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News release

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Bank and FCA launch next phase of sterling Libor transition work

The Bank of England and the Financial Conduct Authority (FCA) are today announcing the next phase of work with market participants on Libor transition. From January 2018, the market-led Working Group on Sterling Risk-Free Rates will have an extended mandate and broader participation.

- The Working Group's new mandate will be to catalyse a broad-based transition to SONIA over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by end 2021. That reflects concerns about the sustainability of Libor beyond 2021, and follows a recent public consultation which confirmed strong support for SONIA as the preferred alternative to sterling Libor.¹
- For this next phase of work, it is clear that active engagement will be needed from participants across all relevant sectors and markets. Membership of the Working Group will therefore be broadened to include investment managers, non-financial corporates and other sterling issuers, infrastructure firms and trade associations, alongside banks and dealers. Membership will be by invitation of the Bank and FCA, with further details to be announced in coming weeks.

A key near-term priority for the Working Group will be to make recommendations relating to the potential development of term SONIA reference rates. This work is already underway and a public consultation is planned for the first half of 2018.

François Jourdain (Chief Compliance Officer, Barclays International) will continue to Chair the Working Group. Frances Hinden (Vice President Treasury Operations, Shell International Ltd) and Simon Wilkinson (Head of LDI Funds, Legal & General Investment Management) have agreed to act as Vice Chairs.

Two new sub-groups will be formed to focus on benchmark transition issues in loan and bond markets. These will be chaired respectively by Clare Dawson (Chief Executive, LMA) and Paul Richards (Head of Market Practice and Regulatory Policy, ICMA). Other sub-groups will be created as necessary to conduct technical work to support the transition effort. Participation in these sub-groups is not limited to Working Group members.

¹ See the Working Group's 'White Paper' www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrwgwhitepaper0617.pdf and a summary of responses: <http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/whitepaper.pdf>.

The Working Group will be responsible for raising awareness of transition issues and seeking input from the broadest possible set of stakeholders, for example by establishing open discussion forums focused on particular sectors.

Commenting on today's announcement, Andrew Bailey (Chief Executive, FCA) said: *"Libor panel banks have agreed to support Libor until 2021. The priority now is to use this period to plan and implement an orderly transition to alternative rates. Collective and co-ordinated efforts through the Working Group on Sterling Risk-Free Rates will play a key role in achieving that for sterling markets, and we welcome the commitment of firms and trade associations to that work."*

Dave Ramsden (Deputy Governor for Markets and Banking, Bank of England) said: *"Libor transition will be a challenging and complex exercise. The authorities are committed to working with and supporting market participants as they step up efforts on benchmark transition for sterling markets."*

François Jourdain said: *"The transition to SONIA is necessary and not optional. Input from a broad set of stakeholders will be critical to success. The reconstitution of the Working Group has the support of current members. I look forward to working with the vice chairs and new members who can represent relevant sectors and markets as we move forward with our work."*

Notes for Editors

- In July 2014, the FSB published recommendations for the reform of interest rate benchmarks. www.fsb.org/wp-content/uploads/r_140722.pdf?page_moved=1
- In response to those recommendations, several jurisdictions commissioned groups to identify nearly risk-free interest rates (RFRs) to use as an alternative to Libor.
- In the UK, the Bank of England established the Working Group on Sterling Risk-Free Reference Rates in 2014, with members drawn from the largest sterling interest rate swap dealers and the objective of developing and implementing a sterling RFR as an alternative to Libor: www.bankofengland.co.uk/markets/Pages/benchmarks/rfr.aspx
- In April 2017, the Group recommended SONIA as the sterling risk-free rate: www.bankofengland.co.uk/publications/Pages/news/2017/033.aspx
- RFRs have also been selected in US dollar, Swiss franc and Japanese yen markets: www.fsb.org/wp-content/uploads/P101017.pdf.
- It was announced in October 2017 that a group will be established to select a RFR for euro markets. www.esma.europa.eu/press-news/esma-news/new-working-group-risk-free-reference-rate-euro-area
- In July 2017, the sterling Working Group published a White Paper to gather market participants' feedback on the recommendation of SONIA as the RFR and matters related to the adoption of SONIA. Alongside this, the Group hosted a Roundtable to discuss these topics in detail. See: www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrwgwhitepaper0617.pdf and www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2017/record060717.pdf.

- Several respondents to the White Paper have expressed interest in participating in Libor transition work; further expressions of interest are invited.
For more details, please contact RFR.Secretariat@bankofengland.gsi.gov.uk
- Two sub-groups have recently been established to consider: potential use cases and design criteria for term SONIA reference rates; and the development of successful SONIA futures contracts.
Terms of reference for these sub-groups are available. A proposal for a third sub-group on adoption issues in the pension and insurance sector is under development.
Term SONIA Reference Rate sub-group Terms of Reference:
www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/soniasubtor.pdf
SONIA Futures sub-group Terms of Reference:
www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/soniasubfuturetor.pdf
- In July 2017, Andrew Bailey gave a speech on 'The Future of Libor', see www.fca.org.uk/news/speeches/the-future-of-libor.
In the speech Andrew Bailey noted that the absence of active underlying markets raises a serious question about the sustainability of the LIBOR benchmarks that are based upon these markets. He concluded that the FCA did not think markets could rely on LIBOR continuing to be available indefinitely. That highlighted the need for a broad-based transition away from using Libor by end-2021.
- The Record of the Financial Policy Committee's September meeting noted that it had discussed the risks to financial stability if Libor were to become unavailable, and work underway to address those risks. See www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2017/record1710.pdf.
- On 24 November the FCA announced that panel banks had agreed to support Libor on a voluntary basis until end-2021, see www.fca.org.uk/news/statements/fca-statement-libor-panels