

LIBOR Transition and development of a term rate based on SONIA:

Next Steps

The Working Group on Sterling Risk-Free Reference Rates (RFRWG) issued a consultation on forward-looking Term Sonia Reference Rates (TSRR) on 17 July. The consultation ran until 26 October and attracted 45 responses from a wide variety of market participants, including a number of benchmark administrators. A summary of the responses was published on the RFRWG webpage hosted by the Bank of England on 23 November.¹

The Working Group would like to thank all the respondents who took the time to express their views on this key issue.

Feedback from the consultation reiterated the message that the development of a robust TSRR could play an important role in facilitating transition from LIBOR to SONIA in some cash market segments. At the same time, respondents agreed that a TSRR is neither generally needed, nor desirable, for sterling derivatives markets. This is consistent with the FSB's July Statement² which recognises that in some cases there may be a role for term rates, but expects future use of term rates to be more limited than current use of term LIBOR.

For many current users of term LIBOR, including in cash markets, overnight SONIA may be a more appropriate and in future a more commonly used reference rate than a term alternative. The RFRWG therefore encourages such LIBOR users to progress their transition from LIBOR to the greatest extent possible, independently of any further progress on the development of a TSRR.

The consultation feedback serves to endorse the RFRWG objective of encouraging production of a robust TSRR as soon as practicable, as well as the strong desire to ensure the TSRR is robust. The usage of spot OIS swap quotes, which was proposed in the consultation, together with a blend of futures and OIS swaps data were supported by the respondents. However, respondents attached importance to the rate being compliant with IOSCO principles for financial benchmarks.³ Ensuring robustness will therefore be important to the choice of the most suitable TSRR and the timing of its availability for use in financial contracts.

The Working Group now invites interested benchmark administrators to consider the summary of responses to the consultation and to share any views on the development of such benchmarks by 15 February 2019 ahead of further discussion on the topic at the Group's March meeting. Further information and guidance on how to do so is available from the RFRWG secretariat at RFR.Secretariat@bankofengland.gsi.gov.uk

Further information on the need to transition from LIBOR, and the benefits of using the overnight Risk Free Rate (SONIA) may be found on the RFRWG website.⁴

¹ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/term-sonia-reference-rates-consultation-summary-of-responses.pdf?la=en&hash=CFD2AB11A3156B31CB15030962ECA9987BEFCED8>

² <http://www.fsb.org/wp-content/uploads/P120718.pdf>

³ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>

⁴ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/what-you-need-to-know-about-libor-transition.pdf?la=en&hash=C1AF77CC308280CF84794D152005A3635546A850>

Annex: Key takeaways from TSRR consultation responses⁵

- *A TSRR would facilitate the transition for some cash market segments*
- *Current SONIA-referencing derivatives markets were seen as capable of providing the basis for a TSRR, but would need a step change before such a measure would be sufficiently robust*
- *An alternative way forward could be to use a consistent methodology with inputs from both futures contracts and OIS swaps contracts*
- *Building a robust TSRR would benefit from further development and growth in OIS and SONIA futures markets*
- *Compliance with IOSCO principles is necessary, including appropriate governance and controls, to ensure risks related to TSRR production are appropriately managed*
- *Finding ways to avoid the systematic usage of TSRRs in derivatives markets will be essential as TSRRs develop*
- *International consistency across currencies was viewed as desirable*

⁵ Source summary of responses as per previous link in footnote 1