

**Important Disclaimer:** The following is provided for information purposes only. It does not constitute advice (including legal, tax, accounting or regulatory advice). No representation is made as to its accuracy or suitability for any purpose. Recipients should take such professional advice in relation to the matters discussed as they deem appropriate to their circumstances.

## Frequently Asked Questions: SONIA reform

This Frequently Asked Questions (“FAQ”) document, which may be updated from time to time, comprises information regarding the SONIA benchmark reforms and the derivatives industry’s implementation of the relevant changes.

### 1. How is the SONIA benchmark being reformed?

The reforms will result in:

- the Bank of England (BoE) taking over the end to end administration of the SONIA benchmark from WMBA;
- the coverage of SONIA being broadened to include overnight unsecured transactions negotiated bilaterally as well as those arranged via brokers, using the BoE’s Sterling Money Market Data Collection as the data source;
- the averaging methodology for calculating SONIA changing to a volume-weighted trimmed mean; and
- the publication of SONIA moving to 9:00 a.m. (London time) on the business day following that to which the rate pertains.

(Note: more details on the reforms can be found on the [Bank of England's SONIA Key Features and Policies document](#)).

### 2. What date will the reforms be implemented?

Friday 20<sup>th</sup> April 2018 will be the final day for which SONIA will be calculated and published by the WMBA using the current methodology.

For the rate pertaining to Monday 23<sup>rd</sup> April 2018, SONIA will be calculated by the BoE using the reformed methodology and published at 9am on Tuesday 24 April 2018; no data will be published on Monday 23<sup>rd</sup> April 2018.

### 3. What are the relevant contract types?

Any contracts that reference SONIA will be affected by the changes.

SONIA may be referenced in a range of different contracts, e.g. Sterling Overnight Interest Rate Swaps (OIS), Equity Swaps, and ISDA Credit Support Documents referencing SONIA as the interest rate applicable to GBP cash collateral.

SONIA may also be referenced in other non-ISDA contracts (e.g. repo transactions documented under a Global Master Repurchase Agreement (GMRA)).

#### 4. What is the relevant Floating Rate Option in the 2006 ISDA Definitions?

The current Floating Rate Option used in Sterling OIS transactions is “GBP-WMBA-SONIA-COMPOUND” under section 7.1(w)(vii) of the 2006 ISDA Definitions.

This is a self-compounding Floating Rate Option.

#### 5. What changes are being made to the Floating Rate Option?

ISDA will publish an amendment to “GBP-WMBA-SONIA-COMPOUND” in the 2006 ISDA Definitions effective 23<sup>rd</sup> April 2018.

The main changes to this Floating Rate Option are as follows:

- “WMBA” will be removed from the title, such that “GBP-WMBA-SONIA-COMPOUND” will be amended to “GBP-SONIA-COMPOUND”;
- reference to the new time and day as of which the rate will be provided by the administrator will be added into the definition of “SONIA<sub>i</sub>”;
- references to specific vendor pages will be removed.

(Note: a pre-publication draft of the amendment to the “GBP-WMBA-SONIA-COMPOUND” Floating Rate Option in the 2006 ISDA Definitions can be found on the ISDA website at the following [link](#)).

#### 6. Will there be any changes in FpML?

When the Floating Rate Option is amended in the 2006 ISDA Definitions, the FpML list will be immediately updated.

The Interest Rate [floatingRateIndexScheme](#) contains an up-to-date list of Floating Rate Options as published in the 2006 ISDA Definitions.

FpML will deprecate the old value with an explanation (e.g. “*GBP-WMBA-SONIA-COMPOUND code has been deprecated in supplement XX to the 2006 ISDA definitions. The code is kept in FpML for backward compatibility purposes*”).

(Note: you can receive a notification for every republication of the FpML reference data by signing up to “Receive FpML updates” at the following [link](#)).

#### 7. How will I find the SONIA rate?

SONIA will continue to be available via Bloomberg and Thomson Reuters, as currently. The Bloomberg ticker and RIC are unchanged: “SONIO/N Index” and “SONIAOSR=”, respectively. Other than for a narrow set of uses, where the licensee provides a service to end-users, no licence is required to use the data. See the Bank of England’s SONIA Key Features and Policies document, section 3.2, for further detail.

## **8. Is there any change to the settlement date of OIS transactions?**

Recognizing that each market participant may have differing views, the members of the ISDA working group generally support continuing the settlement of SONIA-OIS transactions 'on Termination Date'. ISDA has been told that the settlement of SONIA OIS transactions cleared on Eurex and LCH will continue to occur on Termination Date. ISDA has also been told that the settlement of SONIA OIS transactions cleared on CME will be on Termination Date +1, but CME has indicated it will adjust the actual settlement amount so that it will be economically equivalent to settlement on Termination Date. (CME also notes FRAs currently settle on CME on Termination Date +1 as adjusted, such that the methodologies for settling FRAs and SONIA OIS transactions will now mirror each other.)

## **9. How will existing contracts be affected?**

Since the reform of SONIA does not involve the transition of existing contracts to a new benchmark but rather a point-in-time reform of an existing benchmark, ISDA understands that many of its members do not consider it necessary to amend the terms of existing contracts which currently reference "GBP-WMBA-SONIA-COMPOUND" so that they instead reference the new Floating Rate Option definition. Instead, it is understood that such members consider that, unless otherwise agreed by the parties, commencing 23rd April 2018, they and their counterparties will simply deem such existing contracts to reference "GBP- SONIA-COMPOUND".

## **10. How will my existing population of SONIA OIS transaction confirmed in MarkitWire be affected?**

There will be no unsolicited amendment of the Floating Rate Option in MarkitWire.

If you wish to update the trade record in MarkitWire for a cleared trades to the new Floating Rate Option name, you need to contact the MarkitWire Custom Processing Team (contact details below).

If you wish to update the trade record in MarkitWire for a non-cleared (bilateral) trade to the new Floating Rate Option name, you can either contact the MarkitWire Custom Processing Team or update directly in MarkitWire by initiating and affirming a bilateral amendment of the Floating Rate Option from "GBP-WMBA-SONIA-COMPOUND" to "GBP-SONIA-COMPOUND".

## **11. How will cleared SONIA OIS transactions be affected?**

Effective 23<sup>rd</sup> April 2018, all existing cleared SONIA OIS transactions in LCH, CME and Eurex will be updated by the clearing houses to the new Floating Rate Option name.

In order for a legacy bilateral SONIA OIS transaction (confirmed in MarkitWire under the old Floating Rate Option name), to be eligible for clearing in LCH, such transaction will need to be amended in MarkitWire to the new Floating Rate Option name prior to submission to clearing. No such amendment will however be necessary for a legacy bilateral SONIA OIS transaction to be eligible for clearing in Eurex or CME; Eurex and CME will amend the transaction to the new Floating Rate Option name upon submission into clearing.

The clearing houses are providing UAT environments for the changes. Please contact the clearing houses for details (contact details below).

## 12. Will there be any impact to Regulatory Reporting?

The ISDA Data and Reporting working group does not expect that any changes will be necessary to regulatory reports for existing transactions reported with the old SONIA Floating Rate Option name. Effective 23<sup>rd</sup> April 2018, new trades that reference the amended SONIA Floating Rate Option should be reported with the new Floating Rate Option name.

LCH and CME advised that they will re-report existing cleared SONIA OIS transactions with the updated Floating Rate Option to the applicable regulatory regimes; Eurex advised that they will not re-report any existing cleared SONIA OIS transactions as part of their regulatory reporting.

## 13. Where can I find more information on the changes?

Bank of England website: [link](#)

Bank of England contact: [benchmarkadministration@bankofengland.co.uk](mailto:benchmarkadministration@bankofengland.co.uk)

CME contact: Jim Roper ([Jim.Roper@cmegroup.com](mailto:Jim.Roper@cmegroup.com))

LCH contact: [RatesClientServices@lch.com](mailto:RatesClientServices@lch.com)

Eurex contact: [OTCClear@eurexclearing.com](mailto:OTCClear@eurexclearing.com)

MarkitWire contacts: Custom Processing Team ([MSERV-CustomProcessingTeam@markit.com](mailto:MSERV-CustomProcessingTeam@markit.com)); Thomas Rowe ([Thomas.Rowe@ihsmarkit.com](mailto:Thomas.Rowe@ihsmarkit.com)); Jacek Bugaj ([Jacek.Bugaj@ihsmarkit.com](mailto:Jacek.Bugaj@ihsmarkit.com))

ISDA contacts: Jonathan Martin ([jmartin@isda.org](mailto:jmartin@isda.org)); Rick Sandilands ([rsandilands@isda.org](mailto:rsandilands@isda.org))