



March 2021

The Bank, the FCA and the Working Group welcome the publication of the FMSB's transparency draft of its market standard on use of Term SONIA reference rates.

The Working Group on Sterling Risk-Free Reference Rates (the "**Working Group**"), the Financial Conduct Authority (the "**FCA**") and the Bank of England (the "**Bank**") welcome [today's publication](#) from the FICC Markets Standards Board ("**FMSB**") of a proposed standard recognising the conduct and systemic risk advantages associated with a broad-based adoption of SONIA compounded in arrears and considering selected use cases for Term SONIA reference rates in sterling markets where there is a robust rationale to meet specific needs.

Overnight SONIA, compounded in arrears, is a robust and reliable replacement rate to GBP LIBOR, with active and liquid markets even [during times of market stress](#). Ahead of the Working Group's recommended milestones to cease new use of GBP LIBOR for most purposes by the end of Q1 2021, SONIA is becoming increasingly dominant in many sterling markets. In swap markets, the share of SONIA trading has risen materially following the 'SONIA First' initiative for interdealer markets in October, with LCH data showing a majority of notional volumes based on SONIA relative to LIBOR in 2021 to date and market commentary suggesting comparable bid-ask spreads across most tenors. In cash markets, SONIA has been used in the vast majority of new floating rate note issuance for some time and has been increasingly used in wholesale lending markets in recent months.

A broad-based transition to overnight SONIA, compounded in arrears, will provide the most robust foundation for sterling interest rate markets. Widespread adoption of SONIA compounded in arrears in derivative markets in particular, keeping use of Term SONIA limited to specific use cases primarily in cash markets, will also help to preserve the necessary conditions for robust Term SONIA rates to remain available for use where they are needed.

Appropriate use of Term SONIA in some specific cases can help to facilitate completion of the transition away from GBP LIBOR to SONIA by the end of 2021. The FMSB has identified selected use cases where there may be a robust rationale for using Term SONIA, noting the potential systemic and conduct risks associated with excessive use of these rates. These are broadly consistent with the Working Group's existing conclusions on [Use Cases of Benchmark Rates](#), which estimated that use of compounded SONIA would be appropriate and likely to be operationally achievable for around 90% of the sterling loan market by value.

It is in the interest of all users of benchmark rates for the financial system to be based on the most robust reference rates available for their specific purpose. While the standard is addressed to FMSB members, it is also relevant to other financial firms, non-financial corporates, small to medium size enterprises (SMEs) and others, who are impacted by the transition away from GBP LIBOR. We encourage users to discuss the most robust benchmark options available to them with their financial services providers as part of their transition.

The FMSB's proposed standard has been made available for public comment in the form of a transparency draft, and the Working Group, the FCA and the Bank encourage all affected market participants to engage with the FMSB directly with their comments and suggestions by the closing date of 28 May 2021.

Notes

1. The Working Group was established in 2015 in response to the [Financial Stability Board's recommendation](#) to develop and adopt alternative risk-free rates (RFRs) to provide an alternative to Libor-style reference rates. In April 2017, the Working Group recommended the [SONIA benchmark](#) as its preferred RFR and since then has been focused on how to transition to using SONIA across sterling markets.
2. The Bank and the FCA are each ex-officio members of the Working Group and provide administrative support to the group. Market participants should note that the views and considerations of the Working Group do not constitute guidance or legal advice from the Bank of England (including the Prudential Regulation Authority (the 'PRA') or the FCA nor are they necessarily endorsed by the Bank of England (including the PRA) or the FCA.
3. The [FICC Markets Standards Board](#) (the 'FMSB') is a standards setting body for the wholesale fixed income, currencies and commodities (FICC) markets.