

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

Friday 6 October 2017

Barclays offices – 5 North Colonnade

Obligations under competition law

1 The Chair reminded all members of the Group of their responsibilities in relation to compliance with competition law and the importance of taking their own independent competition law advice.

Minutes of previous meeting

2 The minutes of the previous meeting on 18 August were approved.

White Paper responses

3 Since the previous meeting, the deadline had passed for interested parties to submit responses to the Group's White Paper on 'SONIA as the RFR and approaches to adoption'.¹ The Group had received 32 responses as at the time of the meeting from a broad range of market participants, including 8 from institutions that are members of the Working Group.

4 A significant majority of respondents supported reformed SONIA as the RFR. The Group has concluded therefore that there is broad market-wide support for its choice of RFR and will proceed with considering how best to promote adoption of reformed SONIA as the Sterling RFR.

5 There were other areas of consensus, for example support for extending the maximum maturity for cleared sterling OIS products beyond the existing 31 years; the need for adoption to be as broad as possible; and the merits of exploring conversion of legacy LIBOR portfolios to SONIA.

6 There were other areas where respondents were divided including on whether term SONIA reference rates were necessary to facilitate adoption. Some respondents said that term SONIA rates were essential to enable smoother transition and resolve operational challenges with using compounded SONIA. However, other respondents noted that use of SONIA was preferable given its strong base of transactions.

7 The Group agreed that it would be important to consider the impact of the White Paper responses in its future work.²

Sub-groups update

Term SONIA reference rates sub-group

8 The responses to the White Paper highlighted differing views with regards to the desirability of developing term SONIA reference rates, and how these would be constructed. The Group agreed that it should prioritise working on this issue, with a view to issuing a single recommendation consolidating members' views. The Chair requested that the sub-group on term reference rates, recently established at the previous meeting, consider the issue with a view to putting forward a proposal to the wider Group by the end of the year. The Bank of England agreed to provide secretarial support for the sub-group. The Chair urged members to feed in their views on this subject to this sub-group, and it was noted that the sub group should seek broad input from market participants beyond members of the Group.

¹ <http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrwgwhitepaper0617.pdf>

² A separate document can be found summarising responses to the White Paper at the following link: <http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/whitepaper.pdf>

Futures sub-group

9 At the previous meeting of the Group³, the Chair asked members to submit views on how long it would take for them to begin trading new SONIA futures. Submissions from Group members in advance of the meeting suggested that most members could be ready to offer futures within a 3m to 6m timeframe with technology and connectivity issues cited as the key barriers.

10 The Group agreed that the futures sub-group should reach out to other market participants such as trading platforms and other investors regarding SONIA futures construction. The Bank of England agreed to provide secretarial support for the sub-group.

International engagement

11 The Chair updated the Group on his discussions with other international stakeholders including the Chairs of the Swiss, US and Japanese working groups for identifying alternative risk free rates. He noted that many of the issues faced by other currency markets were similar to those faced by the Sterling market and that there would be value in bringing the chairs of the different currency working groups together to help facilitate international coordination. There was a consensus in the Group that international coordination would be crucial in implementing the RFR transition across currencies.

Update from ISDA working group on contract robustness

12 The ISDA working group (WG) had agreed three criteria for determining any credit spread to the RFR as a LIBOR fall-back: that it minimised any economic value impacts; that it was resilient to manipulation; that it avoided distortion due to market stress at the time it is applied. The WG was now consulting on these criteria with a view to reporting back to the Official Sector Steering Group (OSSG).

13 The OSSG had asked the ISDA WG to proceed with work on determining appropriate fall-back mechanisms and not to wait for conclusions regarding construction of a term RFR reference rate. Members felt it was important to ensure that the ISDA WG's work on fallbacks was appropriately aligned with their own work, including on term reference rates. Members also noted that work on fallbacks could have consequences for legacy conversion. Member institutions agreed to feed into the ISDA WG directly on fallbacks work. The Chair asked members to consider the most appropriate way for the Group to engage with the ISDA WG on legacy conversion and fallbacks.

Regulatory impacts of RFR transition

14 The Group was asked to provide views ahead of the next meeting on regulatory issues which it expected would either impact or be impacted by the RFR transition process. Margining requirements under EMIR and the use of an EIOPA RFR curve for valuing liabilities under Solvency II had already been identified as relevant.

LCH extension of maximum maturity for SONIA overnight indexed swap (OIS) clearing

15 LCH highlighted that it had completed the necessary internal approvals for extending clearing of OIS out to 50 years and was aiming to launch the change by end-2017.

³ Minutes can be found here:

<http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2017/minutes18august2017.pdf>

Private sector attendees

Francois Jourdain	Barclays (Chair)
Tejonidhi Kashyap	Barclays (Chair's office)
Andreas Giannopoulos	Barclays (Chair's office)
Mike Manna	Barclays
Nick Saggars	BAML
Frederic Macquet	BNP Paribas
Alain Verdickt	Citigroup
Stephen Randall	Citigroup
Alistair Sharp	Credit Suisse
Arif Merali	Credit Suisse
Nick Gray	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Chirag Dave	Goldman Sachs
Glenn Handley	HSBC
Kari Hallgrimsson	JP Morgan
Christophe Coutte	Lloyds
Steve Bullock	Lloyds
Vinay Dhanuka	Morgan Stanley
Guy Winkworth	Morgan Stanley
Mike Curtis	Nomura
Mark Thommason	RBS
Toby Stevenson	RBS
Paul Barnes	Santander
Beatrice Devillon Cohen	Societe Generale
Andrew Sacre	Societe Generale
Thomas Decouvelaere	Societe Generale
Phil Whitehurst	LCH ltd (Observer)
Rick Sandilands	ISDA (Observer)

Official sector attendees

Will Parry	Bank of England
Tim Taylor	Bank of England
Ed Ocampo	Bank of England
Imane Bakkar	Bank of England
Josh Jones	Bank of England
Sakshi Gupta	Bank of England
John Budd	Bank of England
Harriet Hunnoble	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority