

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

- 2 October – ECB will begin publishing €STR, and the definition of EONIA will change to €STR + 8.5bps
- 3 October – Accounting Standards Advisory Forum to host a [meeting](#) to update on IBOR reform and its effect on financial reporting
- 23 October – Deadline for responses to ISDA final parameter [consultation](#)

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group continues to be supportive of the development of a Term SONIA Reference Rate (TSRR). Since the Working Group's [May statement](#), a fourth benchmark administrator – IHS Markit- confirmed they are also working to develop a TSRR. At the September Working Group meeting, IHS Markit provided an overview of its work to date. This presentation has been published on the [Working Group's website](#).
- The [Bonds sub-group](#) has continued to see progress with the adoption of compounded SONIA in new bond issues. Participants have been invited to raise practical issues in the bond market that still need to be resolved and continue to explore the pros and cons of different calculation/convention methods for lagged coupons.
- The [Infrastructure sub-group priority list](#) highlights the need for further updates to treasury management systems (TMS) that are necessary to fully support the use of SONIA. As such, the sub-group have supported a questionnaire to TMS providers to better understand their level of readiness in supporting alternative benchmarks.

Market Developments

- The International Accounting Standards Board (IASB) has published the [amendments](#) to specific hedge accounting requirements in IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform.
- ISDA published its [consultation](#) on the final parameters for the credit-spread adjustment to apply to alternative risk-free rates. The Brattle Group have published a [workbook](#) and [instructions](#) to help market participants better understand the implications of the different options and approaches to this spread adjustment.
- Santander issued a [notice of intention](#) to explore transitioning certain GBP LIBOR linked notes issued by Holmes Master to SONIA.
- Lloyds announced [two solicitations](#) for existing bonds where it is looking to replace LIBOR-referencing coupons with coupons that reference SONIA. One of which is a £1bn covered bond and is a standard consent solicitation. The other is for a £300m ABS and is a negative consent amendment.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

	Aggregated across all products as at end- August			
	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	16,928,483	2,678,626 (19%)	4,759,676	219,378 (5%)
SONIA	538,718	-324,481 (-38%)	136,222	- 886 (-1%)

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

	As at end-August (£billions)			
	Notional traded June	Change since last month	Notional outstanding as of end-June	Outstanding change since last month
GBP LIBOR (incl. FRAs)	4,127	123 (3.1%)	18,410	452 (2.5%)
SONIA	4,559	337 (8%)	8269	-542 (-6.2%)

Official Sector Updates

- Since the [September 2018 Dear CEO letter](#) to major UK banks, the Bank of England and FCA have broadened their supervisory focus on LIBOR transition to a wider set of firms. The PRA and FCA have issued a joint request for details on firms' LIBOR exposures.
- The Bank of England published an [Overground post](#) on LIBOR transition, reiterating the [July FPC message](#) that it is not in firms' own interests to continue to increase exposures to LIBOR.
- The Financial Conduct Authority (FCA) have launched a dedicated ['Transition from LIBOR' webpage](#), highlighting the reason for transition, providing links to key resources and outlining international efforts on benchmark reform.
- On 2 October the [ECB will start publishing €STR](#) – the Euro short-term rate- reflecting trading activity on 1 October. Additionally, effective from 2 October the European Money Market Institute (EMMI) will adopt the new EONIA methodology, which will be recalibrated to directly reference €STR plus a spread of 8.5bps.

Non-Sterling RFR Updates

- The Alternative Reference Rates Committee (ARRC) [announced](#) it is extending the deadline for comments to the consultation on fallback language for new closed-end residential adjustable-rate mortgages.
- The ARRC published a [practical implementation checklist](#) to facilitate market participants in transitioning to adopt the Secured Overnight Financing Rate (SOFR), the recommended alternative to U.S. dollar (USD) LIBOR.
- ISDA published [results](#) to the 2019 Supplemental Consultation, which asked for views on the preferred fallback approach for the spread and term adjustments for USD LIBOR, CDOR and HIBOR to alternative risk-free rates.
- ISDA published an [FAQ](#) regarding the gradual implementation of the methodology reform to EURIBOR.
- LCH SwapClear issued a [notice](#) to its members that from 2 October it will reflect the new definition of EONIA. In addition to this, the LCH [notified](#) members that from 21 October, Swapclear will begin offering clearing of €STR swaps.
- CME [announced](#) that single-day records for volume and open interest of SOFR futures reached an all-time high on 17 September.
- CME issued a [statement](#) that it plans to launch options on 3-month SOFR futures by 6 January 6, pending regulatory review.
- CME published a [high-level proposal](#) to transition the price-alignment and discounting for US Dollar OTC cleared swaps from the effective federal funds rate (EFFR) to SOFR. CME are proposing 17 July 2020 as its transition date.