

The Working Group on Sterling Risk-Free Reference Rates

If you have questions about the content or would like to get involved in any of the events mentioned please contact RFR.Secretariat@bankofengland.co.uk

The Working Group, Bank of England and Financial Conduct Authority (FCA) issued a [statement](#) on the impact of coronavirus on firms' LIBOR transition plans. The central assumption that firms cannot rely on LIBOR after end-2021 has not changed, and **end-2021 should remain the target date for all firms to meet**. The transition from LIBOR remains an essential task. However there will be an impact on the timing of some aspects of the transition programme of many firms, particularly the loan market. The Working Group will continue to monitor and assess the impact on transition timelines and update markets accordingly.

Key Milestone Dates

- 9 April – deadline for Bank of England [consultation](#) on the proposal to publish a daily compounded SONIA index and 'period averages'
- 28 May – deadline for responses to UK HMRC [consultation](#) on the taxation arising impacts from LIBOR cessation
- 30 June – deadline for EIOPA [discussion paper](#) on its proposed methodologies to treat new RFR benchmark rates
- Q3 2020 – Working Group [target](#) to cease issuance of GBP LIBOR-linked cash products maturing after 2021

Working Group on Sterling Risk-Free Reference Rate Updates

- The RFR Secretariat published the [summary of responses](#) to the Working Group's consultation on credit adjustment spread methodologies for fallbacks in cash products referencing sterling-LIBOR. There was strong consensus in favour of the historical 5-year median for the credit spread approach for both cessation and pre-cessation fallbacks for cash products maturing beyond end-2021. The Working Group will discuss the results at its forthcoming meetings.
- The Loan Enablers Task Force published an [indicative roadmap](#) outlining a path for the discontinuation of new sterling LIBOR-linked cash lending by end-Q3 2020. **Please note this is subject to change.**
- The Working Group issued a [statement](#) welcoming the Bank of England's discussion paper on the publication of a SONIA compounded index, and outlining how bond markets can use the proposed SONIA index, and its relevance for issuer's choice of conventions.

Official Sector Updates

- The FCA issued a [statement](#) clarifying how it would announce if a LIBOR setting is found to be non-representative of the underlying market it seeks to measure. This statement would result in LIBOR-linked contracts with a 'pre-cessation trigger' to convert to referencing a risk-free rate plus a spread.
- UK HMRC issued draft [guidance](#) and a [consultation](#) seeking market feedback on how the HMRC should amend references to LIBOR in the current tax legislation. In addition, HMRC are seeking to understand the tax impact that could arise from LIBOR cessation and the reform of other benchmark rates.
- The EU Commission published an [inception impact assessment](#) outlining possible amendments to the EU Benchmark Regulation to equip competent authorities with supervisory powers to ensure the orderly cessation of a critical benchmark such as LIBOR. The deadline for feedback is 15 April 2020.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

Aggregated across all products as at end-February

	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	16,313,095	-5,202,414 (-24%)	4,805,038	40,925 (1%)
SONIA	667,095	46,867 (8%)	134,957	-549 (0%)

LCH Swaps Statistics (from [LCH website](#))

As at end-February (£billions)

	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
GBP LIBOR (incl. FRAs)	4,710	-2,468 (-34%)	19,123	543 (3%)
SONIA	9,621	-7,673 (-45%)	16,005	1,745 (12%)

Market Developments

- British American Tobacco [signed](#) a £6bn multi-currency revolving credit facility, the first to be linked to both SONIA and SOFR. The facility consists of a £3bn 364-day facility and £3bn 5-year facility provided by a syndicate of 21 banks.
- Barclays [confirmed](#) unanimous bondholder support to transition £1.25bn LIBOR-linked covered bond, from LIBOR to SONIA.
- The Financial Accounting Standards Board issued an Accounting Standards [Update](#) providing temporary amendments and optional guidance to reduce costs and ease accounting complexity due to LIBOR cessation and reference rate reform. The amendments in this Update apply only to LIBOR-linked contracts and LIBOR- referencing hedging relationships entered into before 31 December 2022.

Non-Sterling RFR Updates

From 22 June, LCH will [switch](#) its PAI/PAA and discounting from EONIA to €STR on all EUR-denominated products.

- The Working Group on Euro Risk-Free Rates launched a [consultation](#) seeking views on potential recommendations to compensate swaption contracts impacted by the CCP discount change from EONIA to €STR. The deadline for feedback is 3 April 2020.
- The Alternative Reference Rates Committee (ARRC) issued a [proposal for New York State legislation](#) that is designed to minimise costly and disruptive litigation resulting from LIBOR cessation. This legislation seeks to provide safe harbour from litigation for contracts that use the recommended benchmark rate.
- The ARRC issued a [letter](#) to US Department of Treasury and Internal Revenue Service calling for guidance on potential accounting changes and urging authorities to confirm if changing the tax accounting method for IBOR cessation could be considered a change in accounting method.
- The ARRC issued a consultation on fallback language for new USD-LIBOR variable rate private student loans. This consultation proposes including a waterfall approach in contractual fallback language in the event LIBOR is no longer available or representative. The deadline for feedback is 15 May 2020.
- The Federal Housing Finance Agency [announced](#) it will extend the 31 March deadline for Federal Home Loan banks to cease entering into LIBOR-linked products maturing after 2021. The extended deadline is now 30 June 2020.
- Student and consumer advocates issued a [letter](#) to the ARRC highlighting consumer vulnerability and potential conduct risks arising from lender's unilateral ability to select a replacement index to LIBOR.
- The Japan Financial Services Agency and Bank of Japan published a [summary of results](#) to the Q4 2019 survey on the use of LIBOR and next steps required for transition.