



BANK OF ENGLAND

News release

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SONIA recommended as the sterling near risk-free interest rate benchmark

The Working Group on Sterling Risk-Free Reference Rates – a group of major dealers active in sterling interest rate swap markets – has today announced SONIA as its preferred near risk-free interest rate benchmark (RFR) for use in sterling derivatives and relevant financial contracts.

This expression of market support for SONIA will act as a platform for further work to broaden and promote its use as an alternative to sterling Libor, contributing to an improvement in the resilience of the financial system.

Today's announcement marks a key step in the interest rate benchmark reform agenda laid out by the Financial Stability Board (FSB) in 2014. Following cases of attempted manipulation and false reporting of global reference rates, the FSB recommended – alongside the reform of existing benchmarks including LIBOR – the development and adoption of alternative near risk-free benchmarks.

In the UK the Working Group on Sterling Risk Free Reference Rates was set up by the Bank of England in 2015 to take this work forward. The Group is market-led, comprising major sterling swap dealers, reflecting the need for an RFR with broad market support. ISDA and LCH Ltd participate as observers to provide relevant technical advice. The Bank and the FCA participate as non-voting members.

Following its meeting on 7 April 2017, each member firm of the Working Group voted on its preferred RFR, choosing between three candidates: SONIA, £SONET, and £RIR. All three candidates are based on robust transaction volumes and measure overnight interest rates that are considered close to risk-free.

The Working Group's votes have now been collated and the outcome published as part of the Minutes of the Group's 7 April meeting.¹ The decision in favour of SONIA was by more than the required two-thirds supermajority.

The selection of SONIA as the sterling RFR reflects that, on completion of the SONIA reform process currently underway, it will be a strong and credible benchmark that meets the criteria set out by the

¹ www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2017/minutes7april2017.pdf

Working Group. The Working Group's recommendation will be subject to a broad market consultation to be held in the middle of 2017.

François Jourdain, Chair of the Working Group, said: "This recommendation reflects two years of careful deliberation by the member firms and has been informed by extensive outreach to other market participants. This effort also catalysed the development of candidate RFRs, significantly enhancing the transparency of the sterling money markets and the resilience of sterling interest rate benchmarking. I would like to warmly thank the Group for their hard work and thoughtful commitment."

Chris Salmon, Bank of England Executive Director for Markets, said: "This is an important milestone in the benchmark reform process outlined by the FSB. Work must now begin on planning for the widespread adoption of SONIA, in consultation with a broader set of market participants. This will lead to more effective interest rate hedging markets for end-users, while minimising opportunities for misconduct."

"I am very grateful for the efforts of the Working Group in taking the first step on the path towards the adoption of a sterling Risk-Free Rate as an alternative to Libor. I am particularly grateful to François Jourdain for his leadership of the Group."

"I also welcome the development of the two new secured benchmarks that have emerged during this process. Having a range of benchmarks available clearly benefits the infrastructure of sterling markets."

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Notes to Editors

- In July 2014, the FSB published its report on Reforming Major Interest Rate Benchmarks. In order to ensure that benchmarks remain robust and are appropriately used by market participants, the FSB recommended a "multiple-rate approach", which in part included a recommendation that near risk-free reference rates (RFRs) should be developed as alternatives to Libor. http://www.fsb.org/wp-content/uploads/r_140722.pdf
- The Working Group on Sterling Risk-Free Reference was initiated to assist the Bank in meeting its objective of developing sterling RFRs. It is a private sector group comprised of senior experts from major sterling swap dealers, with ISDA and LCH acting as observers and the Bank and FCA as non-voting members. Materials are published on the Bank's website:
 - The Terms of Reference
<http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/tor.pdf>
 - Membership
<http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/members.pdf>
 - Minutes
<http://www.bankofengland.co.uk/markets/Pages/benchmarks/rfr.aspx>

- Interim Report, outlining progress in selecting an RFR for use in sterling markets.
<http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2016/rfrwgintrep16.pdf>
- The Bank is in the process of reforming the SONIA benchmark. This will result in the coverage of SONIA being broadened to include overnight unsecured transactions negotiated bilaterally as well as those arranged via brokers, using the Bank's [Sterling Money Market Data Collection](#) as the data source. The Bank recently confirmed the detailed specification of reformed SONIA which will be implemented in March or April 2018:
<http://www.bankofengland.co.uk/markets/Documents/soniareformresponse0317.pdf>
- Further information on the candidate RFRs is available.
 - SONIA, administered by the Bank of England:
<http://www.bankofengland.co.uk/markets/Pages/benchmarks/soniareform.aspx>
 - £SONET, administered by FTSE-Russell:
<http://www.ftse.com/products/indices/gbp-sonet>
 - £RIR, administered by NEX:
<http://www.nexdata.com/indices/money-markets/sterling-repo-index-rate-rir/>
- Similar exercises to choose an RFR are underway in other jurisdictions:
 - the Alternative Reference Rates Committee in the US
(<https://www.newyorkfed.org/arrc/index.html>);
 - the Study Group on Risk-Free Reference Rates in Japan
(<https://www.boj.or.jp/en/paym/market/sg/index.htm/>); and
 - the National Working Group on Swiss franc reference rates, in Switzerland
(https://snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates)