

The Working Group on Sterling Risk-Free Reference Rates

This monthly newsletter provides an update for those with an interest in the work of the Working Group on Sterling Risk-Free Reference Rates, keeping you updated 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.co.uk

Key Milestone Dates

- 28th June – workshop hosted by the ARRC collaborating with software/technology vendors to operationalise the transition to SOFR.
- 12th July – deadline for ISDA consultation on pre-cessation issues and related documentation for derivatives.
- 12th July – deadline for ISDA consultation on fallbacks specific to US dollar LIBOR, Hong Kong’s HIBOR and Canada’s CDOR.

Working Group on Sterling Risk-Free Reference Rate Updates

- The RFR working group published the [roadmap](#) for 2019-2021 and highlighted key RFR transition developments in Sterling markets.
- On June 5th the BoE and FCA held a conference entitled '[Last orders on LIBOR](#)' and published thematic feedback from the joint PRA/FCA Dear CEO exercise. The event was recorded and is available on [YouTube](#).
- Minutes from the May meeting are to be made available shortly. The Working Group will next meet on 3rd July 2019.

The Working Group’s [Technical Subgroup on Infrastructure Related Issues](#) was set up in October 2018 to identify infrastructure bottlenecks and solutions related to the transition from LIBOR to SONIA. The publication of a [priority list](#) for transition developments, parameters of a compounding [calculator](#), and [to raise awareness](#) and engage with a wide range of practitioners. This engagement is crucial in helping the Group understand and catalyse the necessary development by technology, infrastructure and service firms so that the necessary facilities, infrastructure and tools are available for a smooth transition. We encourage end-users to send remarks on infrastructure challenges directly to RFR.Secretariat@bankofengland.gsi.gov.uk.

Market Developments

- NatWest published a free [calculator](#) to produce a compounded SONIA in arrears rate.
- NatWest [announced](#) they will offer the first SONIA-referenced loan, to be initially trialled with only a few corporate customers. The SONIA rate will be based on transactions of the previous business day, similar to the methodology seen in the Sterling Floating Rate Note issuance market, including compounded interest and the ability to hedge.
- Ford Motor Company [introduced](#) the ARRC’s more resilient fallback language in its latest asset-backed securitisation.
- Associated British Ports’ bondholders [agreed to switch a floating-rate note](#) maturing in 2022 from LIBOR to SONIA and have made their [offering documentation](#) publically available.
- [Goldman Sachs](#) and [Morgan Stanley](#) have recently issued SOFR-linked bonds that have adopted a compounded in-arrears rate, in line with conventions seen in the swaps market (and the SONIA bond market).

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

Aggregated across all products as at end-May				
	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	17,195,906	4,472,900 (35%)	4,453,716	548,996 (14%)
SONIA	628,360	74,251 (13%)	146,249	32,349 (28%)

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

As at end-May (£billions)				
	Notional traded April	Change since last month	Notional outstanding as of end-April	Outstanding change since last month
GBP LIBOR (incl. FRAs)	3,703	-200 (-5.1%)	19,188	671 (3.6%)
SONIA	3,868	278 (7.7%)	8,666	-502 (-5.5%)

Official Sector Updates

- The International Accounting Standards Board (IASB) received [77 comment letters](#) on their proposed amendments to IAS 39 and IFRS 9 to address hedge accounting issues arising from IBOR reform/LIBOR cessation. This included a [letter](#) from the RFR Working Group’s Accounting Task Force.
- PRA/FCA [issued thematic feedback](#) from Dear CEO letters to facilitate transition in the broader market from firms that were not subject to the original Dear CEO letter.
- The Financial Stability Board published a [user guide](#) detailing how alternative rates (RFRs) are calculated, and clarification on RFR use in cash products to encourage adoption of RFRs.
- The US Commodity Futures Trading Commission announced a [No-Action Position](#) that permits amendments to be made in swaps which replace LIBOR to RFRs, without triggering the Uncleared Margin Rules.

Non-Sterling RFR Updates

- The ARRC held a Roundtable on June 3rd on expectations for market participants, [how to use SOFR](#), and how to create safer fallbacks. The event was recorded and available on [YouTube](#).
- The ARRC published [2019 incremental objectives](#) to support and prepare market participants to transition to alternative rates and released a [report](#) on preliminary considerations for interdealer cross-currency swap market conventions.
- The FASB [announced](#) that certain contracts modified as a result of reference rate reform would obtain relief as a continuation of that contract.
- The ARRC published recommended [contractual fall back language](#) for bilateral business loans and securitisations, following an industry consultation published last year.
- The European Money Markets Institute [published a summary](#) of the feedback received on the Euro RFR Working Group’s proposed recommendations for EONIA. The ECB [published](#) a one-off spread between €STR and EONIA, at 8.5 basis points.
- Swiss National Bank have made a small [adjustment to their monetary policy strategy](#) and introduced the SNB policy rate. The SNB’s inflation forecast was previously conditioned on the 3 month Swiss Franc LIBOR rate, and the new SNB policy rate will now instead look to SARON to assess market conditions.
- The ARRC issued [proposals](#) to the US Treasury to address tax issues resulting from transition from LIBOR to alternative rates.