

The Working Group on Sterling Risk-Free Reference Rates

This monthly newsletter provides an update for those interested in developments relating to the Working Group on Sterling Risk-Free Reference Rates ("Working Group"), keeping you informed of key news on Risk Free Rate (RFR) transition across both GBP and international markets. If you have questions about the content or would like to get involved in any of the events mentioned please contact RFR.Secretariat@bankofengland.co.uk

Key Milestone Dates

- 2 March – Bank and FCA [milestone](#) for market makers to switch convention in GBP interest rate swaps from LIBOR to SONIA
- 23 March – deadline for feedback to LCH consultation on the inclusion of a non-representative trigger in fallback language
- 25 March – deadline for responses to ISDA consultation on the implementation of pre-cessation triggers
- 30 April – deadline for EIOPA discussion paper on its proposed methodologies to treat new RFR benchmark rates
- Q3 2020 – Working Group [target](#) to cease issuance of GBP LIBOR-linked cash products maturing after 2021

Working Group on Sterling Risk-Free Reference Rate Updates

- The Secretariat to the Working Group issued a [statement](#) summarising the results from a recent survey conducted of 15 dealers in non-linear Sterling interest rate derivatives. The survey sought feedback on the preferred approach of market participants for the trading of interbank SONIA swaptions, caps and floors.
- The Communication sub-group are hosting an event on 20 March for sector trade associations and professional service firms. This session aims to support these firms in communicating LIBOR transition to their members and clients, by providing information on how to adopt alternative benchmark rates to LIBOR and better understand their choices about existing financial arrangements.
- The Secretariat published minutes of its [December](#) and [January](#) meeting, including a summary of the Financial Stability Board's survey to c.90 jurisdictions and notice of 3 February target date for OIS dealers to begin streaming SONIA quotes.
- The Infrastructure sub-group published the [slides](#) presented at a January workshop for Treasury Management System providers.

Market Developments

- ISDA issued a [consultation](#) to seek feedback on the inclusion of a pre-cessation trigger in its standard fallback documentation. **The deadline for responses is 25 March.** ISDA's [decision](#) to re-consult on pre-cessation fallback follows the release of new [information](#) by the UK Financial Conduct Authority (FCA) and ICE Benchmark Administration (IBA) on the length of time LIBOR may be published following a regulatory statement that the benchmark is no longer representative. ISDA also published the [results](#) of its consultation on fallbacks for Euro-LIBOR and EURIBOR linked derivatives.
- Santander announced risk-free reference rate firsts - including issuances of the first SONIA 7yr covered [bond](#).
- Clydesdale Bank [confirmed](#) the transition of £1.3bn long-dated LIBOR-linked notes in its securitisation programme, Lanark Master Issuer. In addition, Lloyds [confirmed](#) the transition of £3bn of LIBOR-linked covered bonds.
- ISDA published a [research note](#) examining transition developments planned for 2020, including the publication of new benchmark fallbacks for derivative contracts and planned CCP changes in discounting and price alignment interest to switch to €STR and SOFR.

Official Sector Updates

- Andrew Hauser (Bank of England) [announced](#) two new initiatives aimed at further supporting risk free rate transition:
 - A [discussion paper](#) on its intention to publish a daily SONIA compounded index and potentially a set of 'period averages' to simplify use of SONIA, **seeking feedback by 9 April.**
 - [New restrictions](#) on use of LIBOR-linked collateral in its market operations. From October 2020, the Bank will make newly-issued LIBOR-linked collateral ineligible and progressively increase the haircuts on existing LIBOR-linked collateral it lends against. These restrictions will apply to collateral maturing after end-2021.
- The FCA sent a Dear CEO [letter](#) to all UK regulated asset management firms, setting out its expectations as they prepare for the end of LIBOR.
- The Financial Stability Board (FSB) published a [letter](#) to the G20, welcoming its focus on LIBOR transition as a priority for this year. The G20 [Communique](#) emphasised the need for progress in 2020.
- The European Securities and Markets Authority published its [response](#) to the European Commission's [consultation](#) on the review of the Benchmark Regulation, including proposing that competent authorities are able to request an administrator to change the methodology of a critical benchmark.
- The Basel Committee issued a [statement](#) clarifying that amendments to capital instruments solely to implement benchmark reforms will not result in them being treated as new instruments for regulatory purposes.

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	21,515,509	9,425,374 (52%)	4,764,113	767,283 (19%)
SONIA	620,228	212,483 (78%)	135,506	17,858 (15%)

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

As at end-January (£billions)

	Notional traded January	Change since last month	Notional outstanding	Outstanding change since last month
GBP LIBOR (incl. FRAs)	7,178	3,724 (108%)	18,580	2,245 (14%)
SONIA	17,294	13,154 (318%)	14,260	7,185 (102%)

Non-Sterling RFR Updates

- The Federal Reserve Bank of New York (NY Fed) [announced](#) that it will begin publishing 30-, 90- and 180-day SOFR averages from 2 March. In addition, the NY Fed will begin publishing a SOFR Index, which will allow the user to derive rates over any period.
- The US Federal Housing Finance Agency [announced](#) that Fannie Mae and Freddie Mac will stop accepting LIBOR-linked adjustable rate mortgages by the end of 2020, and to begin accepting SOFR-linked adjustable mortgages.
- Rostin Behnam (CTFC Commissioner) delivered a [speech](#) at the ISDA/SIFMA AMG Benchmark Strategies Forum supporting ISDA's re-consultation on pre-cessation fallbacks. In addition, market participants were reminded of the importance of operational readiness to transition away from LIBOR and supporting market-led solutions, including consultative efforts led by ARRC and ISDA.
- The Working Group on Euro Risk-Free Rates published a [report](#) to provide guidance and recommendations to support a smooth and swift transfer of liquidity from EONIA markets to €STR.