The Working Group on Sterling Risk-Free Reference Rates

Newsletter
July 2021

Key Milestone Dates (see roadmap)

26 July 2021
- UK market participants in the US dollar interest rate swaps market were encouraged to adopt new trading conventions for interdealer trading based on SOFR instead of LIBOR.

21 September 2021
- Market participants are encouraged in a switch to risk-free rates in the LIBOR cross-currency swaps market, helping to meet the Working Group milestone for market participants to cease initiation of cross-currency derivatives with a LIBOR-linked sterling leg *(except for the risk management of existing positions)* during Q2/Q3 2021.

End-Q3 2021
- Working Group milestone for market participants to complete active conversion of all legacy GBP LIBOR contracts expiring after end-2021 where viable and, if not viable, ensure robust fallbacks are adopted where possible.

Updates from the Working Group on Sterling Risk-Free Reference Rates

- The Working Group published a paper to assist borrowers in understanding the end-Q3 milestone for active transition of legacy GBP LIBOR loan contracts.
- The Working Group updated its Best Practice Guide for GBP loans with a new Appendix (3F) on compounded SONIA-based indices.
- The Working Group updated its summary on freely available independent RFR calculators to include an additional calculator.
- The Working Group published minutes of its June 2021 meeting, including an update from HM Treasury on draft legislation to reduce uncertainty around use of a synthetic LIBOR and updates on transition progress in sterling bond, loan and derivatives markets.

UK Official Sector Updates

- The Bank of England's Financial Policy Committee noted its view that credit sensitive rates used in some US dollar markets are not robust or suitable for widespread use as a benchmark, and emphasised that market participants should use the most robust alternative benchmarks available in transitioning away from LIBOR, in Box A of its July 2021 *Financial Stability Report*.
- Edwin Schooling Latter (FCA) delivered a keynote speech which included remarks on active conversion of legacy contracts and progress in US dollar LIBOR transition. The FCA asked that regulated UK firms looking to use credit sensitive rates in UK-based business consider the risks carefully and raise with their FCA supervisors before doing so.
- The FCA and Bank of England published a joint statement to support and encourage market participants in a switch to risk-free rates in LIBOR cross-currency swaps from **21 September 2021**.
- The FCA published a consultation on LIBOR transition and the derivatives trading obligation, which will remain open until **25 August 2021**.
- The FCA updated its website to clarify its expectations for reporting under UK EMIR and UK MiFIR in relation to LIBOR transition.

Key Market Indicators

ISDA Protocol adherence – 14,267 entities as at end-July *(+135 compared to end-June)*

Loans - see LMA website for its updated list of publicly disclosed RFR-referencing loans to date.

Floating Rate Notes *(provided by ICMA using Bloomberg L.P)*
The cumulative subtotal of SONIA-linked FRNs issued (2018, 2019, 2020 and 2021) is 202 deals, totalling c.£88.7bn.

Listed Futures *(data provided by futures exchanges)*

	Aggregated across all products as at end-June (£bns)			
	Monthly traded value	*Change since last month*	Value of outstanding contracts	*Change since last month*
GBP LIBOR	7,195	*1,629 (+29%)*	2,406	*-199 (-8%)*
SONIA	4,289	*1,076 (+33%)*	338	*58 (+21%)*
% SONIA	37%	*+0 p.p*	12%	*+2 p.p*

LCH Swaps Statistics *(from LCH website)*

	As at end-June (£bns)			
	Notional traded	*Change since last month*	Notional outstanding	*Outstanding change since last month*
GBP LIBOR**	1,819	*-76 (-4%)*	14,956	*-1,688 (-10%)*
SONIA	5,264	*1,972 (+60%)*	12,711	*1,656 (-12%)*
% SONIA	74%	*+11 p.p*	46%	*-0 p.p*

** Including FRAs

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Market Developments

- The FICC Markets Standards Board published its final Standard on the use of Term SONIA reference rates, building on the Working Group's January 2020 paper on use cases of benchmark rates.
- Following its recent consultation, ISDA announced a significant majority of respondents agreed with amendments to fallback provisions for GBP and USD LIBOR ICE Swap Rate, as suggested by the Working Group and the ARRC, and will now begin finalising these for implementation in sterling markets.
- The Loan Market Association published RFR documents to assist the real estate market with LIBOR transition.

Non-Sterling RFR Updates

- The US CFTC's Market Risk Advisory Committee (MRAC) adopted a series of phased 'SOFR First' switches, beginning with USD linear swaps on **26 July 2021**. The ARRC commended the CFTC's adoption of 'SOFR First' convention switches in US dollar derivative markets & endorsed the MRAC recommendation for 'RFR First' for cross currency swaps on **21 September 2021**.
- The ARRC formally recommended CME Group's SOFR Term rate, and also published recommendations for loan conventions and best practices for use of a forward-looking SOFR Term Rate.
- The ARRC welcomed a supervisory letter published by the Federal Housing Finance Agency, which encouraged continued use of SOFR and warned against adoption of rates with similar shortcomings as LIBOR.
- The Cross-Industry Committee on JPY Interest Rate Benchmarks confirmed a 'TONA First' initiative to switch quoting conventions in JPY interest rate swaps from JPY LIBOR to TONA on **30 July 2021**.
- The euro Risk-Free Rates Working Group published recommendations for an '€STR First' initiative from **18 October 2021**. It also supports the 21 September 2021 'RFR First' switch in cross-currency swaps.
- The Chair of the euro Risk-Free Rates Working Group wrote to the European Commission to propose the designation of a statutory replacement rate for EONIA as €STR plus 8.5 basis points.
- The Reserve Bank of India (RBI) issued an advisory to banks and other regulated entities emphasising the need for preparedness for the transition away from LIBOR.

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 events mentioned) please contact RFR.Secretariat@bankofengland.co.uk