

This monthly newsletter provides an update for those interested in developments relating to the Working Group on Sterling Risk-Free Reference Rates ("Working Group"), keeping you informed of key news on Risk Free Rate (RFR) transition across both GBP and international markets. 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

On 29 April, the Working Group, supported by the Bank of England and Financial Conduct Authority issued a statement recognising the challenges presented by the current operating environment and offering further clarity to loan market stakeholders on the end Q3 2020 target for ceasing issuance of GBP LIBOR-based cash products maturing beyond 2021. This followed a statement released in March that recognised the impact of coronavirus on firms' LIBOR transition plans and reaffirmed **the central assumption that firms cannot rely on LIBOR after end-2021 has not changed**. The Working Group's recommendations and full statement are available [here](#).

Key Milestone Dates

- 25 May – deadline for comment on IASB Exposure Draft on IFRS standards to address issues resulting from benchmark rate reform
- 28 May – deadline for responses to UK HMRC [consultation](#) on the taxation impacts arising from LIBOR cessation
- 30 June – extended deadline for responses to EIOPA discussion [paper](#) on its proposed options to treat new RFR benchmark rates
- July 2020 – publication of amendments to ISDA 2006 Definitions and related protocol
- Q3 2020 – by end-Q3 2020 lenders should be in a position to offer non-LIBOR linked products to borrowers

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group previously announced plans to host a webinar on 20 March aimed at supporting trade associations and financial service firms to support their clients through LIBOR transition. Recognising the ongoing and significant challenges faced by businesses at this time, the webinar was postponed. The Communication sub-group instead plan to reformat this webinar into a series of short videos, to be published at an appropriate time.
- The Working Group has launched a LinkedIn page, **Sterling RFR Working Group and the transition away from LIBOR**. This page will highlight relevant official sector updates and market developments to support businesses in their transition away from LIBOR. This page is public and can be followed using the following [link](#).

Market Developments

- ISDA [published](#) the preliminary results to its latest consultation on LIBOR, indicating that a significant majority of respondents were in favour of including both pre-cessation and permanent cessation triggers in its standard fallback documentation.
- The British Riverside Group [announced](#) it had completed the housing sector's first loan facility using SONIA.
- Tesco Personal Finance Group [outlined](#) actions the firm are taking to implement its LIBOR transition plan. Over the next year, the firm plan to transition £319.0m of its LIBOR-linked interest rate exposures to SONIA.
- The International Accounting Standards Board (IASB) issued a [consultation](#) seeking feedback on the proposed amendments to IFRS Standards: IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The proposal aims to address issues affecting financial statements when changes are made to cash flows and hedging relationships as a result of the reform. The deadline for comment to the Exposure Draft is 25 May 2020.

Official Sector Updates

- The Financial Stability Board (FSB) issued a [letter](#) to G20 Finance Ministers and Central Banks reprioritising its work for 2020 in light of COVID-19 impact. The FSB noted that a smooth transition away from LIBOR remained a priority, as the financial stability risks associated with an unsuccessful transition are as relevant as they were before.

Non-Sterling RFR Updates

- The European Association of CCP Clearing Houses (EACH) [announced](#) that the switch date to transition from an EONIA to €STR discounting regime has been postponed due to the COVID-19 crisis. **The new switch date is planned for 27 July 2020.**
- The US Alternative Reference Rate Committee (ARRC) [published](#) its key objectives for 2020; of which include encouraging the development and strengthening of infrastructure and operations that support SOFR. The ARRC also expects to release its recommended 'Best Practices' in the coming months to further support the industry in transitioning away from LIBOR.
- The ARRC announced its [recommendation](#) of a spread adjustment methodology for inclusion in cash products referencing US Dollar LIBOR. The spread adjustment calculation between SOFR and USD LIBOR is based on the ISDA historical median over a 5-year lookback period. As such, the ARRC recommended cash product spread methodology offers consistency with ISDA's fallback for derivatives. In addition, the ARRC recommended a 1 year transition period for consumer products.
- The ARRC released a [webinar](#) providing an overview of its New York State legislative proposal for US Dollar contracts.
- The ARRC commended announcements by government sponsored enterprises (GSEs) [Fannie Mae](#) and [Freddie Mac](#) for establishing the first major consumer loans based on SOFR. The GSEs confirmed eligibility, underwriting and delivery requirements for residential SOFR-based adjustable-rate mortgage (ARM) products indexed to the [30-day Average SOFR](#).
- The Australian Securities and Investments Commission (ASIC) published [Preparation for LIBOR transition 'Dear CEO' feedback letter](#) outlining key findings, best practices and next steps based on firms responses its May 2019 Dear CEO letter requesting details on how institutions were preparing for the end of LIBOR. Responses confirmed that the overall impact of LIBOR in Australia is substantial, with notional LIBOR exposure of respondents totalling approximately A\$10 trillion.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

Aggregated across all products as at end-March

	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	24,712,280	8,399,185 (51%)	3,512,216	-1,292,822 (-27%)
SONIA	179,078	-488,017 (-73%)	106,406	-28,551 (-21%)

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

As at end-March (£billions)

	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
GBP LIBOR (incl. FRAs)	5,736	1,026 (21.8%)	19,496	373 (2.0%)
SONIA	9,800	178 (1.9%)	13,017	-2,988 (18.7%)