UK Working Group on Risk-Free Reference Rates - Infrastructure and Systems Work Stream

Preliminary Priority List

Below is a provisional priority list with regard to infrastructure developments for the RFR transition in UK markets agreed by the Working Group on Risk-Free Reference Rates ‘RFRWG’. This document does not constitute an exhaustive or final list and will be updated on a regular basis with amendments and additional information to reflect ongoing progress on plans for benchmark transition, and further work from the infrastructure sub-group and the RFRWG.

To provide feedback and comments, please contact RFR.Secretariat@bankofengland.gsi.gov.uk

1. Infrastructure Information and analytics
   a. Publication of SONIA compounded over standard interest periods, as an accrual and as a final rate, on a daily basis or a calculator to calculate the rate
   b. Analytics on SONIA bonds, loans, repos, swaps, swaptions, cap/floors, cross-currency swaps, etc.
   c. Broker screen or third-party-provided data source for all SONIA products (e.g. data source could include historical data, trends and comparisons of compounded SONIA vs. base rate vs. LIBOR)

2. Bonds processing
   a. In general updates to systems including payment and clearing systems; treasury management systems; ALM systems; financial reporting systems; and trading platforms. In particular:
   b. Ability for front office ‘FO’ (trading, syndication, repo, etc.) buy and sell-side systems to perform calculations (including risk analytics) for FRNs linked to SONIA
   c. Ability for back office ‘BO’ settlement, accounting, reporting and clearing systems for the buy and sell-side to calculate accruals, P/L and settlement values
   d. Ability for bonds trading platforms and exchanges to accommodate SONIA FRNs
   e. Ability for issuers to calculate, accrue and manage SONIA FRNs

3. Loans processing
   a. In general updates to systems including payment systems; treasury management systems; ALM systems; financial reporting systems; and trading platforms. In particular:
   b. Ability for FO trading, syndication and management systems to perform calculations for loans linked to SONIA
   c. Ability for BO settlement, servicing and accounting systems to calculate accruals, P/L and settlement values
   d. Ability for loan trading platforms to accommodate SONIA loans
   e. Ability for issuers to calculate accruals and settlement values for SONIA loans
4. Derivatives processing
   a. Ability for swap execution facilities, clearing house and confirmation utilities to deal with non-standard SONIA swaps (such as par-par asset swaps)
   b. Clearing eligibility for SONIA swaps with various payment frequencies (such as quarterly or semi-annual)
   c. Ability of FO systems to execute, transact OTC derivatives for all derivatives products linked to SONIA (such as IRS, cross-currency swaps, swaptions, cap/floors)
   d. Ability for BO systems to account for, report, settle and manage all SONIA-linked derivatives
   e. Utility to perform multilateral bulk indexation change from LIBOR to SONIA
   f. Utility to perform an indexation repapering for existing derivative contracts

5. Treasury and Asset liability management systems
   a. System and accounting ability to base fund transfer pricing on SONIA
   b. System and accounting ability to manage the interest-rate risk in the Banking books (IRBB) using the SONIA curve and SONIA instruments
   c. System and accounting ability to base intercompany funding and external funding on SONIA
   d. System ability to manage hedge accounting under IAS39 and IFRS9 (There needs to be an economic relationship between the hedged item and hedging instrument to claim hedge accounting)
   e. Ability for systems to forecast cash flows

6. Other
   a. Ability for systems to manage trade finance indexed to SONIA
   b. Ability for systems to manage retail investment products indexed to SONIA
   c. Ability for systems to benchmark fund performance on SONIA
   d. Ability for systems to manage the regulatory impacts related to SONIA on EMIR/MIFID 2 /MIFIR e.g. reporting

7. Risk Management and Valuations
   a. System changes to incorporate the impact on pricing and risk management models including curve construction, discount curves and pricing implications for SONIA-related products such as CCP discounting and valuations
   b. Systems to incorporate accurate historical data sets for risk models (VaR, Counterparty Exposure PFEs, risk-based margining, FRTB)
   c. Systems to incorporate changes to risk calculations impacting regulatory capital