

This monthly newsletter provides an update for those interested in developments relating to the Working Group on Sterling Risk-Free Reference Rates ("Working Group"), keeping you informed of 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](mailto:RFR.Secretariat@bankofengland.co.uk)

### Key Milestone Dates

- 2 December – deadline for feedback of [CME's proposal](#) to update the discounting and price alignment from EFFR to SOFR
- 9 December – deadline for feedback to PRA on [proposed changes](#) to replace LIBOR in Supervisory Statements/Statements of Policy
- 31 December – deadline for feedback to European Commission [consultation](#) on EU Benchmarks Regime
- Q3 2020 – Working Group [target](#) for no new LIBOR cash product issuance due to mature post 2021

### Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group [published](#) minutes of its September meeting, including a summary of the presentation by the fourth potential term rate provider - IHS Markit and plans for a 'beta-testing' period for term SONIA, beginning in Q1 2020. In addition, the Working Group agreed immediate priorities for H2 2019, including encouraging greater adoption of SONIA in cash markets to support the Working Group's [Q3 2020 target](#) of no new sterling-linked LIBOR issuance.
- The RFR Working Group recognise that the availability of loans management and treasury systems that support RFRs plays an important role in supporting a smooth transition away from LIBOR. Following last month's public [invitation](#) to providers, two of the largest loans system providers – ACBS/FIS and Finastra/Loan IQ- presented at the November Working Group meeting. Both providers expect to be able to provide updates offering compounded SONIA capability by end Q1-2020 and November 2019 respectively.
- The Working Group has [announced](#) the mobilisation of three new task forces. These include (1) the Tough Legacy Task Force, to identify and mitigate the extent of contracts unable to convert away from LIBOR; (2) the Cash Market Legacy Transition Task Force to highlight approaches to convert existing contracts or update contracts to include robust fallback language; (3) the Loans Flow Enablers Task Force to identify blockers inhibiting/key milestones to support the Working Group's target of ceasing GBP Libor issuance by Q3 2020.

### Official Sector Updates

- The FCA published a [Question and Answer statement](#) outlining their expectations for firms on mitigating and managing conduct risk during LIBOR transition. In particular, firms are expected to have a transition strategy in place, take appropriate action to transition, and treat customers fairly.
- Edwin Schooling-Latter (FCA) delivered a [speech](#) at the Risk.net LIBOR Summit, reiterating authority caution that waiting for the publication of a forward-looking term SONIA rate is not recommended, as its use will be more limited than the current use of LIBOR. In addition, the FCA will be encouraging market makers to make SONIA the market convention for interest rate swaps from Q1 2020.
- Co-Chairs of Financial Stability Board's Official Sector Steering Group published a [letter](#) sent to ISDA encouraging the inclusion of a 'pre-cessation trigger' alongside the inclusion of a cessation trigger in the standard language for new derivatives, and the protocol for outstanding derivatives.

### Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

#### Aggregated across all products as at end- October

	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
<b>GBP LIBOR</b>	14,640,589	-931,480 (-6%)	4,439,012	191,181 (5%)
<b>SONIA</b>	490,466	-57,989 (-11%)	134,982	10,735 (9%)

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

#### As at end-October (£billions)

	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
<b>GBP LIBOR (incl. FRAs)</b>	4,972	38 (0.8%)	18,644	1000 (5.7%)
<b>SONIA</b>	3,978	-810 (-16.9%)	8,741	996 (12.9%)

### Market Developments

- ISDA published a [report](#) summarising the responses to the [September ISDA Consultation](#) on the final parameters for spread and term adjustments in derivative fallback language for key IBORs. Based on the responses, ISDA expects to implement a historical median approach, over a five year lookback period. Bloomberg and ISDA will publish the final mathematical formulas for the spread adjustment prior to its inclusion in the 2006 ISDA Definitions.
- Further progress in moving away from LIBOR-linked lending was seen with Deutsche Bank's [announcement](#) of its first SONIA-linked loan through its European Commercial Real Estate Group with Kennedy Wilson.
- Lloyds [confirmed](#) noteholder support by negative consent solicitation process, to replace the benchmark rate from LIBOR to SONIA in the Penarth £300 million asset backed floating rate note.
- Nationwide Building Society [confirmed](#) noteholder support to replace the benchmark rate from LIBOR to SONIA in the Silverstone £550million securitisation. In addition to this, Nationwide [announced](#) it is exploring the potential transition of three outstanding LIBOR-linked covered bonds totalling £250million. The Working Group is looking to put further guidance out to the market in 2020 to support further conversions of legacy Libor linked products.

### Non-Sterling RFR Updates

- The Financial Accounting Standards Board (FASB) [announced](#) it approved an Accounting Standards Update (ASU) to provide temporary guidance for contracts referencing LIBOR; this will include exceptions to generally accepted accounting principles where affected by LIBOR transition, to apply until 31 December 2022.
- The Federal Reserve Bank of New York issued a [statement](#) seeking feedback on a proposal to publish a daily SOFR index and daily compounded averages of SOFR in three tenors; 30, 90 and 180 days; this was [welcomed](#) by the ARRC. The deadline for feedback is 4 December 2019.
- The Japanese Cross Industry Committee on Japanese Yen Interest Rate Benchmarks [published](#) results to its consultation on the choice and use of interest rate benchmarks, and [published](#) a tentative plan on the prototype of a forward-looking term TONA reference rate.
- The working group on euro risk-free rates released a report on [€STR fallback arrangements](#), a report on the [financial accounting implications](#) of the transition from EONIA to the €STR, and [high level recommendations](#) for fallback provisions in contracts for cash products and derivatives transactions referencing EURIBOR.
- The ARRC released a [summary](#) of its LIBOR fallback language and an [Appendix](#) to the previously released SOFR FRNs [Conventions Matrix](#) and [Comparison Chart](#).