The Working Group on Sterling Risk-Free Reference Rates

Minutes of the Working Group on Sterling Risk-Free Reference Rates

Tuesday 23 June 2020

Virtual meeting

Agenda

1. Standing items
    a. Welcome & introductions
    b. Competition law reminder
    c. Minutes of previous meeting
2. Read out of 4 June Senior Advisory Group meeting
3. The impact of COVID-19 on the transition
    a. Expectations on Q1 21 milestone for significant reduction of legacy LIBOR exposures
    b. Update on Loan Enablers Task Force FAQs document regarding the 29 April further statement
    c. Update on Loan Enablers Task Force's work on conventions and path for discontinuation of LIBOR-linked lending
    d. Update on Infrastructure Sub Group's readiness survey for infrastructure providers
4. Cash products
    a. Next steps on credit spread adjustment methodology for legacy GBP LIBOR cash products
        i. RFRWG terms of reference
        ii. ARRC developments
        iii. Bonds
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5. External engagement
6. Derivatives
    a. Update on term rate and OIS streaming
    b. Update on non-linear derivatives work stream
    c. Update from ISDA
7. Material updates from Sub-Groups/Task Forces
8. AOB

Welcome, introductions and competition law principles

1. The Chair welcomed attendees and noted a change to the agenda. Representatives of Her Majesty's Treasury ('HMT') had been invited to speak on the morning's announcement of the Government's intention to amend the UK's existing regulatory framework for benchmarks to, amongst other things, ensure it can be used to manage different scenarios prior to a critical benchmark's eventual cessation.

2. The Working Group's competition law counsel gave a competition law reminder.

3. The Chair asked for any comments on the minutes of the previous meeting to be sent to the RFR Secretariat as soon as possible after the meeting.

4. The Chair reminded members of the importance of keeping the Working Group's discussions private.

Legislative proposal announced in the morning of 23 June

5. Tom Duggan (HMT) spoke about the Government's intention to make changes to the Benchmarks Regulation[1], in order to strengthen the FCA's powers and bring about a wider set of options for dealing with critical benchmarks' eventual cessation, including publication of a 'synthetic' LIBOR for a time-limited period after the rate becomes unrepresentative in order to support an orderly wind-down.

6. It was emphasised that the transition away from LIBOR remains industry-led and that the legislative proposal is intended as a back-up solution to deal with a narrow pool of 'tough legacy' instruments.

7. It was noted that any eventual 'synthetic' methodology for LIBOR may not meet the particular needs of all different markets. It was also noted that reliance on 'synthetic' LIBOR would result in forfeiting control over the economics of the contract going forward. Therefore, active transition was the way forward for parties who wished to retain control over the economics of their contracts.

8. Edwin Schooling Latter recognised that there were likely to be many questions over what 'synthetic' LIBOR will look like, and explained that the FCA would publish a statement of policy giving clarifications. He emphasised the importance of widespread sign-up to ISDA's upcoming IBOR fallbacks protocol, stating that the FCA will not be content with use of 'synthetic' LIBOR if the result of doing so would move derivatives markets to forward looking versions of term risk free rates.

9. One Working Group member asked how long 'synthetic' LIBOR might be available for. The FCA noted that the Benchmarks Regulation currently provides the power to compel the administrator of a critical benchmark to continue providing it for up to five years.

10. The Chair noted that the legislative proposal will continue to be discussed at upcoming meetings of the Working Group. Representatives of HMT exited the call.

Read out of 4 June Senior Advisory Group meeting

11. At its 4 June meeting the Senior Advisory Group had discussed, amongst other topics, the Working Group's 29 April statement that called for the development of standard contractual terms for new and refinanced LIBOR-referencing loan products beyond end of Q3 2020, revisiting the existing end of Q1 2021 target for significantly reducing legacy LIBOR exposures, and developments around the ISDA IBOR fallbacks protocol.

[1] the Benchmarks Regulation 2016/1011, as amended by the Benchmarks (Amendment) (EU Exit) Regulations 2018

The impact of COVID-19 on the transition

Expectations on Q1 21 milestone for significant reduction of legacy LIBOR exposures

12. The Working Group discussed proposed updates to its roadmap to reflect its 29 April statement and to clarify the implications for later milestones, including its target for significantly reducing stock of LIBOR referencing contracts by the end of Q1 2021. Overall the Working Group supported the principles guiding the update. There was also broad support for the addition of an explicit new milestone for adoption of the ISDA IBOR fallbacks protocol before end of November 2020. In respect of other proposed amendments, specific issues including on client needs, non-linear derivatives, international alignment and risk management of existing positions, were raised. The Chair thanked members for their rich input which would be taken on board in order to refine the drafting in an update to the roadmap to be sent to the Working Group for approval in due course.

Update on Loan Enablers Task Force FAQs document regarding the 29 April further statement

13. There is ongoing work to provide further detail on the Working Group's Q3 target for loan markets, including what is meant by clear contractual arrangements in all new and re-financed LIBOR-referencing loan products to facilitate conversion ahead of end-2021 to SONIA or other alternatives. There was a need to provide clarity whilst not precluding market innovation and this was a careful balance that the Loan Enablers Task Force needed to strike.

14. Pending agreement of final wording, the FAQs document was in a near final state and was expected to be circulated to the Working Group for sign off via written procedure shortly after the Friday 3 July meeting of the Loan Enablers Task Force.

Update on Loan Enablers Task Force's work on conventions and path for discontinuation of LIBOR-linked lending

15. It was noted by comparison that the US Alternative Reference Rates Committee was working towards an end of June date for its recommendation regarding supplemental details on spread adjustment methodologies for cash products referencing USD LIBOR and there was an expectation that vendors would have built the requisite systems in time for the end of September.

16. It was recognised that the debate around lag versus shift had been a persistent blocker to transition in the loan markets. An survey by the Loan Enablers Task Force on preferences for conventions in the loan market was due to close the day after the meeting and it was expected that the results would help the Task Force to propose a recommended way forward for the UK market.

17. It was noted that any market convention could change over time, and that clients and system developers would need some preparation time following any consensus on conventions.

Update on Infrastructure Sub Group's readiness survey for infrastructure providers

18. The Infrastructure Sub Group was expected to discuss market demand for provision of SONIA interest rate calculators at its next meeting and what steps the industry could take in this respect.

19. Initial results from a survey of infrastructure providers were positive, indicating that there had been no major disruption due to COVID-19 whilst highlighting the existence of some remaining blockers including lack of consensus around loan market conventions, the lack of a Term SONIA Reference Rate with clear use cases, and complexities around non-linear derivatives.

Cash products

Next steps on credit spread adjustment methodology for legacy GBP LIBOR cash products

RFRWG Terms of Reference

20. The Secretariat and the Working Group's competition law counsel had been working on some amendments to the RFRWG's terms of reference in order to clarify the extent of the remit of the Working Group to make recommendations in relation to the transition. It was noted that any proposed recommendation would continue to need to be considered on a case-by-case basis and in light of competition law. The amended terms of reference would be circulated to the Working Group for sign off by written procedure.

ARRC developments

21. It was noted that the US Alternative Reference Rates Committee had issued a supplemental consultation seeking further views on certain technical issues related to spread adjustment methodologies for cash products referencing USD LIBOR, which closed for responses on 8 June. The Working Group would take the results of this into account in its approach.

Bonds and Loans

22. The Bond Market and Loan Market Sub Groups were jointly preparing a proposed draft statement recommending a spread adjustment methodology for cash products. This was ready to be circulated to the Working Group for approval of the proposed approach, pending finalisation of the Working Group's amended terms of reference. Subject to the Working Group's agreement to the proposed way forward, additional work may be needed in due course in order to determine how a provider of the spread adjustment would be identified and (in the case of the bond market only) whether a recommendation on overall successor rates was required.

23. One member also noted that the market would to need to consider the appropriate calculation of spreads between LIBOR and Bank Rate.

External engagement

24. Given recent events, the Communications Sub Group was working towards was relaunching communications focusing on awareness and education with SME end-users of LIBOR in September, when more bandwidth was expected to be available to engage with the topic. Ahead of that, there were plans to release a series of educational webinars during the summer.

Derivatives

Update on term rate and OIS streaming

25. The FCA noted that the first Term SONIA Reference Rate was expected to enter 'beta' stage within 7 to 10 days of the meeting. Discussions around removal of the 'beta' tag were expected towards the year-end.

26. It was noted that the Infrastructure Sub Group could play a role through producing information to be made available to market participants on the different Term SONIA Reference Rates.

Update on non-linear derivatives work stream

27. The Working Group agreed the formation of a new Task Force to focus on non-linear derivatives.

28. Expressions of interest in membership would be sought and should be sent to the RFR Secretariat.

Update from ISDA

29. Bloomberg was aiming to begin publishing indicative fallback rates from 17 July onwards. ISDA, Linklaters and Bloomberg had jointly published a factsheet on IBOR fallbacks.

30. Subject to external dependencies including receiving regulatory comfort with competition clearances, the Supplement to the 2006 ISDA Definitions and associated IBOR fallbacks protocol were nearing the final stages of development. A strong message was being sent out to all market participants encouraging broad sign up to the protocol.

31. ISDA was additionally working on template language counterparties could use for fallbacks in respect of non-linear derivatives, though it was noted that trading out of these positions (i.e. active transition) was likely to be the preferred solution for market participants.

Cash Market Legacy Transition Task Force

32. Meetings of the Task Force had been paused since the outbreak of COVID-19 in March.

33. In May, members of the Task Force had agreed a publication timeline for its two draft discussion papers on active conversion of bonds and loans, aiming for release in September.

AOB

34. Members discussed whether more was needed to promote SONIA as the quoting convention in interest rate swap markets. It was agreed that more information was needed to determine what products should be targeted and any blockers.

35. The FCA mentioned that LIBOR often appeared in performance benchmarks for funds and that therefore an effect of the transition away from LIBOR would be that performance benchmarks need to change from LIBOR to alternative risk free rates. The FCA noted that it had received one such proposal already which had identified a fair way to do this.

Private sector attendees

Tushar Morzaria	**Barclays (Chair)**
Paul Mansour	**Barclays (Chair’s office)**
Andreas Giannopoulos	**Barclays (Chair’s office)**
Alan Coutts	**Aberdeen Standard Investments**
Alexandre Papadacci	**Axa Investment Managers**
Sarah Boyce	**Association of Corporate Treasurers**
James Winterton	**Association of Corporate Treasurers**
Snigdha Singh	**Bank of America Merrill Lynch**
Katherine Ashdown	**Bank of America Merrill Lynch**
Doug Laurie	**Barclays**
Jonathan Brown	**Barclays**
Ryan O’Keeffe	**Blackrock**
Greg Olsen	**Clifford Chance (Competition law Counsel)**
Michael Barron	**Deutsche Bank**

Axel van Nederveen	**EBRD**
Chirag Dave	**Goldman Sachs**
Sander Slotema	**HSBC**
Matthew Horton	**ICE Group**
Paul Richards	**ICMA**
Robert Gall	**Insight Investment**
Rick Sandilands	**ISDA**
Philip Whitehurst	**LCH**
Guy Whitby Smith	**Legal & General Investment Management**
Ian Fox	**Lloyds Banking Group**
Clare Dawson	**Loan Market Association**
Kam Mahil	**Loan Market Association**
Keith Taylor	**Loan Market Association**
Kasia Abendan	**M&G**
Richard Merrett	**Nationwide Building Society**
Phil Lloyd	**NatWest Markets**
Oliver Cooke	**NatWest Markets**
Kieran Higgins	**Royal Bank of Scotland**
Rachael Macpherson	**Shell International Limited**
Stephen Pegge	**UK Finance**

Official sector attendees

Alastair Hughes	**Bank of England**
Wayne Leslie	**Bank of England**
Nadia Glasspool	**Bank of England**
Alieda Moore	**Bank of England**
Jugvinder Singh	**Bank of England**
Leman Menguturk	**Bank of England**
Edwin Schooling Latter	**Financial Conduct Authority**
Richard Fox	**Financial Conduct Authority**
Helen Boyd	**Financial Conduct Authority**
Toby Williams	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**
April Richardson	**Financial Conduct Authority**
Will Davies	**Financial Conduct Authority**
Tom Duggan	**Her Majesty's Treasury (for legislative proposal item only)**