Force.

Sincerely,



Tushar Morzaria

Chair of the Working Group on Sterling Risk-Free Rates