

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

- 30 June – extended deadline for responses to EIOPA discussion [paper](#) on its proposed options to treat new RFR benchmark rates
- June 2020 – publication of IASB Exposure Draft Feedback
- End June – publication of Bloomberg's indicative fallback rates for derivatives
- July 2020 – publication of amendments to ISDA 2006 Definitions and related protocol
- 28 August – extended deadline for feedback to [HMRC consultation](#) on taxation impacts resulting from LIBOR cessation
- Q3 2020 – by end-Q3 2020, lenders should be in a position to offer non-LIBOR linked products to borrowers and include clear arrangements in new and re-financed LIBOR loans to convert to alternative rates by end-2021

Working Group on Sterling Risk-Free Reference Rate Updates

- The Working Group's Tough Legacy Task Force [published](#) its paper considering 'tough legacy' issues across asset classes in the UK, and has concluded that there is a case for action to address these exposures. Tough legacy contracts are those that prove unable to convert or be amended to include robust fallback language ahead of LIBOR cessation. **The Working Group calls on market participants to continue to focus on active transition, as the only way for parties to have certainty over the timing and substance of transition.**
- At the May Working Group meeting, members were updated on the timeline for a Term SONIA Reference Rate (TSRR). Two administrators expect to release a beta form of TSRR as early as June 2020, and a further two administrators expect to follow by end-Q3. During this beta period TSRR will be indicative only and will not be available for use in contracts. Authorities and the Working Group intend to discuss the removal of this beta period at the end of the year.

Official Sector Updates

- The Bank's [interim May Financial Stability Report](#) **reaffirmed the continued importance of removing reliance on LIBOR by end-2021.** Notably, LIBOR rates – and hence costs for borrowers – rose as policy rates fell and underlying transactions underpinning LIBOR rates were diminished. The Report notes households and businesses who have already transitioned to paying interest based on SONIA or Bank Rate avoided paying those elevated LIBOR rates.
- The PRA and FCA issued a [joint statement](#) confirming full supervisory engagement on LIBOR transition will resume from 1 June 2020, following a temporary suspension due to COVID-19.
- In light of COVID-19, the Bank [issued revised restrictions](#) on the use of LIBOR-linked collateral maturing after 31 December 2021 in its market operations. From 1 April 2021 (previously 1 October 2020), the Bank will make newly issued LIBOR-linked collateral maturing after end-2021 ineligible and progressively increase the haircuts on existing LIBOR-linked collateral it lends against.

Key Liquidity Indicators

- [Loans referencing risk-free rates](#) (from [LMA website](#))
- [Floating rate notes](#) (provided by ICMA using Bloomberg L.P) The cumulative subtotal of outstanding SONIA-linked FRNs (2018, 2019 and 2020) is 123 deals, totalling c.£57bn.*
- [Listed Futures](#) (data provided by futures exchanges)

Aggregated across all products as at end-April

	Monthly traded volume	Change since last month	Number of contracts outstanding (Open Interest)	Change since last month
GBP LIBOR	8,257,828	- 16,454,452	3,484,823	-27,393
SONIA	1,016,410	837,332	105,546	-860

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

As at end-April (£billions)

	Notional traded	Change since last month	Notional outstanding	Outstanding change since last month
GBP LIBOR**	5,629	-108	19,659	163
SONIA	2,381	-7,419	12,554	-463

*This includes deals that have already matured. ** Including FRAs

Market Developments

- Lloyds [announced](#) transaction documents under its €60billion global covered bond programme, have been amended and restated from a LIBOR to SONIA interest basis. This includes mortgage sale agreements, servicing agreements, intercompany loan agreements and interest rate swap agreements.
- ISDA published the [summary of responses](#) to its latest consultation on the inclusion of a pre-cessation trigger in fallbacks for derivatives. Results found a significant majority of respondents (91%) were in favour of including both pre-cessation and permanent cessation triggers in its standard fallback documentation. Key considerations cited were challenges in using a non-representative benchmark and the need for consistency across asset classes.

Non-Sterling RFR Updates

- The US Alternative Reference Rate Committee (ARRC) published its recommended [best practices](#) to prepare market participants for the transition away from LIBOR by end-2021. This includes active steps across product lines to meet the ARRC's revised [timeline](#). The Committee has also [welcomed](#) the release of a joint LIBOR transition playbook from Fannie Mae & Freddie Mac.
- The ARRC released a [statement](#) on how the New York Federal Reserve's [SOFR Index](#) may be referenced in floating rate notes.
- The ARRC issued a [supplemental consultation](#) seeking views on technical issues related to the spread adjustment methodologies for cash products linked to USD LIBOR, requesting responses by 8 June.
- The ARRC published [results](#) from its recent vendor readiness survey and its recommended best practices for technology and operations vendors to facilitate transition from USD LIBOR to SOFR.
- The ARRC published its [recommendations](#) for voluntary compensation of swaptions impacted by the CCP discounting from EFR to SOFR.
- The EU Working Group published [the summary of responses](#) to its consultation on swaptions impacted by CCP discounting transition from EONIA to €STR. Respondents broadly support an EU Working Group recommendation for a voluntary exchange of cash compensation between counterparties to legacy swaptions.
- [UBS](#), [St. Galler Kantonalbank](#) and [Luzerner Kantonalbank](#), launched their first Swiss Average Rate Overnight (SARON)-based cash products, which include SARON-based mortgages and business loans.
- In Singapore, DBS [issued](#) the first floating rate note linked to the Singapore Overnight Rate (SORA) at SGD20million, and LCH [cleared](#) the first interest rate swap linked to SORA.
- The Bank of Korea issued a [Dear CEO letter](#) asking financial institutions to take proactive measures to prepare for LIBOR transition, and that **firms may have no option but to use alternative rates from 2022.**