



BANK OF ENGLAND

News release

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A new sterling money market data collection and the reform of SONIA

The Bank of England has today published a consultation document setting out in detail plans first announced in March 2015 for a new sterling money market data collection. The consultation also sets out, at a high level, how the Bank plans to use these data to reform the Sterling Overnight Index Average (SONIA) benchmark interest rate.

The Bank is undertaking the new data collection to secure and improve the information available to it on conditions in sterling money markets, which is an important input to the decisions of the Monetary Policy Committee and Financial Policy Committee. The Bank intends to collect transaction-level data from banks, building societies and major investment firms on their secured and unsecured sterling money market borrowing activity. This will provide the Bank with a better understanding of developments in short-term interest rates, benefiting the Bank's analysis of both monetary and financial conditions. It will also provide a richer picture of activity in the sterling money market, enabling the Bank to better assess overall market effectiveness.

The consultation first sets out the Bank's proposed approach to this new sterling money market data collection and seeks feedback from market participants in order to ensure that the required information is collected in the most effective and cost-efficient way. This part of the consultation is targeted primarily at the institutions from which the Bank plans to collect data.

The consultation then sets out, at a high level, the Bank's plans to reform SONIA, a key overnight unsecured interest rate benchmark. These plans are likely to be of interest to users of SONIA, including participants in the sterling Overnight Indexed Swap (OIS) market.

The Bank views reform of SONIA as desirable given its role as a critical benchmark in sterling markets, and in view of the limited size of the market for brokered deposits on which SONIA is currently based. The new sterling money market data collection will provide an opportunity to strengthen SONIA by broadening the range of transactions underpinning the benchmark. The Bank and the Wholesale Market Brokers' Association (WMBA) – which currently administers SONIA – are therefore working towards the Bank taking

over as administrator of SONIA in early 2016 so that, in due course, SONIA can be transitioned to a new broader basis.

The Bank anticipates that it will be in a position to consult on detailed plans for the reform of SONIA in Q2 2016.

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Notes to Editors

1. The Bank's Executive Director for Markets, Chris Salmon, announced in March 2015 (www.bankofengland.co.uk/publications/Documents/speeches/2015/speech811.pdf) that the Bank planned to begin a new data collection exercise and that it was working with the WMBA on the future evolution of SONIA.
2. SONIA was introduced in March 1997 and is currently administered by the WMBA. SONIA is currently calculated as the daily weighted average interest rate of unsecured sterling overnight cash transactions over £25mn which are brokered in London by contributing members of the WMBA.
3. In August 2014, the Fair and Effective Markets Review (FEMR) recommended that SONIA be made a regulated benchmark. This recommendation was implemented in April 2015, when SONIA became a specified benchmark for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
4. SONIA is a critical benchmark and is widely used by wholesale market participants including as the reference rate for the sterling Overnight Indexed Swap (OIS) market. The notional value of outstanding sterling OIS contracts exceeds £10 trillion and, in addition, the OIS curve is used to value major sterling swap portfolios with an estimated notional outstanding value of £35 trillion.
5. The volume of brokered sterling overnight transactions – on which SONIA is based – has fallen from a daily average of £23bn in 2008 to £7bn in the past year.
6. The Bank plans to broaden the set of transactions underpinning SONIA to include overnight unsecured deposit transactions negotiated bilaterally as well as those arranged via brokers.
7. The consultation is open until 1 October 2015.