

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

Key Milestone Dates

- 2 December – deadline for feedback of CME’s proposal to update the discounting and price alignment from EFFR to SOFR
- 6 December – deadline for feedback to European Commission consultation on EU Benchmarks Regime
- 9 December – deadline for feedback to PRA on proposed changes to replace LIBOR in Supervisory Statements/Statements of Policy

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group have published an [invitation](#) to loans management system providers and treasury management systems to engage with the Infrastructure sub-group or broader Working Group on ensuring SONIA capabilities are in place across their products. In the summary of responses to the [RFR Working Group’s SONIA Conventions paper](#), the availability of loans management systems that support the use of RFRs was identified as a key development to support transition from LIBOR to RFRs.
- The Regulatory Dependencies task force have issued four letters to UK regulators and European authorities highlighting conduct and prudential issues that could potentially impede a smooth transition from LIBOR. The letters were sent to the [European Commission](#), the [Basel Committee on Banking Supervision](#), the [Prudential Regulation Authority](#) and the [Financial Conduct Authority](#).

Official Sector Updates

- The Financial Policy Committee published a [record](#) of its meeting on 2 October. The Committee continued to reiterate that there is no justification for firms continuing to increase exposures to LIBOR. In addition, the FPC welcomed measures by the FCA and PRA to step up efforts to monitor regulated firms Libor exposure and consider further policy and supervisory tools to reduce the stock of LIBOR linked contracts to a minimum ahead of end-2021.
- The Prudential Regulation Authority issued a [consultation paper](#) for relevant firms, seeking feedback on their proposal to introduce minor amendments to replace references to LIBOR in a Supervisory Statement (SS20/15) and a Statement of Policy. The deadline for feedback closes on 9 December 2019.
- The European Commission issued a [consultation](#) to gather feedback on the EU Benchmarks Regime, two years after its application. The consultation focusses on the regime for critical benchmarks. The deadline for feedback is 6 December 2019.

Market Developments

- ISDA have published an anonymised [summary](#) of responses to its May “Pre-Cessation Consultation” which sought feedback on the inclusion of a pre-cessation trigger in the 2006 ISDA Definitions or an ISDA protocol. A majority of respondents stated they would not want to continue referencing an IBOR in future or legacy contracts if a regulator determined it was no longer representative,
- Further progress across NatWest’s SONIA loans pilot was [announced](#) with the completion of the first Libor-referencing loan amendment, converting a South West Water loan from LIBOR to SONIA. The conventions of the loan will use a daily compounded SONIA rate with a five-day reset lag.
- Following Lloyds consent solicitation [notice](#) in September, it [announced](#) 99.8% support (of eligible votes) to amend the benchmark referenced in a £1bn covered bond from LIBOR to SONIA.
- Following Santander UK’s notice last month, strong support from investors was received as it [announced](#) to convert two Libor-linked mortgage bonds to SONIA.
- Nationwide Building Society issued [notice](#) of a consent solicitation to amend the terms of two GBP LIBOR linked covered bonds to SONIA. In addition to this, Nationwide issued [notice](#) of a consent solicitation to replace the benchmark referenced in a long-dated LIBOR linked Silverstone securitisation, from LIBOR to SONIA.

Key Liquidity Indicators

Listed Futures (data provided by futures exchanges)

Aggregated across all products as at end- September				
	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	15,572,069	-1,356,414 (-8%)	4,247,831	-511,845 (-11%)
SONIA	548,455	9,737 (2%)	124,247	-11,975 (-9%)

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

As at end-September (£billions)				
	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
GBP LIBOR (incl. FRAs)	4,934	807 (19.6%)	17,645	-766 (-4.2%)
SONIA	4,789	230 (5%)	7,745	-524 (-6.3%)

Non-Sterling RFR Updates

- John Williams (New York Federal Reserve) delivered a [speech](#) addressing the recent SOFR volatility and reiterating to the market that the end of LIBOR is unavoidable.
- The US’ Federal Home Loan Bank Regulation (FHL Bank) published a [letter](#) to the Federal Housing Finance Agency highlighting that to prudently manage the risks with LIBOR cessation, FHL Banks should not enter into contracts referencing LIBOR beyond 31 March 2020, except for investments.
- The US Department of the Treasury and the Internal Revenue Service (IRS) [proposed regulations](#) allowing taxpayers to avoid adverse tax consequences from replacing IBORS to RFRs in the terms of debt, derivatives, and other financial contracts.
- The European Investment Bank, [announced](#) it had initiated the first bond sale referencing the Euro-zones new risk-free-rate, €STR. At €1bn 3-year issuance, the EIB noted this attracted overwhelming demand from investors.
- The Working Group on Euro risk-free-rates published a [report](#) identifying risk management considerations for banks when transitioning from EONIA to €STR, and challenges for asset managers and the insurance sector.