

# The Working Group on Sterling Risk-Free Reference Rates

Newsletter

December 2019

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](mailto:RFR.Secretariat@bankofengland.co.uk)

## Key Milestone Dates

- 10 January – deadline for feedback to the New York Fed's [consultation](#) on publishing SOFR averages and SOFR index
- 21 January – deadline for feedback to ISDA's consultation on final parameters on credit spread adjustment for Euro Libor and EURIBOR
- **6 February – deadline for feedback to the Working Group's cash credit spread adjustment paper [see more details below]**

## Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group published a [consultation](#) seeking feedback on the appropriate methodologies for calculating the credit adjustment spread for fallback language in cash products referencing Sterling Libor (including loans, bonds and securitisations). This is intended to support the development of robust contractual fallback terms in order to facilitate a smooth transition from Libor to SONIA. Sterling cash market participants are encouraged to provide feedback to [RFR.Secretariat@bankofengland.gsi.gov.uk](mailto:RFR.Secretariat@bankofengland.gsi.gov.uk) by **6 February 2020**.
- The RFR Working Group published [minutes](#) from the November Working Group meeting, where the Working Group heard presentations from two loan system vendors, FIS and Finastra, about the readiness of their systems to support compounded rates. An update was also provided on the production of term rates, with commitment from market makers to start streaming executable quotes for SONIA OIS from February 2020 to support a testing period for forward-looking term rates using these quotes. Live production of a term SONIA rate is initially expected to start in Q3 2020.
- The Chair of the Working Group responded to the first SOFR-linked revolving credit facility signed by [Shell](#): "As [Chair of the Sterling Risk Free Reference Rates Working Group](#), I am delighted that Shell has been able develop a practical solution for the transition to SOFR. Transactions such as this play a crucial role in establishing conventions that can be widely adopted across the market, and Shell has demonstrated real leadership by engaging with banks to demonstrate a path to a post-LIBOR world. In sterling, we would expect to see SONIA-linked loans become more prevalent in the New Year as market participants target the end of Q3 2020 to stop new lending using LIBOR."

## Market Developments

- The FSB issued its annual global [progress report](#) on benchmark reform. The report summarises developments across global markets and emphasises the importance of an international focus on the transition away from Libor in particular to reduce risks to financial stability ahead of the end of 2021.
- ISDA published its [response](#) to the FSB's November 13 [letter](#) regarding 'pre-cessation' triggers. ISDA recognised the potential issues that could result if Libor were found "non-representative", but requested further clarity from the FCA and the administrator of Libor before consulting the market further on the inclusion of these triggers in the standard language for new derivatives, and the protocol for outstanding derivatives.
- ISDA also published its [consultation](#) on the final parameters for the credit-spread adjustment to apply between Euro-Libor and EURIBOR to alternative risk-free rates (€STR). The Brattle Group has published a [workbook](#) and instructions to help market participants better understand the implications of the different options and approaches to this spread adjustment.

## Official Sector Updates

- In the [December Financial Stability Report](#), the Financial Policy Committee (FPC) reiterated that firms need to end the use of Libor in new contracts as soon as possible, and endorsed the RFR Working Group's target to end GBP Libor-linked issuance in cash markets by Q3 2020. The FPC also noted that the majority of new business is expected to reference compounded SONIA, and that all regulated firms with significant Libor exposure should expect increasing scrutiny over their transition plans.
- The Financial Stability Board (FSB) [published](#) details of its 2020 priorities and an indicative timetable for work over the next year. This includes plans to report on the remaining challenges to benchmark transition in July 2020. In addition the FSB plan to conduct a survey on Libor exposures and supervisory measures being taken to address benchmark transition issues.
- The PRA [responded](#) to the Working Group's [letter](#) highlighting regulatory barriers impeding Libor transition. The PRA also outlined immediate actions it would take in Q1 2020, with a view to communicating formal expectations from firms to manage their transition risk and modelling plans in Q2. The response also noted that a number of the issues raised in the Working Group letter would need to be resolved at a European or global level.

## Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

Aggregated across all products as at end-November

	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
<b>GBP LIBOR</b>	12063801	-18%	4553211	3%
<b>SONIA</b>	491084	0%	148391	10%

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

As at end-November (£billions)

	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
<b>GBP LIBOR (incl. FRAs)</b>	3,582	-1,390 (-28.0%)	17,984	-661 (-3.5%)
<b>SONIA</b>	2,873	-1,105 (-27.8%)	8,166	-575 (-6.6%)

## Non-Sterling RFR Updates

- At its [November meeting](#) the US ARRC reached basic consensus on the approach to begin exploring a potential legislative solution in New York for tough-legacy Libor-linked contracts which do not have appropriate contractual terms to move to an alternative rate or address permanent cessation of Libor.
- The Chair of the US ARRC authored an [article](#) for Bloomberg on the importance of moving away from Dollar LIBOR to SOFR, and noted the consultation period had been extended to January 10 2020 for the New York Fed's consultation on publishing SOFR averages and a SOFR index.
- Three divisions of the US Commodity Futures Trading Commission (CTFC) [announced](#) no-action letters outlining conditions under which swap dealers and other market participants would qualify for relief from margin rules and clearing and execution requirements (amongst others) in connection with updating terms in Libor-linked swaps to alternative replacement rates.
- The CTFC's Market Risk Advisory Committee issued a [statement](#) cautioning firms that failing to transition away from Libor before 2022 was a risk to both firms and the global financial system. In addition, regulators were working to avoid a situation where swaps could be priced on an unrepresentative version of Libor ("zombie LIBOR") based on reduced panel submissions.
- The New York State Department of Financial Services has [published](#) a 'Dear CEO' letter requesting regulated institutions to submit plans setting out their preparedness for Libor transition. Deadline for responses is 7 February 2020.
- UBS provided the first [SARON real estate financing](#) as part of a pilot project for selected clients totalling more than CHF 25 million.