



## Minutes

### SONIA Stakeholder Advisory Group

2 November 2020

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**Location:** Bank of England

**Minute no.**

1. **Welcome/Introductions**

Members welcomed Scott McMunn as this was his inaugural meeting as chair of the Group, having recently commenced his term as external member on the SONIA Oversight Committee.

2. **Review of market conditions**

The Bank presented a pack of publically available statistics on the SONIA rate and volumes, and on SONIA adoption since the reforms were implemented.<sup>1</sup>

This is the first Group's meeting since the onset of the Covid-19 pandemic. The Group noted the market functioned well during the height of the crisis and continues to behave robustly. The SONIA rate has decreased to c. 4.6bps below Bank Rate (compared to consistency at c. 4bps below Bank Rate noted at the group's February meeting). Volumes in the market had increased by nearly 40% compared to the levels discussed at the previous meeting. The Group identified a number of factors as drivers behind the high volumes and downward trend in the rates including the higher than usual demand for overnight assets; lower than typical supply of cash in term money markets such as CP and CD; the flat yield curve dis-incentivising longer-dated investment; and the abundance of reserves in the banking system.

Looking forward, the Group acknowledged continued market uncertainty including around the UK's withdrawal from the EU and discussed potential impact on SONIA. The Group noted that the market has had time to prepare for the UK's departure from the EU, and there is an abundance of cash in the system, but remarked that this year the conditions could be more challenging than in the previous year given ongoing uncertainty around Covid-19 and the associated economic impact.

The Group considered how SONIA may be affected if rates were to turn negative in future. Members expected that the vast majority of investors, banks, issuers and underwriters have no problem with negative rates, having dealt with negative rates in a number of other countries for some time.

3. **Update from the Bank's risk-free rate (RFR) transition team**

The Working Group on Sterling Risk Free Reference Rates (RFRWG) had acknowledged earlier in the year that the pandemic would affect the timing of some aspects of the transition programmes of many firms, but many preparations had been able to continue. The Bank and FCA had worked closely with market participants to revise interim milestones and maintain focus, with rate volatility and a lack of transactions underpinning LIBOR in the early stages of the pandemic reemphasizing the importance of transition. Revised milestones were reflected in an update to the RFRWG's transition [roadmap](#).

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<sup>1</sup> Appended to these minutes.

Specific recent developments included a key milestone at the end of September for banks to make non-LIBOR linked loan products available, and the Bank of England and FCA “SONIA first” initiative, encouraging interdealer markets to quote SONIA as the default price for sterling interest rate swaps from 27 October. The Bank had also launched the SONIA Compounded Index in August, followed by a couple of encouraging early examples of direct use as an interest reference in bonds.

Internationally, ISDA’s work on improving contractual fallbacks for derivative contracts based on IBORs was nearing completion with the launch of its IBOR Fallbacks Supplement and Protocol on 23 October, which had seen positive early take-up and would become effective in contracts on 25 January 2021. And on 16 October the FSB published a [global transition roadmap for LIBOR](#), setting out steps firms with LIBOR exposure should be taking now until end-2021.

There had also been progress made by the official sector. On 21 October, the Financial Services Bill was introduced in Parliament, which included provisions to enhance FCA powers in addressing risks resulting from the narrow pool of ‘tough legacy’ contracts. This had been informed in part by market input through the RFRWG during H1.

#### 4. **The evolving uses of SONIA**

There was limited issuance of SONIA referencing products during the first few months of the crisis but the activity has since started to regain pace. Issuance of SONIA based FRNs now dominate over the LIBOR bonds. Also, issuance of SONIA referencing derivatives (futures, swaps and swaptions) has been increasing in the recent months.

It was noted by the members that the pace could slow down again with the markets focusing on preparations for the year-end and the UK leaving the EU.

#### 5. **Feedback on the SONIA Compounded Index.**

The Group noted that the publication of the SONIA Compounded Index was welcomed by the market and seen as a positive step in the transition from LIBOR. A first issuance referencing the Index by European Investment Bank (EIB) garnered notable investor demand from the outset, demonstrating the breadth of appeal for this new format, referencing the SONIA Compounded Index.

**Attendees:**

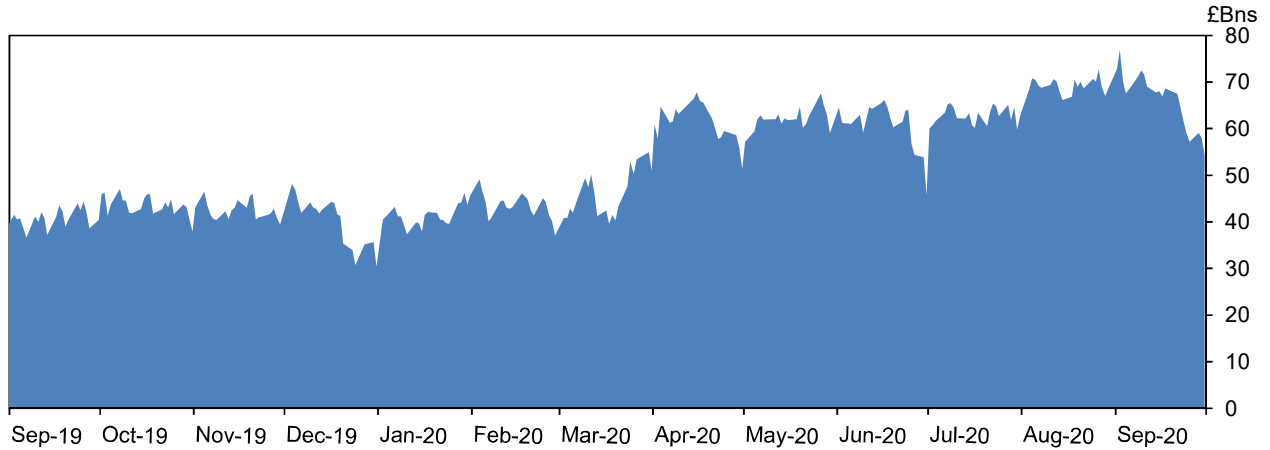
Chair	Scott McMunn (Independent member of SONIA Oversight Committee)
External Member	Julia Black (Independent member of SONIA Oversight Committee)
CurveGlobal	Ian Murphy
ICE Futures	Matthew Horton
Insight Investment	Robert Gall
ISDA	Jonathan Martin
JP Morgan AM	Olivia Maguire
LCH	Philip Whitehurst
LGIM	John Wherton
Mizuho	Rob Thurlow
RBC Capital Markets	Sean Taor
Société Generalé	Romain Sinclair
TP ICAP	Philip Chilvers
Bank of England	Ashley Young
	Tom Horn
	Jon Pyzer
	Joanna McLafferty

# SONIA Stakeholder Advisory Group

## November 2020

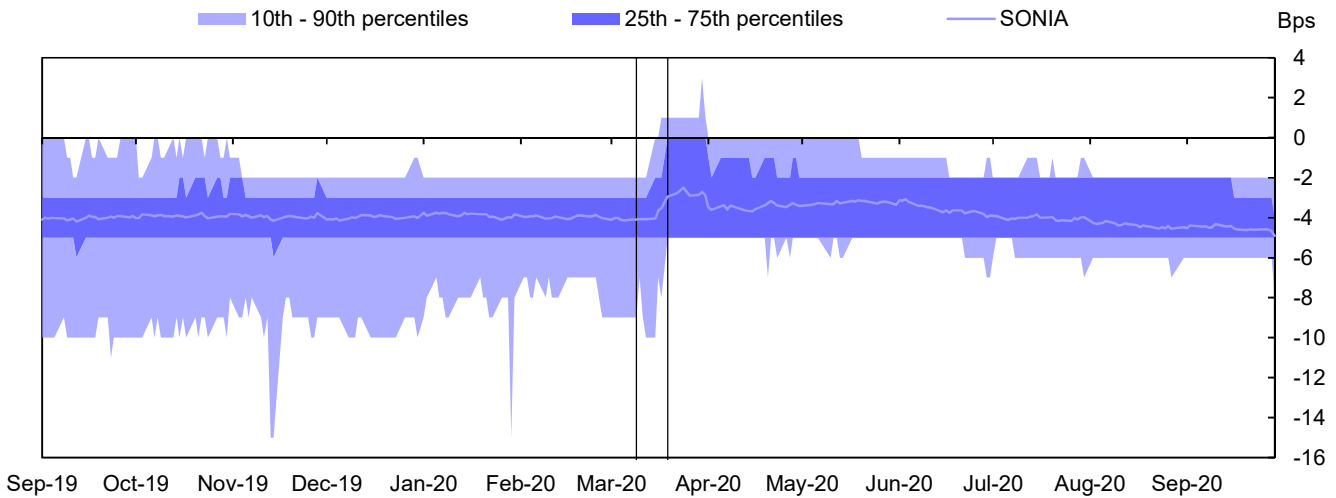
### PUBLISHED SONIA STATISTICS

Chart 1: SONIA volumes



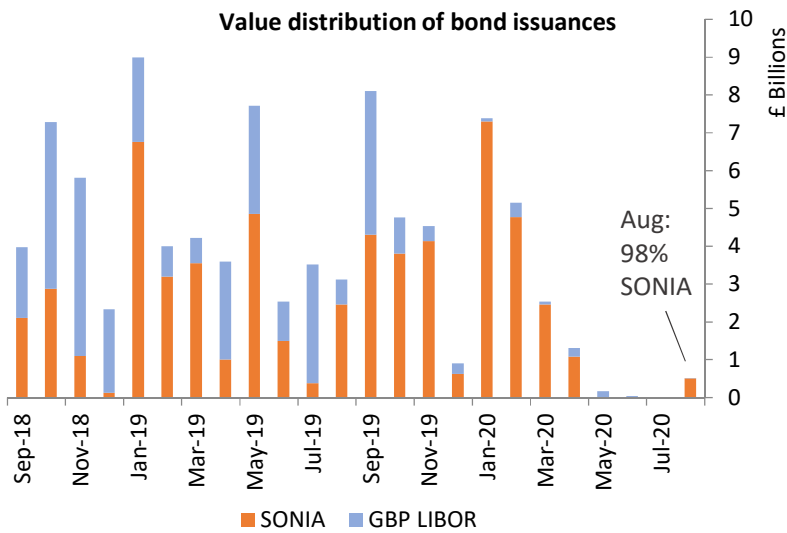
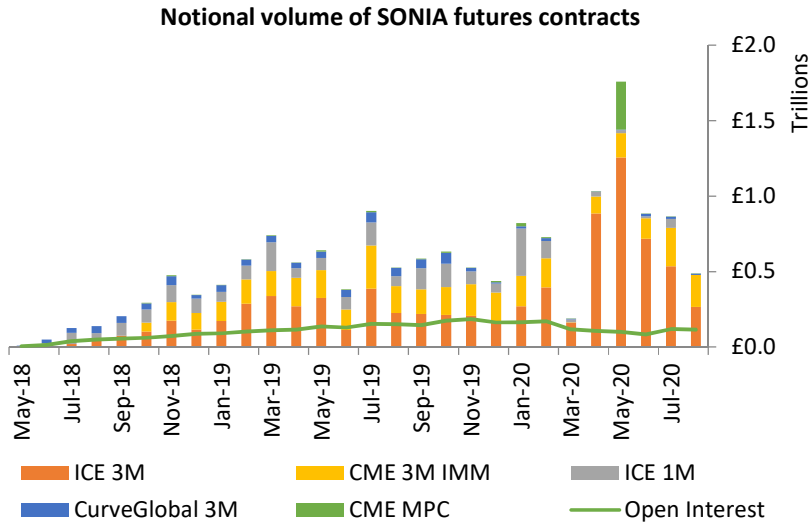
Source: Bank of England

Chart 2: SONIA rates and percentiles - spread to Bank Rate



Source: Bank of England

## USAGE OF SONIA



## LCH Swaps statistics

	As at end-Aug (£billions)			
	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
<b>GBP LIBOR**</b>	4,237	110 (2.7%)	17,242	-520 (-2.9%)
<b>SONIA</b>	5,115	-165 (-3.1%)	11,446	697 (6.5%)

\*\* Including FRAs

Source: LCH