

Key Milestone Dates

- End June 2020 – publication of Bloomberg’s indicative fallback rates for derivatives
- End July 2020 – expected publication of amendments to ISDA 2006 Definitions and related protocol
- Early August 2020- publication of the SONIA Compounded Index anticipated to commence
- 28 August 2020 – extended deadline for feedback to [HMRC consultation](#) on taxation impacts resulting from LIBOR cessation
- Q3 2020 – by end-Q3 2020, lenders should be in a position to offer non-LIBOR linked products to borrowers and include clear contractual arrangements in new and re-financed LIBOR loans to convert to alternative rates by end-2021
- November 2020 – amendments to ISDA 2006 Definitions and related protocol expected to take effect (or 4 months after publication)

Working Group on Sterling Risk-Free Reference Rate Updates

- At the June Working Group meeting, members discussed the Government’s intention to bring forward legislation to amend the Benchmark Regulation (see below). The Chair welcomed this announcement as a positive step forward to support the transition of ‘tough legacy’ products from LIBOR to alternative rates. The FCA reminded members that **active transition** remained the only way for parties to have certainty over their contractual terms when LIBOR ceases or is no longer representative.
- The Working Group published [minutes](#) from the March Working Group meeting, including an update that the Bank of England and FCA wrote to trade associations calling for organisations to raise awareness with their networks. The Working Group acknowledged that interim transition targets may be impacted by COVID-19 pandemic but the end-2021 “destination” remained the same.

Official Sector Updates

- The Government published a [written ministerial statement](#) detailing its approach to legislative steps that could help deal with the narrow pool of ‘tough legacy’ contracts that cannot transition from LIBOR before end-2021.. It also reiterated that it is in the interests of financial markets and their customers that this pool of contracts is shrunk to an irreducible core ahead of LIBOR’s expected cessation, leaving behind only those that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended.
- The FCA issued a [statement](#) welcoming the Government’s announcement, accompanied by a [Q&A document](#) providing more information on the proposed changes and what they intend to achieve.
- The Bank of England published a [summary and response](#) to market feedback received on its February discussion paper on the production of SONIA Indices. With near-unanimous support for the SONIA Compounded Index, the Bank is proceeding with its intention to produce this by early August, but will not produce SONIA “period averages” at this time due to a lack of consensus.

Key Liquidity Indicators

- [Loans referencing risk-free rates \(from LMA website\)](#)
 - [Floating rate notes \(provided by ICMA using Bloomberg L.P\)](#)
- The cumulative subtotal of outstanding SONIA-linked FRNs (2018, 2019 and 2020) is 129 deals, totalling c.£57bn.*
- [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	9,831,803	1,573,975 (19%)	3,674,162	189,339 (5%)
SONIA	1,432,408	415,998 (41%)	106,544	998 (1%)

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

As at end-May (£billions)

	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
GBP LIBOR**	4,473	-1,155 (-20.5%)	20,327	669 (3.4%)
SONIA	4,401	2,020 (84.9%)	11,184	-1,370 (-10.9%)

*This includes deals that have already matured. ** Including FRAs

Market Developments

- NatWest Markets announced the first issuance of a SONIA-linked structured note. The £10.7m SONIA-linked floored floating rate note is due to mature in June 2023.
- FICC Markets Standards Board (FMSB) published a [conduct risk guide](#) on best practice including a summary of regulatory expectations and product specific examples. The purpose of this guide is to support market participants as they plan for and manage the transition away from LIBOR to more sustainable and representative benchmarks.
- IASB provided [initial feedback analysis](#) on the proposed amendments to accounting standards in the Exposure Draft. Almost all respondents expressed support for the IASB project, and most respondents agreed with the proposed amendments in the Exposure Draft providing support for preparers when changes are made to contractual cash flows or hedging relationships.
- ISDA published a [factsheet](#) outlining why changes to fallbacks for derivatives are necessary, and how to adopt the new fallback terms.

Non-Sterling RFR Updates

- **From 27 July, EACH members will [switch](#) PAI/PAA and discounting from EONIA to €STR on all EUR-denominated products.**
- The Working Group on Euro risk-free rates published its [recommendations](#) on the voluntary compensation for legacy swaption contracts affected by the discounting transition to €STR.
- CME Group published a summary [guide](#) on the SOFR & €STR discounting switch from LIBOR process for cleared swaps.
- The US Securities and Exchange Commission’s Office of Compliance Inspections and Examinations (OCIE) identified the preparedness of SEC-registered firms (“registrants”) for the transition away from LIBOR as a priority for 2020. As such, OCIE [announced](#) it intends to assess registrants’ preparations for LIBOR cessation and transition to alternative reference rates.
- The Alternative Reference Rate Committee (ARRC) published an updated [FAQ document](#), outlining the key differences between SOFR and LIBOR and how to strengthen fallback language.
- The ARRC filed a [letter](#) with the US Commodity Futures Trading Commission’s Division of Swap Dealer and Intermediary Oversight seeking clarification and a no-action relief relating to upcoming discount rate changes by certain derivatives clearing organizations,
- The ARRC [welcomed](#) the Consumer Financial Protection Bureau’s actions and publications to facilitate the transition away from LIBOR for consumers and regulated entities. Publications included a notice proposing to amend rulemaking and an updated consumer handbook on adjustable rate mortgages.