

Infrastructure Forum
organised by the
Working Group on Sterling Risk-Free Reference Rates – Market Infrastructure Sub-Group

Venue: The Bank of England, Threadneedle Street

Date: Thursday 31st January 2019

Time: 16.00 – 18.00pm

The forum was organised by the Working Group on Sterling Risk-Free Reference Rates (Infrastructure sub-group) to seek input from infrastructure firms and systems providers on the transition to Risk-Free Reference Rates.

Introduction and overview

1. The Bank of England and Financial Conduct Authority provided an overview of Risk Free Rate Transition.
2. The co-chair of the Infrastructure subgroup provided an overview of its role and how it fits with the Working Group on Sterling Risk-Free Reference Rates.
3. The co-chairs of the sub-group opened up the meeting for the audience to raise questions/points. The answers received from the audience (shown in the Appendix) supported discussion.

Loans and Bonds

4. It was noted that a potential barrier for infrastructure providers in the loan market was the range of options (e.g. conventions) for how SONIA might be used in the cash markets.
5. If the range of options on how SONIA could be used in the cash markets were narrowed, this would allow developers to focus on making progress across a smaller range of solutions.
6. It was highlighted that the frequency with which clients updated systems varied considerable depending on size and complexity, but typically ranged from 3-18 months; therefore early planning is crucial.
7. A paper on market conventions¹ may help to narrow the number of different options that was currently slowing progress.
8. There are legacy book issues for loans and bonds and the relevant sub-groups of the Working Group on Sterling Risk-Free Rates are currently exploring options for voluntary conversion.

¹ to be published in Q1 2019

Adoption & Transition

9. Panellists noted that for a smooth transition, market participants should not 'rely on the seatbelt'², i.e. they should actively plan to transition books rather than rely on fallbacks. A good starting point for this was for new contracts to reference SONIA where possible (rather than GBP Libor).
10. The FCA has publicly stated that firms should not assume the continuation of LIBOR post 2021.
11. On the production of a forward-looking term rate, similar to previous consultation³ responses, it was noted that robustness/IOSCO compliance was a key consideration.
12. In line with the July 2018 Financial Stability Board Official Sector Steering Group report⁴ firms should aim to use the overnight rate where possible.
13. Consideration towards the transition of LIBOR referencing options and other volatility related derivatives was discussed.
14. A number of attendees' highlighted confidence that overnight RFR's provides a better basis to manage risk given it is based on actual transaction data.
15. Given the use of derivatives as a hedge, it was generally viewed as preferable to change the reference index of a hedge and the underlying instrument at the same time.
16. There was positive progress on the adoption of SONIA. Progress in the bond market was highlighted where issuance of SONIA linked FRNs is significantly outweighing the issuance of LIBOR referencing FRNs.

Communication and next steps

17. A number of providers highlighted the need for further clarity from market participants as a barrier to the rapid development and circulation of new products and system updates.
18. The opportunities where highlighted for firms willing to innovate and develop products to support SONIA linked issuance.

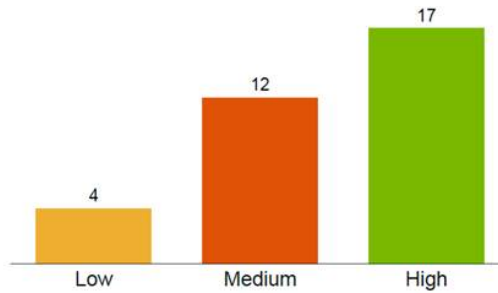
² Referencing to Andrew Bailey's (FCA) speech, July 12, 2018

³ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/term-sonia-reference-rates-consultation-summary-of-responses>

⁴ <http://www.fsb.org/wp-content/uploads/P120718.pdf>

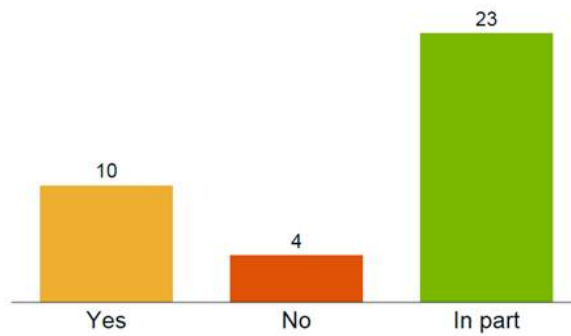
Appendix

What is your knowledge base regarding RFR transition?



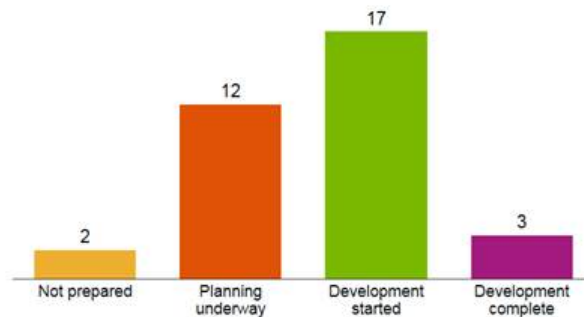
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Are you clear on what is required?



37

How prepared is your firm to provide solutions for an RFR transition?



34