

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

- Mid-August 2019 – ISDA to issue a **consultation** on the parameterisation of term and spread adjustment of IBORs
- 28 August 2019 – International Accounting Standards Board (IASB) are hosting an additional **meeting** on IBORs
- 27 September 2019 – deadline for feedback on Bank's approach to manage LIBOR-linked collateral in its Sterling Monetary Framework

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group **published** minutes from its May meeting, including summaries of the presentations delivered by potential term-rate providers. Minutes from the July meeting will be published in due course.
- The Working Group **published** a statement and summary of findings from the Discussion Paper on market conventions for SONIA.
- The Infrastructure sub-group published a **working paper on loans processing** and an update of the **infrastructure priority list**.
- The Regulatory Dependencies Task Force sent a **letter** to the European Insurance and Occupational Pensions Authority (EIOPA), welcoming further details on potential changes to the Solvency II risk-free rate.
- A newly formed Senior Advisory Group met for the first time in July, and noted the need for more targeted engagement in cash markets, and to encourage non-financial firms and bank's sales teams to move away from LIBOR. A summary of the discussion will be provided in the minutes of the July RFR Working Group.

Market Developments

- CME group **announced** their high-level proposal on timing and structure to move from Fed Funds OIS to SOFR discounting
- ICE Benchmark Authority (IBA) **published** a second update on its proposed USD Bank Yield Index, summarising feedback from market participants on the initially proposed **methodology**, and seeking feedback on the updated methodology for this index.
- The European Securities and Markets Authority (ESMA) **confirmed** EURIBOR is now BMR-compliant, allowing EU-supervised entities to use EURIBOR beyond the BMR transitional period.
- The Financial Accounting Standards Board (FASB) met in July and **discussed** potential options in hedge accounting relief for benchmark interest rates affected by rate reform.
- ISDA **issued** a statement summarising preliminary results of their supplemental consultation on spread and term adjustments for USD LIBOR (and others).
- ISDA **announced** Bloomberg (BISL) had been selected to calculate and publish the adjusted fallback rate to IBORs, and plan to reference this rate in its 2006 ISDA Definitions.
- Natwest Markets launched **SONIA Realised Rates** to calculate compounded SONIA rates across major tenors.

Official Sector Updates

- Andrew Bailey (FCA) delivered a **speech** setting out an expectation that LIBOR panels will dwindle or disappear after end-2021 and that firms must be able to run their business without LIBOR from this date, and reduce the stock of 'legacy' LIBOR contracts.
- The Bank of England issued a **consultation paper** outlining steps it has taken to reduce its own LIBOR exposure, and sought feedback on proposed approaches to manage LIBOR-linked collateral.
- The Financial Policy Committee issued a clear message in the **Financial Stability Report** that it saw no justification for firms to continue increasing their LIBOR exposure.
- John Williams (FRNBY) **presented** to SIFMA and reiterated the need for accelerated pace of transition and reminding firms not to wait for a term rate.
- The ECB issued **letters** to CEOs of major banks asking for their detailed plans on Euro-rate transition, similar to the PRA/FCA **Dear CEO** letter.
- The US Securities Exchange Commission (SEC) **issued** a statement outlining where LIBOR cessation could present a material risk and encouraged market participants to engage with authorities.

Non-Sterling RFR Updates

- The Swiss Working Group (SNB) **published** a paper outlining the effects of transitioning from IBORs to RFRs on financial reporting.
- The SNB also **issued** a discussion paper on SARON floating-rate notes, which noted the advantages of using a lookback convention over a period of 3-5 days.
- The Euro Working Group **published** its recommendations on the legal action plan for EONIA to €STR transition, noting that EONIA will fallback to €STR plus a spread of 8.5bp. The ECB also **confirmed** that €STR will be published at 8.00CET on Target 2 days.
- The EU Working Group **wrote** to ESMA and the European Commission requesting clarification in relation to IBOR transition and EMIR grandfathering.
- The US Alternative Reference Rates Committee (ARRC) **convened** a Consumer Products Working group, and **published** a white paper on the use of average SOFR in new adjustable rate mortgages. The use of SOFR in mortgages is supported by those in the industry (including Freddie Mac and Fannie Mae).
- The ARRC issued a **consultation** on fallback language for new ARMs, which considered the 'on-shoring' of pre-cessation triggers, allowing contracts to recognise US authorities prohibiting the use of LIBOR. This consultation is open until 12 August.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

	Aggregated across all products as at end- June			
	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	15,762,930	-1,432,976 (-8%)	4,185,279	-268,437 (-6%)
SONIA	367,969	-260,391 (-41%)	131,564	-14,685 (-10%)

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

	As at end-June (£billions)			
	Notional traded June	Change since last month	Notional outstanding as of end-June	Outstanding change since last month
GBP LIBOR (incl. FRAs)	4,717	1,015 (27.4%)	17,410	-1,778 (-9.3%)
SONIA	4,694	826 (21.4%)	8,205	-461 (-5.3%)