

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

- 6 February – **\*\* deadline for feedback to the Working Group's cash product credit adjustment spread [consultation paper](#) – all parties with exposure to sterling LIBOR-linked cash products are encouraged to engage with this consultation \*\***
- 2 March – Bank and FCA [milestone](#) for market makers to switch convention in GBP interest rate swaps from LIBOR to SONIA
- 23 March – deadline for feedback to LCH consultation on the inclusion of a non-representative trigger in fallback language
- Q3 2020 – Working Group [target](#) to cease issuance of GBP LIBOR-linked cash products maturing after 2021

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

- The Working Group published a set of [documents](#) on 16 January, which included the group's high-level priorities and a [roadmap](#) of key transition milestones for 2020. In addition to this, the Working Group issued a [joint statement](#) with the Financial Conduct Authority (FCA) and the Bank of England, with both authorities supportive of the Working Group's 2020 priorities and key milestones.
- As part of this set of documents, the Working Group publications also included:
  - A [factsheet](#) for end-users summarising LIBOR transition and setting out why market participants need to act now.
  - A Working Group [statement](#) setting out 'lessons learned' from recent legacy-LIBOR bond conversions, by consent solicitation.
  - In support of the Working Group's 2020 [priority](#) to promote and enable widespread use of SONIA, it published a [paper](#) setting out its views on the widespread applicability of SONIA compounded in arrears as an appropriate benchmark for c.90% of new loan deals by value; and provided guidance for the use of alternative approaches, such as Term SONIA Reference Rate (TSRR).
- In support of the Working Group's Q1 2020 [target](#) to ensure key infrastructure is compatible with compounded SONIA, the Infrastructure Sub-group held a roundtable event for loan and treasury management system providers. This focussed on ensuring they are working to update products in line with key Working Group milestones.
- In January, the Working Group also hosted two roundtable events for the buy-side sector, inviting insurance firms, asset and hedge fund management firms to discuss transition in this sector and any remaining barriers.

### Non-Sterling RFR Updates

- Building on CME's launch of SOFR futures, this month CME [launched](#) three-month SOFR options.
- The US Alternative Reference Rates Committee (ARRC) issued a [consultation](#) to seek views on the appropriate spread adjustment between Dollar LIBOR and SOFR, and associated parameters, the ARRC should recommend to include in fallback provisions for cash products referencing LIBOR. The deadline to provide feedback is 6 March.
- The Swiss National Working Group on CHF Reference Rates plan to host a webinar/conference call from 2pm (CET) on 25 February to infrastructure providers regarding transition from LIBOR to SARON. Registration with [nwg@snb.ch](mailto:nwg@snb.ch) closes 31 January.

### Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

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

	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
<b>GBP LIBOR</b>	12,090,135	26,334 (0.2%)	3,996,830	-556,381 (-12%)
<b>SONIA</b>	407,331	-83,753 (-17%)	117,194	-31,197 (-21%)

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

#### As at end-December (£billions)

	Notional traded December	Change since last month	Notional outstanding	Outstanding change since last month
<b>GBP LIBOR (incl. FRAs)</b>	3,454	-128 (-3.6%)	16,335	-1,649 (-9.2%)
<b>SONIA</b>	4,140	1,267 (44.1%)	7,076	-1,090 (-13.4%)

### Official Sector Updates

- The FCA and Bank of England issued a joint [statement](#) encouraging market makers to switch the convention for sterling interest rate swaps from LIBOR to SONIA from 2 March 2020.
- The FCA and Prudential Regulation Authority (PRA) sent a joint [letter](#) to major banks and insurers setting out initial expectations for firm's transition progress over 2020. The FCA and PRA reiterate that **all** firms should plan for sterling LIBOR to cease after end-2021, and encouraged individual firms to support wider market transition efforts, including in meeting the RFRWG 2020 targets. All firms with exposure to LIBOR should therefore consider this letter within their transition planning.
- The FCA and administrator of LIBOR (ICE Benchmark Administration) issued [letters](#) to ISDA. These letters are in response to ISDA's December [request](#) to the FSB seeking further clarity on the 'reasonable' period in which a non-representative rate of LIBOR would be published.
- Following the publication of IASB amendments addressing the reporting consequences of interest rate benchmark reform, the EU Commission have amended [regulations](#) on international accounting standards in Art.3(2) of Regulation (EC) No.1606/2002. Amendments apply from the first financial year starting on or after 1 January 2020.

### Market Developments

- LCH issued a [statement](#), and subsequently opened a [consultation](#), seeking feedback on a proposed rulebook change to include a non-representative trigger for inclusion in the fallback language for LIBOR-linked derivatives. The deadline for feedback is 23 March.
- Lloyds issued a [notice](#) of plans to convert the interest rate benchmark from LIBOR to SONIA, through a consent solicitation process, in the extension clause of covered bonds totalling £4.2bn.
- Clydesdale Bank published [notice](#) of its plans to convert £1.3bn LIBOR-linked notes in its securitisation programme, Lanark Master Issue, to SONIA by a consent solicitation process.
- Nationwide [confirmed](#) the transition of £250million LIBOR-linked covered bonds from LIBOR to SONIA, and published the new margin.