

The Working Group on Sterling Risk-Free Reference Rates

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

The Bank, FCA and Working Group are hosting an event 'Last Orders: Calling Time on LIBOR' at 8.45am on 5 June (see below)

Key Milestone Dates

- 12th June – deadline for ECB consultation on EONIA to €STR legal action plan.
- 17th June – deadline for feedback to IASB Exposure Draft on IBOR reform and its effect on financial reporting.
- 12th July – deadline for ISDA consultation on pre-cessation issues and related documentation for derivatives.
- 12th July – deadline for ISDA consultation on fallbacks specific to US dollar LIBOR, Hong Kong's HIBOR and Canada's CDOR.

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group on Sterling Risk-Free Reference Rates has published a [statement](#) on the adoption of SONIA and confirmed that three benchmark administrators are working to develop a forward-looking Term SONIA Reference Rate (TSRR).
- The Working Group met on 14 May and announced the mobilisation of a Senior Advisory Group and discussed progress from sub-groups and task forces. Three benchmark administrators presented outline plans on developing TSRR. The Working Group [published](#) the presentations delivered by each administrator.
- Minutes from the Working Group's March meeting have been [published](#).

Market Developments

- The International Accounting Standards Board (IASB) are seeking comments on their [proposed amendments](#) to IAS 39 and IFRS 9 to address hedge accounting issues arising from IBOR reform/LIBOR cessation. The IASB aim to issue final amendments in 2019 for application to annual reporting beginning on or after 1 January 2020. The IFRS Exposure Draft report is open for [comments](#) until 17 June 2019.
- ISDA published a [webinar](#) and two [consultations](#) on derivative fallbacks, with a deadline of 12 July 2019. The consultations seek feedback on spread and term adjustments in derivatives referencing USD LIBOR, HIBOR and CDOR, and separately, pre-cessation triggers.
- CurveGlobal (LSE) [announced](#) it will launch one month SONIA futures and new future specifications on 29 July 2019.
- Associated British Ports [announced](#) an invitation for noteholders to amend the terms and conditions of a floating rate note through the consent solicitation process. This would require noteholder consent in June, to transfer floating rate debt from LIBOR to SONIA.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

	Aggregated across all products as at end-April			
	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	12,723,006	-7,792,255 (-38%)	3,904,720	-44,563 (-1%)
SONIA	554,109	-98,739 (-15%)	113,900	11,412 (11%)

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

	As at end-April (£billions)			
	Notional traded April	Change since last month	Notional outstanding as of end-April	Outstanding change since last month
GBP LIBOR (incl. FRAs)	3,902	-1,028 (-21.1%)	18,578	619 (3.5%)
SONIA	3,589	-1,042 (-22.3%)	9,168	240 (2.7%)

Official Sector Updates

The Bank of England, FCA and Working Group are jointly hosting a panel-based event 'Last Orders: Calling Time on LIBOR' from 8.45am on 5 June, to discuss the challenges of SONIA adoption, plans of the Working Group and feedback on the 'Dear CEO' exercise. This will become available to view [here](#)

- Tilman Lueder, Head of Securities Markets at the European Commission, [presented](#) progress on European Benchmark reform and work still to be done
- The 44th IOSCO Annual Meeting, held in Sydney, included a panel discussion on 'The End of LIBOR and the Impact on Australian Financial Markets'. Remarks from Andrew Bailey are included in the RBA's [webcast](#) of the event.
- David Rule, Executive Director of Insurance Supervision at BoE, [discussed](#) the ongoing challenges of LIBOR transition faced by insurance firms, and encouraged insurers to identify LIBOR exposure and prepare their systems to support RFRs.

Non-Sterling RFR Updates

- Goldman Sachs [issued](#) its first SOFR-referencing bond, which uses a two-day 'lookback' period and compounded rates to calculate interest payments.
- The ECB [provided](#) a one-off spread between €STR and EONIA, to be used in the new EONIA methodology as of October 2019.
- The Euro Risk-Free Rates Working Group published a [consultation paper](#) on the "EONIA to €STR legal action plan", highlighting the need for a legal action plan to ensure a smooth transition from EONIA to €STR in new and legacy contracts. The consultation is open until 12 June.
- Australian Securities and Investment Commission [issued](#) a letter asking financial institutions to provide details of their transition plans, similar to that of the joint FCA/PRA [Dear CEO](#) letter.
- The Alternative Reference Rates Committee (ARRC) will host a [roundtable](#) on 3 June 2019, to discuss the use of SOFR in cash products, and the steps market participants should be taking to prepare for the end of LIBOR. A live webcast of the event will be made available.
- The ARRC [issued](#) a follow-up letter on the treatment of RFRs in derivative contracts, asking for broad consideration from regulators on the conditions to facilitate voluntary transition. It also proposed that RFR-linked derivatives not subject to mandatory clearing are made exempt from initial margin requirements for a period to build liquidity.