

Term SONIA Reference Rate Publication Summary

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This paper has been prepared for educational purposes only and is not a substitute for market participants' own research and professional advice. The information in this paper is given in summary form and does not purport to be a comprehensive outline of all relevant factors or considerations. This paper has not sought to validate or authenticate the methodologies or approaches presented herein and nothing in the paper should be considered a promotion or recommendation of any particular independent benchmark administrator, methodology or approach.

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This paper is a summary of the key attributes of Term SONIA Reference Rates (“TSRRs”) published by independent benchmark administrators. The information presented is to the best of the RFRWG’s knowledge up to date at the point of publication.

Overview

- The Sterling Risk Free Rate Working Group (RFRWG) consulted on Term SONIA Reference in 2018 [Ref 1]. Following this, the Working Group acknowledged the need for a forward-looking term rate for some participants in the cash markets and to support the transition of certain legacy contracts.
- In December 2018, the RFRWG published a statement inviting interested benchmark administrators to consider the summary of responses to the TSRR consultation and to share any views on the development of such benchmarks [Ref 2]. Initially, three benchmark administrators made available Beta TSRRs during 2020 that could be used for testing purposes. Subsequently, two of them, ICE Benchmark Administration and Refinitiv made them available for use in financial contracts.
- The RFRWG has recommended the market adopt a broad-based transition to SONIA compounded in arrears, with use of a TSRR being limited.
- The RFRWG’s Term Rate Use Case Task Force (the “Task Force”) was formed to identify where the usage of SONIA compounded in arrears is appropriate and provide guidance where the usage of alternative approaches, such as a TSRR, may be necessary. This paper should be read in conjunction with the “Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives” released by the Task Force in January 2020. [Ref 4].
- After 6 months of initial ‘beta’ period, January 2021 witnessed the two TSRR providers remove beta tags from their rates.

References:

1. <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/term-sonia-reference-rates-consultation-summary-of-responses.pdf?la=en&hash=CFD2AB11A3156B31CB15030962ECA9987BEFCED8>
2. <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/libor-transition-and-development-of-a-term-rate-based-on-sonia.pdf>
3. <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfr-working-group-roadmap.pdf?la=en&hash=92D95DFA056D7475CE395B64AA1F6A099DA6AC5D>
4. <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/use-cases-of-benchmark-rates-compounded-in-arrears-term-rate-and-further-alternatives.pdf>

Aims of this Paper

- The RFRWG’s Infrastructure Sub Group have issued this paper to assist market participants and vendors to: i) remain informed and ii) consider whether any amendments may be required to their systems or products ahead of transition to TSRRs (where such transition is appropriate).
- The focus of this paper has been restricted to SONIA term rates and is purely an overview of key features. This paper aims to cover:
 - Current availability of TSRRs
 - High level features of TSRRs
 - Helpful links to sites to enable market participants and vendors to access information and undertake their own analysis and determinations.

Please email any comments/ feedback you may have to the RFR Secretariat RFR.Secretariat@bankofengland.co.uk, who will aggregate the feedback to support any further refinement of this paper.

Term SONIA Reference Rate - Capability Matrix

SONIA Term Rates are evolving and rates are presently available on some sites of independent benchmark administrators. The undernoted table highlights the key attributes of the TSRRs provided by independent benchmark administrators as of the date of this publication.

| | ICE Benchmark Administration (IBA) | Refinitiv |
|------------------------|--|---|
| Tenors Published | 1,3, 6 & 12 month forward looking term rates | 1,3, 6 & 12 month forward looking erm rates |
| First Publication Date | 8th July 2020 | 21st July 2020 |
| Where can it be found | https://www.theice.com/iba/risk-free-rates#sonia https://www.theice.com/marketdata/reports/276 | http://www.refinitiv.com/termsonia |
| History since | 26th June-2020 (via website) | 1st July 2020 (via website and Refinitiv products) |
| Publication Frequency | Daily at 11.55am | Daily at 11.50am |
| Methodology Available | https://www.theice.com/publicdocs/data/TSRR_-_Calculation_Methodology.pdf | http://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/term-sonia-methodology.pdf |
| Methodology Waterfall | Yes | Yes |
| Level 1 | Based upon SONIA OIS Order Book data (committed quotes) from 3 Interdealer Brokers MTFs (TPICAP's iSwap, BGC Partners' BGC Trader and Tradition's TradX (120 minute window, 9-11am London time)) | Based upon SONIA OIS Order Book data (committed quotes) from 2 Interdealer Brokers MTFs (TPICAP's iSwap and Tradition's TradX (20 minute window, 10:50-11:10am London time)) |
| Level 2 | Based upon Tradeweb (Dealer to Client) OIS quotes | Based upon Tradeweb (Dealer to Client) OIS quotes |
| Level 3 | A step function model is used to determine, from the published overnight SONIA rates and SONIA-linked futures' settlement prices, the implied average daily SONIA rates. The implied average daily SONIA rates are then compounded over the relevant tenor period. | Apply T-1 compounded SONIA to previous day's Term SONIA rate |