Reform efforts in the UK

Dave Ramsden remarks, FSB High-level Roundtable on reform of major interest rate benchmarks, Washington D.C., 10 April 2019

Thank you for the opportunity the FSB and CFTC have given me to speak this morning. Events like this remind us, first, of the scale and complexity of the transition undertaking, with the number of firms that are affected - both financials and corporates. And second, of the importance of coordination and collaboration, both internationally and between the public and private sector. And I applaud the FSB and the OSSG for the leadership roles they continue to play, and ARRC and other public and private bodies.

For part II of the UK's contribution to today's conversation, following Andrew Bailey's comments on Libor's end game, I'm going to focus on its successor in sterling – SONIA. While dollar Libor makes up the vast majority of exposures, sterling Libor is also significant and so reform efforts in sterling Libor matter to the global effort. As Randy Quarles reminded us, April marks the first birthday not just of SOFR but also SONIA. The Bank of England took on responsibility for production of SONIA and reformed SONIA was first published on 23rd April.

2018/19 has been a year for real progress in establishing SONIA as the successor to sterling Libor. Our strongest areas of success have been in floating rate notes and in derivatives. SONIA linked FRN issuance now dominates sterling floating rate financials issuance and the bond market has clear momentum towards using the compounded SONIA rate. So far in 2019, we have seen 22 issues from banks, sovereigns, and supranationals that have referenced compounded SONIA, with a total value of about £13bn. And in derivatives, the notional value of cleared SONIA swaps is now only slightly less then cleared Libor referencing swaps, with SONIA starting to dominate at shorter maturities.

In other areas, we are seeing progress, but there's further to go. SONIA futures as a share of the overall market have increased, but stand at only a small portion of the total. We are starting to see some SONIA based securitisations. We are yet to see a SONIA linked loan but, as Andrew highlighted, it should be possible relatively soon. And there is a need for further progress in building infrastructure required, not just to issue, but to hold, value, and risk manage SONIA based instruments.

But we have a positive, market-driven plan geared towards finding solutions to the barriers to further transition. The UK's equivalent to ARRC, the Sterling Risk Free Rate Working Group (the market led group whose objective is to catalyse a broad-based transition to using SONIA), has initiated three priority task forces for 2019, central to the critical path for transition. These are focussing on (1) the development of a SONIA term rate; (2) regulatory dependencies; and (3) issues arising from the accounting treatments relating to transition.

As well as those successes that we can measure in billions of pounds, we've had successes that are harder to measure, but just as important, in shifting the dial on the attitude to transition. In the UK, around the middle of last year, we were hearing from some, anecdotally, that transition was not considered one of the key issues on CEO's minds. So the UK regulators – the Bank of England and FCA – took a

decision to send a “Dear CEO” letter to our largest firms requesting sight of their Board-approved plans for managing their risks around Libor cessation and for them to name a senior individual who would oversee this work for their firm.

The technical findings of the work were valuable if unsurprising, confirming that exposure to Libor is deeply embedded across firms’ asset and liability structures and that firms are at very different states of readiness for dealing with the transition and associated risks. But the letter has achieved its original objective of helping to focus senior minds and push the work up in terms of priority and pace.

Much like the IMF/World Bank meetings that many of us are here for today, it seems we are in the Spring of transition in sterling markets; there are clear green shoots, but there’s also need for further rapid growth and heating up in activity. We see this in the initiatives being worked on by the Working Group and within the plans shared by the firms.

Many firms are already transacting in SONIA and other RFRs and report that they are building better fallbacks into their new products. Through a combination of market initiatives, individual firm workplans and close liaison between firms and authorities we are making good progress in unearthing issues and developing solutions.

While there is a lot to do, there is a growing understanding of the need and of the details of what it will entail. The exciting developments in the sterling FRN market have demonstrated that change can be rapid once the conditions are right. That’s important. After all, it’s now 22 months since Andrew first set out the end 2021 timing. So the pace needs to continue to accelerate in the remaining 32 months. I can assure you that the Bank of England will keep its strong focus on transition away from Libor while maintaining close liaison with other authorities internationally and private sector firms as we continue this vital work of transition.