



## Minutes

### SONIA Stakeholder Advisory Group

25 February 2021

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**Location:** Bank of England

**Minute no.**

1. **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>

The Group noted that the SONIA rate had fallen by a greater amount at 2020 year end relative to previous year ends, although the fall was muted compared to the repo market. SONIA fell by 1bp to 0.04% from its mid-December levels whereas the Sterling Repo Index Rate fell by 40bps to -0.38%. This occurred against a backdrop of the UK's withdrawal from the EU and ongoing general market uncertainty stemming from Covid-19. Since the new year, SONIA volumes had remained below those of end 2020, with Group members commenting the EU Money Market regulation was preventing EU Money Market Funds (MMFs) from placing deposits with UK banks or UK subsidiaries of third country banks, due to the lack of financial services equivalence granted to the UK.

The Group also identified a further driver for the lower volumes to be MMF outflows. There was a 4.5% or £15bn reduction in MMF AUMs as at 25 February compared to the beginning of the year, due to investors who had been forced to place their cash with MMFs at year-end now being able to locate alternatives. The wedge between SONIA and Bank Rate had also slightly increased to c. 5.2bps, compared to c. 4.6bps at end 2020. The Group commented that some banks were more constrained in their balance sheet and were dis-incentivising investors by offering lower rates.

Looking forward, the Group discussed the potential impact of a negative Bank Rate on the SONIA market. The 2014 experiences of the negative rate environment in the Euro Area were reflected on, whereby MMFs implemented fee waivers before switching to accumulation share classes to enable negative yields to be reflected. This caused a temporary reduction in AUMs as some MMF investors placed their cash with their relationship banks in order to obtain higher yields. Currently, sterling MMFs were implementing fee waivers, as was observed in the Euro Area, and the Group anticipated that similar behaviour might occur if Bank Rate was to turn negative. However it was noted that the reduction in EUR MMF AUMs was both small and short-lived, and would only occur if alternate zero or positive yielding options were available.

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

The Working Group on Sterling Risk Free Reference Rates (RFRWG) was heavily focused on its upcoming milestone of ceasing new issuance of most sterling LIBOR products by end March 2021. In support of this, it had recently released a [publication](#) setting out further detail on a limited range of exceptions to this in derivative products, where they were used to risk manage existing positions or reduce exposures to LIBOR. New use was expected to cease in a further set of

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

products, including exchange-traded and non-linear derivatives, by the end of June 2021. PRA supervisors had recently re-iterated their support for the RFRWG milestones at a meeting of its Senior Advisory Group, noting that supervisory oversight would intensify over the coming weeks and months, with an active meeting programme and monitoring in place to see firms make progress in line with those milestones.

Over the course of the rest of the year, focus was expected to switch more heavily toward transition of legacy exposures, where the RFRWG milestone was to progress active transition where viable through to completion by end-September. For cleared derivatives, LCH had recently consulted its members on a proposed mechanism to convert outstanding GBP LIBOR contracts shortly in advance of the end of the year. The RFRWG had also produced a number of materials on legacy products to assist firms in considering active transition approaches, such as for [legacy loans](#), and requested that the members of the Group consider providing a response to its recent [consultation](#) on fallback rates for certain floating rate bonds, if not done so already.

### 3. The evolving uses of SONIA

There had been a move towards a greater usage of SONIA-linked derivatives but this market was still behind other products, with one reason cited as it being reliant on the agreement of a standardised LIBOR to SONIA spread adjustment. It was also noted that, while the floating CP market mostly referenced SONIA, there was little uniformity, with many different combinations of look-back periods and pricing methodology. It was thought that referencing the Bank of England's SONIA Compounded Index would help to standardise this market, as well as setting SONIA issuance targets as was seen in other markets.

The bond, loan and mortgage-backed securities markets had increased their adoption of SONIA as a reference rate, with the first SONIA Index-linked covered bond issued by Nationwide in mid-February. The Group noted there would likely be a decrease in issuance of SONIA-linked bonds in 2021 as compared to 2020, but that this would be due to a reduction in overall issuance given that banks were awash with liquidity.

#### Attendees:

Chair	Scott McMunn (Independent member of SONIA Oversight Committee)
CurveGlobal	Ian Murphy
Goldman Sachs	Alan Farrell
HSBC	James 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
NatWest	Donal Quaid
RBC Capital Markets	Sean Taor
Société Generalé	Romain Sinclair
TP ICAP	Philip Chilvers

Bank of England

Ashley Young  
Tom Horn  
Rebecca Jones  
Joanna McLafferty  
Kirstine McMillan

**Apologies:**

External Member

Julia Black (Independent member of SONIA Oversight Committee)

Bank of England

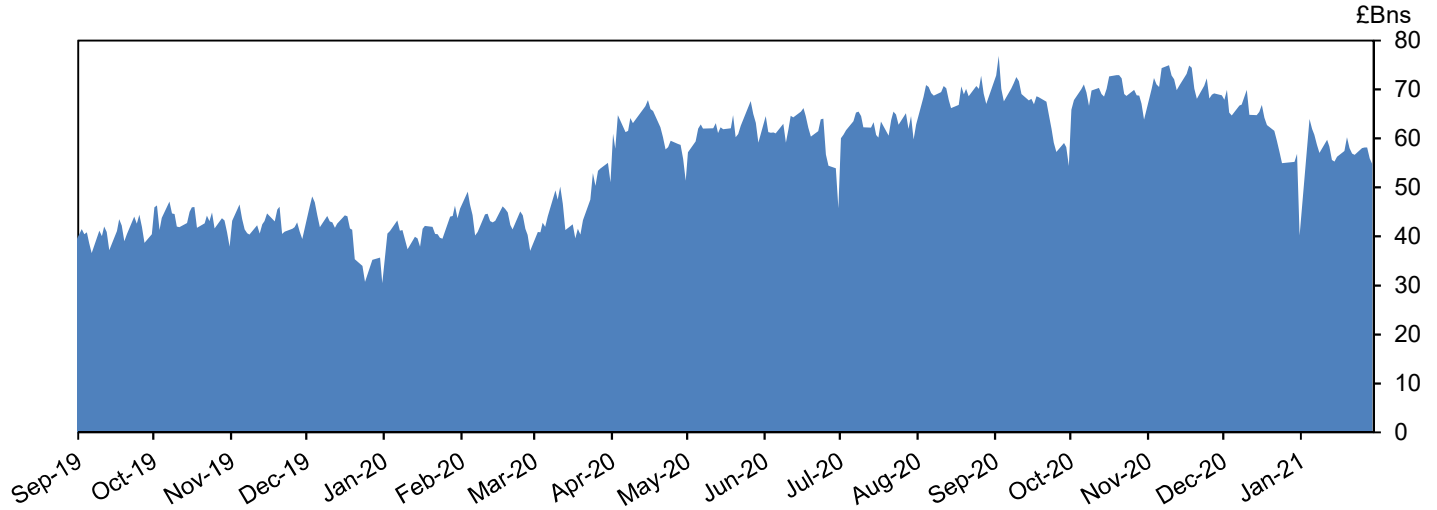
Rhys Phillips  
Jon Pyzer

# SONIA Stakeholder Advisory Group

## February 2021

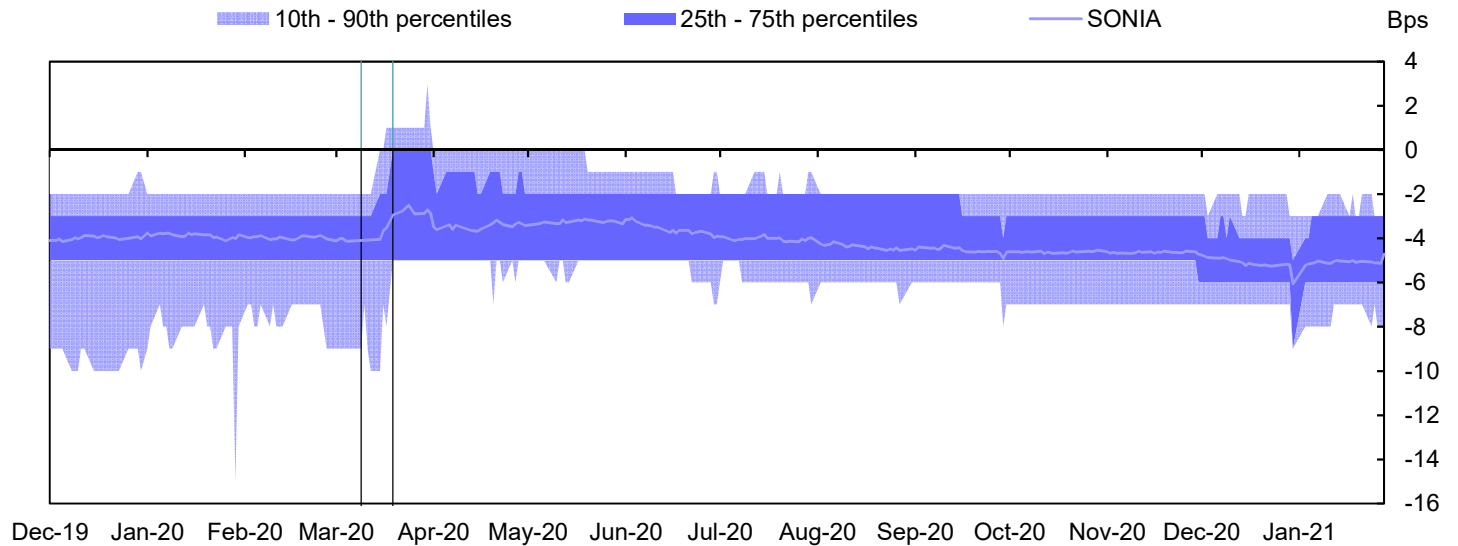
### PUBLISHED SONIA STATISTICS

Chart 1: SONIA volumes



Source: Bank of England

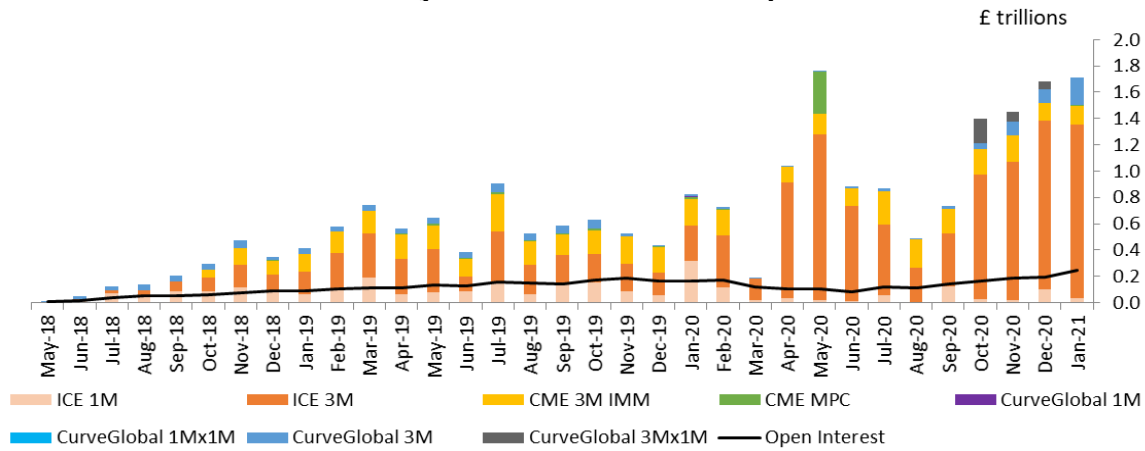
Chart 2: SONIA rates and percentiles - spread to Bank Rate



Source: Bank of England

## USAGE OF SONIA

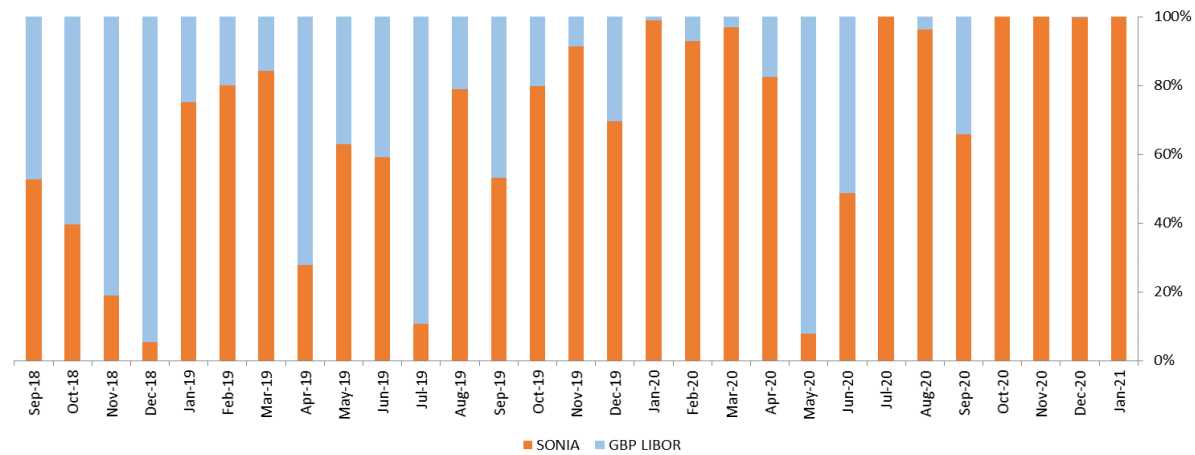
**Chart 3: SONIA Futures -monthly nominal volumes and open interest at month end\***



Source: ICE Futures, Curve Global and CME Group

\* Lots traded multiplied by nominal lot size

**Chart 4: Volume distribution of FRN issuances**



Source: Bloomberg L.P. and Bank of England Calculations

**Table 1: LCH Swap Statistics**

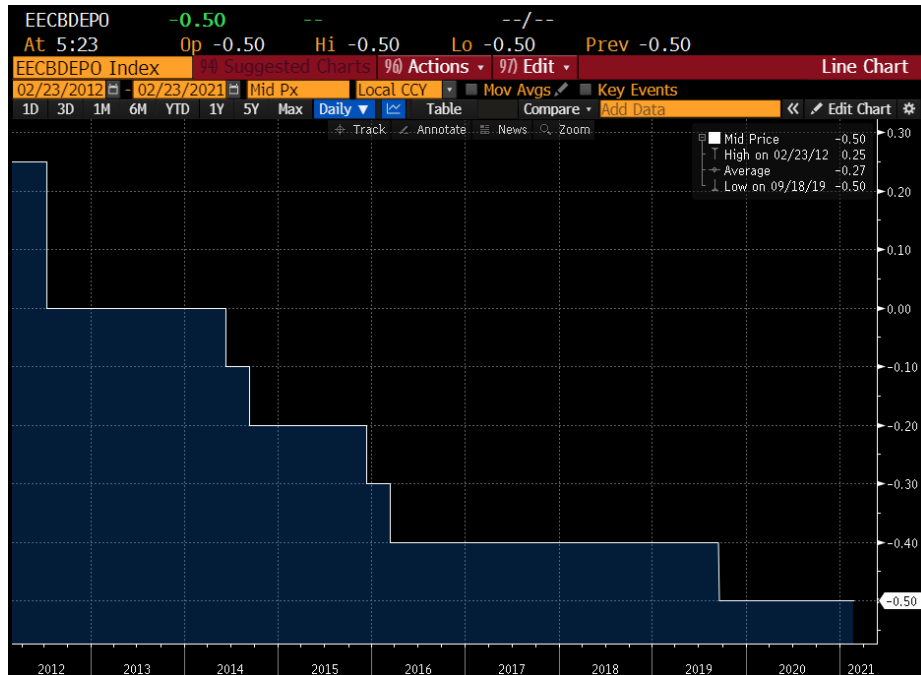
	As at end-Dec (£billions)			
	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
<b>GBP LIBOR**</b>	3,963	-197 (-4.7%)	16,408	-1464 (-8.2%)
<b>SONIA</b>	7,649	2693 -54.30%	14,329	-805.8 (-5.3%)

\*\* Including FRAs

Source: LCH

# Money Market Funds and negative rates (EUR)

## ECB Deposit Facility



## EONIA



# Money Market Funds and negative rates (EUR)

## Negative rates

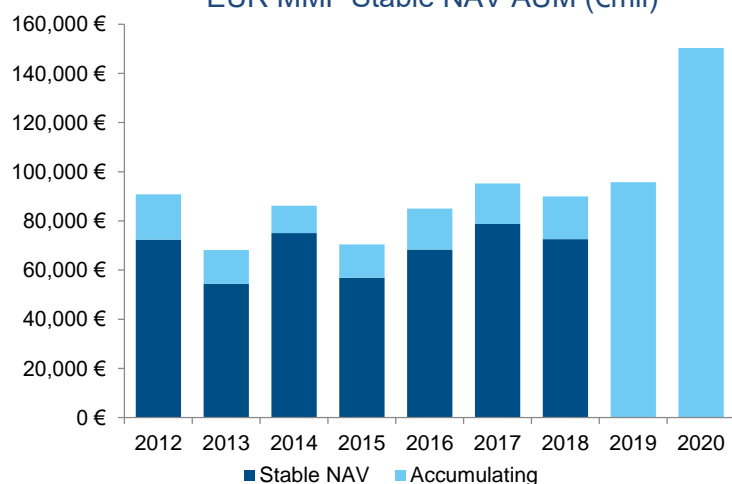
Prior to EU Money Market Funds Reform, constant NAV MMFs reflected negative income through the cancellation of shares (reverse distribution mechanisms, RDM), however since 2019 MMFs have been required to reflect negative income in the fund price (leading to the use of t+0 accumulation share classes for EUR MMFs).

In 2015 EUR MMFs maintained net yield floors, even with gross yields at 0.00% prior to implementing RDM, after which management fees were gradually reintroduced.

## EUR MMFs implementation of RDM (April 2015), top 5 by AUM\*

EURO MONEY MARKET FUNDS STABLE NAV	17-Apr-15			24-Apr-15			01-May-15			08-May-15			15-May-15		
	Assets (mils)	7-Day Net	7-Day Gross	Assets (mils)	7-Day Net	7-Day Gross	Assets (mils)	7-Day Net	7-Day Gross	Assets (mils)	7-Day Net	7-Day Gross	Assets (mils)	7-Day Net	7-Day Gross
BlackRock ICS-Instit Euro Liq Fund	21,499.8	0.00	0.01	19,966.6	(0.02)	(0.02)	19,675.4	(0.04)	(0.03)	17,476.7	(0.05)	(0.03)	16,386.6	(0.06)	(0.03)
JPMorgan Euro Liquidity Fund	14,462.8	0.00	0.00	14,147.1	0.00	0.00	14,683.5	(0.01)	(0.01)	12,921.8	(0.01)	(0.01)	12,865.7	(0.04)	(0.04)
Goldman Sachs Euro Liq Resv Fund	11,924.4	0.00	0.02	11,744.9	0.00	0.02	12,140.5	0.00	0.02	10,797.6	(0.01)	0.02	10,061.4	(0.02)	-
BNP Paribas InstiCash EUR	7,379.0	0.00	0.05	6,348.1	0.00	0.05	6,191.9	0.00	0.05	6,009.2	0.00	0.04	6,157.7	0.00	0.04
Deutsche Managed Euro Fund	6,301.5	0.00	-	5,744.8	0.00	-	5,343.1	0.00	-	5,108.9	0.00	0.01	5,186.1	(0.01)	-
SSgA EUR Liquidity Fund	4,330.9	0.00	(0.04)	4,084.8	0.00	(0.04)	3,980.3	0.00	(0.03)	3,909.1	0.00	(0.03)	3,955.5	(0.02)	(0.03)
Morgan Stanley-Euro Liquidity	3,358.1	0.00	0.00	3,356.0	0.00	0.00	3,388.6	0.00	0.00	3,501.8	0.00	0.00	3,220.3	(0.02)	0.00

EUR MMF Stable NAV AUM (€mil)



Off-shore MMF Stable NAV AUM 2020 (\$1trl)

