

Working Group on Sterling Risk-Free Reference Rates Newsletter - February 2019

This monthly newsletter provides an update on the Working Group on Sterling Risk-Free Reference Rates and keeping you informed on key news relating to RFR transition in GBP markets and others. If you have questions about any of the content or would like to get involved in any of the events mentioned please contact RFR.Secretariat@bankofengland.gov.uk.

Key Milestone Dates

- The Working Group is seeking expressions of interest for supporting three priority task forces (the SONIA task forces), these will focus on: the development of term rates; issues arising from the accounting treatments relating to transition; and regulatory dependencies.

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group has published [minutes from its December meeting](#), at which it discussed compression auctions as a potential means for the market to reduce the amount of long-dated legacy LIBOR swaps by converting contracts to alternative reference rates. The meeting ended with a review of the year and handover to the new Chair.
- The first meeting of the Working Group under the new Chair, Tushar Morzaria, was held on 7 February to discuss the priorities and planned work for 2019. Minutes will be published in due course. Key discussion points included:
 - The identification and removal of barriers to transition through the creation of focussed task forces;
 - Accounting challenges from transition; and
 - Approaches to compounding SONIA.
- On 31 January a Forum was hosted by the Working Group's Infrastructure sub-group. Further information on the event can be found in the [presentation slides](#) and [summary note](#). The Working Group has also published a [paper](#) setting out specifications for a SONIA calculator, for vendors to consider. This is one of the points on the [preliminary infrastructure priority list](#), published at the end of last year.
- The [Terms of Reference](#) for the Infrastructure subgroup have also been published.

Market Developments

- ISDA published a [request for proposal](#) for an independent vendor to calculate and publish adjustments for the fallbacks intended to be implemented for particular interest rate benchmarks in the 2006 ISDA Definitions.
- IFRS published a [paper](#) on IBOR reform and the effects on financial reporting, including proposed relief effects on uncertainties on the highly probable requirement and prospective assessments.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

	Aggregated across all products as at end-January			
	Monthly traded volume	Change since last month (%)	Number of contracts outstanding (Open Interest)	Change since last month (%)
GBP LIBOR	14,295,994	-852,739 (-6%)	4,258,278	128,262 (3%)
SONIA	411,109	104,591 (34%)	76,429	7,922 (12%)

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

	YTD Ending February 19 2019 (£billions)		
	Notional traded YTD	Notional Outstanding	Change since last month* (%)
GBP LIBOR (including FRAs)	8,679	17,629	1,561 (10%)
SONIA	5,831	8,637	370 (4%)

*Last month's data taken Jan 14th

Official Sector Updates

- The EU Parliament, the EU Commission and the Council of the European Union agreed a [2-year extension](#) until 31 December 2021 of the transitional period for critical benchmarks, under the EU Benchmark Regulation. The extension was put forward as part of the low carbon benchmarks proposal by both the Council and the European Parliament. This is primarily relevant to EONIA and EURIBOR transition.
- Megan Butler of the FCA and Alastair Hughes of the Bank of England presented at the Investment Association's Risk-Free Rate LIBOR transition seminar. They each provided an overview of firms' transition progress to date. The FCA has published Megan Butler's [speech](#).

Non-Sterling RFR Updates

- ECB published [responses](#) obtained from its second consultation for determining an ESTER-based term structure methodology as well as its call for [feedback](#) on the transition from EONIA to ESTER.
- EMMI published [feedback](#) to their second public consultation on a hybrid methodology for EURIBOR as well as a blueprint of the methodology. EMMI will seek authorisation under the EU Benchmark Regulation in Q2 2019.
- The National Working Group (NWG) on Swiss Franc Reference Rates met on 5th February to discuss options for using a compounded SARON in cash products. [Minutes](#) have been published, and note that SIX Swiss Exchange will provide daily publication of compounded SARON in H2 2019.
- ARRC [announced](#) that the Federal Reserve will host weekly open office hours to answer questions on transition from LIBOR.
- ARRC updated its [FAQ](#) with additional Q&A covering SOFR volatility and posted an [updated timeline](#) of key milestones.