

The Working Group on Sterling Risk-Free Reference Rates

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

Key Milestone Dates

- September – ISDA to issue a consultation on the parameterisation of term and spread adjustment of IBORs
- September – ISDA to publish aggregated summary of feedback to the consultation on pre-cessation issues for LIBOR (and others)
- 27 September 2019 – deadline for feedback to Bank's approach to manage LIBOR-linked collateral in its Sterling Monetary Framework
- Q3 2019 – IASB Board to start deliberations on the potential financial reporting implications when replacing an interest rate benchmark

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group [published minutes from its July meeting](#), including a summary of the discussion on ISDA's pre-cessation trigger consultation, an update on the first SONIA referencing loan, and details of the first Senior Advisory Group meeting.
- Terms of Reference for the recently formed Senior Advisory Group have been [published](#).
- The Working Group issued a [statement on referencing SONIA in new contracts](#), and published a summary of key findings from the Discussion Paper on SONIA Conventions. In particular, many respondents cited a desire for close alignment across derivatives and cash markets. To support this, the Working Group have outlined important considerations when issuing new contracts and where adoption of consistent conventions can support standardised documentation and help build liquidity in SONIA referencing products.

Non-Sterling RFR Updates

- The Public Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks [published](#) the 'Main Points of the Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks!'. The consultation is seeking comments on Japanese interest rate benchmarks. The deadline for submitting responses is 30 September 2019.
- The US Alternative Reference Rates Committee (ARRC) published a [SOFR floating rate notes \(FRN\) conventions matrix](#) for market participants to consider when using SOFR in new issuances. The ARRC also published a [SOFR FRN conventions matrix chart](#) outlining conventions already used in the market.
- The ARRC accounting and tax sub group [wrote](#) to the SEC seeking clarification that the FASB Exposure Draft's proposed accounting relief for IBOR-linked contracts also applies to LIBOR-linked equity-classified preferred stock instruments. This would allow minor changes in the contractual terms relating to reference rates without requiring a re-designation of existing hedge accounting relationships.
- The Working Group on Euro Risk Free Rates published a [report](#) addressing the impact of transitioning from EONIA to €STR.

Official Sector Updates

- The Bank of England issued a [discussion paper](#) outlining steps it has taken to reduce its own LIBOR exposure, and sought feedback on proposed approaches to manage LIBOR-linked collateral. The deadline for submitting comments is 27 September 2019.
- IOSCO published a [statement](#) setting out considerations for market participants exposed to USD LIBOR, in light of its expected cessation after the end of 2021 and USD LIBOR's widespread global use.

Market Developments

- Increased interest in SONIA linked borrowing by corporates continued in August with BMW issuing a £250 million SONIA-linked floating rate note, with the interest set nightly and the coupon paid in arrears every three months. The bond pays a coupon of SONIA plus 25bp.
- ISDA published [initial results](#) of its Consultation on Pre-Cessation Issues for LIBOR and other Interbank Offered Rates (IBORs). More detailed results are expected to be published in September 2019.
- ISDA [announced](#) that Bloomberg Index Services Limited (BISL) had been selected to calculate and publish adjustments related to fallbacks that ISDA intends to implement for certain interest rate benchmarks in 2006 ISDA Definitions.
- ISDA [wrote](#) to the European Commission on IBOR transition and EMIR grandfathering, seeking a statement clarifying whether amending fallback/contract terms to increase contract robustness qualifies as a new contract, which would result in margin requirements.
- The International Accounting Standards Board [published](#) an update following their August Additional Meeting where issues were identified in reviewing feedback to the July Exposure Draft on Interest Rate Benchmark Reform. In addition, the Board sought permission to ballot amendments to the accounting instruments IAS 39 and IFRS 9.
- The IASB also [published](#) a podcast summarising the decisions made by the Board at the August meeting, and outlining next steps.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

	Aggregated across all products as at end- July			
	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	14,249,857	- 1,513,073 (-10%)	4,540,298	355,019 (8%)
SONIA	863,199	495,230 (135%)	137,108	5,544 (4%)

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

	As at end-July (£billions)			
	Notional traded June	Change since last month	Notional outstanding as of end-June	Outstanding change since last month
GBP LIBOR (incl. FRAs)	4,003	-714 (-15%)	17,959	549 (3.2%)
SONIA	4,222	-472 (-10.1%)	8811	606 (7.4%)