

Working Group on Sterling Risk-Free Reference Rates

Terms of Reference – updated July 2020

Background

The Financial Stability Board's 2014 report on interest rate benchmark reform recommended the development and adoption of nearly risk-free reference rates ('RFRs') as alternatives to existing 'IBOR' benchmarks.

The Working Group on Sterling Risk Free Reference Rates ('the Working Group') was initiated by the Bank of England (the 'Bank') in 2015 in response to this recommendation.

In April 2017, the Working Group recommended the Sterling Overnight Index Average ('SONIA'), which at the time was being reformed by the Bank, as its preferred RFR.

Similar groups in other jurisdictions have now recommended RFRs for US dollar, Swiss franc and Japanese yen markets.¹ In October 2017 the European Central Bank announced that a group would be established to select a RFR for euro markets.²

The Working Group's recommendation, and its early thoughts on approaches to the adoption of SONIA, were the subject of public consultation³ published in July 2017, and a subsequent roundtable meeting⁴ with market participants. Responses to the consultation, and feedback received at the roundtable meeting, confirmed strong support for SONIA as the preferred alternative to sterling Libor.

In view of concerns about the sustainability of Libor beyond 2021,⁵ the Bank and the Financial Conduct Authority (the 'FCA') announced in November 2017⁶ that the Working Group would be reconstituted with a broader mandate and broader representation from the start of 2018.

Objectives of the Working Group

The Working Group's overall objective is to catalyse a broad-based transition to SONIA by end-2021 across sterling bond, loan and derivative markets, in order to reduce the financial stability risks arising from the widespread reliance of financial markets on Libor.

¹ For more information, see: www.fsb.org/wp-content/uploads/P101017.pdf

² For more information, see: www.esma.europa.eu/press-news/esma-news/new-working-group-risk-free-reference-rate-euro-area

³ For more information, see: www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrwgwhitepaper0617.pdf and summary of responses: www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/whitepaper.pdf

⁴ For more information, see: www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2017/record060717.pdf

⁵ For more information, see: www.fca.org.uk/news/speeches/the-future-of-libor

⁶ See <https://www.bankofengland.co.uk/-/media/boe/files/news/2017/november/bank-and-fca-launch-next-phase-of-sterling-libor-transition-work.pdf>.

The Working Group will determine the work-plan necessary to meet this overall objective. Intermediate objectives are likely to include the following:

- Raising awareness and educating users as to the need to transition to using SONIA by proactively engaging with the wider market, for example, by establishing forums, publishing relevant material, and hosting conferences.
- Identifying best practices for references to SONIA in financial contracts (including derivatives, bilateral and syndicated loans, and floating rate securities), coordinating, as necessary, with those that have the authority to amend template documentation.
- Developing recommendations for: (i) the design, and promoting the use of, new financial products referencing SONIA; and (ii) optional amendments referencing SONIA for possible incorporation within the design and operation of pre-existing financial products which, in either case, best meet the needs of a broad set of market participants.
- Identifying potential impediments to the adoption of, and transition to, SONIA and proposing workable solutions.
- Developing and promoting procedures for the conversion of existing financial contracts to reference SONIA or, where appropriate, a term SONIA reference rate.
- Identifying and promoting best practices and recommending default replacement rates, credit adjustment spread methodology and associated product conventions to ensure that financial contracts are resilient to the possible cessation or material alteration of Libor (including by providing input to other working groups).
- Agreeing, publishing and tracking observable metrics that reflect the adoption of SONIA and establishing a timeline for transition based on those metrics.
- Devising a communications plan to inform market participants of its work.
- Coordinating with similar working groups in other jurisdictions on recommendations, communications and cross currency issues.

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

Firms' participation in the Working Group is at the invitation of the Bank and the FCA (with individual attendees nominated by member firms) on the basis of published selection criteria, and will be subject to occasional review.

Membership of the Working Group is drawn from a diverse set of market participants, including: banks/broker dealers; asset management firms, pension funds and insurance companies; corporates and other issuers; infrastructure firms; and trade associations representing relevant sectors and markets.

Member firms are expected, to the extent possible, to consider and communicate the broader view of their sector alongside their firm's own view. Members are also expected, where appropriate, to: draw on their own resources to support the Working Group's work; ensure their own readiness for transition to SONIA; and take actions in support of the Working Group's objectives.

The Chair and two vice-Chairs of the Working Group are appointed by the Bank and the FCA. The role of Chair may be subject to rotation between the vice-Chairs as necessary, including at the discretion of the Bank and the FCA.

Representatives from the Bank and the FCA will participate as *ex-officio* members and provide administrative support.

Operation of the Working Group

The Working Group is the primary coordinating body for the objective of achieving market-led transition in sterling markets. Its recommendations are intended to reflect, represent and influence market opinion as it works towards its overall objective of catalysing transition to SONIA.

Accordingly it may seek technical input through the establishment of sub-groups with broader membership; and may seek to promote awareness of its work and transition issues through sector-specific forums.

Establishment of sub-groups

The Working Group will establish sub-groups as necessary to focus on specific technical issues relevant to the transition to SONIA. Sub-groups may focus on market-specific issues, sector-specific issues or cross-cutting issues.

Sub-group chairs will be appointed by the Chair and vice-Chairs in consultation with the Bank and the FCA.

Sub-groups should aim to have representation from a diverse cross-section of market participants. Membership will be open, via expressions of interest by any relevant market participant, subject to the approval of the sub-group Chair(s) and Working Group Chair. Membership will be subject to logistical constraints.

After consulting with relevant stakeholders, where appropriate, sub-groups will report conclusions and recommendations for the Working Group's review and approval. The Working Group will be responsible for ensuring the overall consistency of technical work carried out in sub-groups.

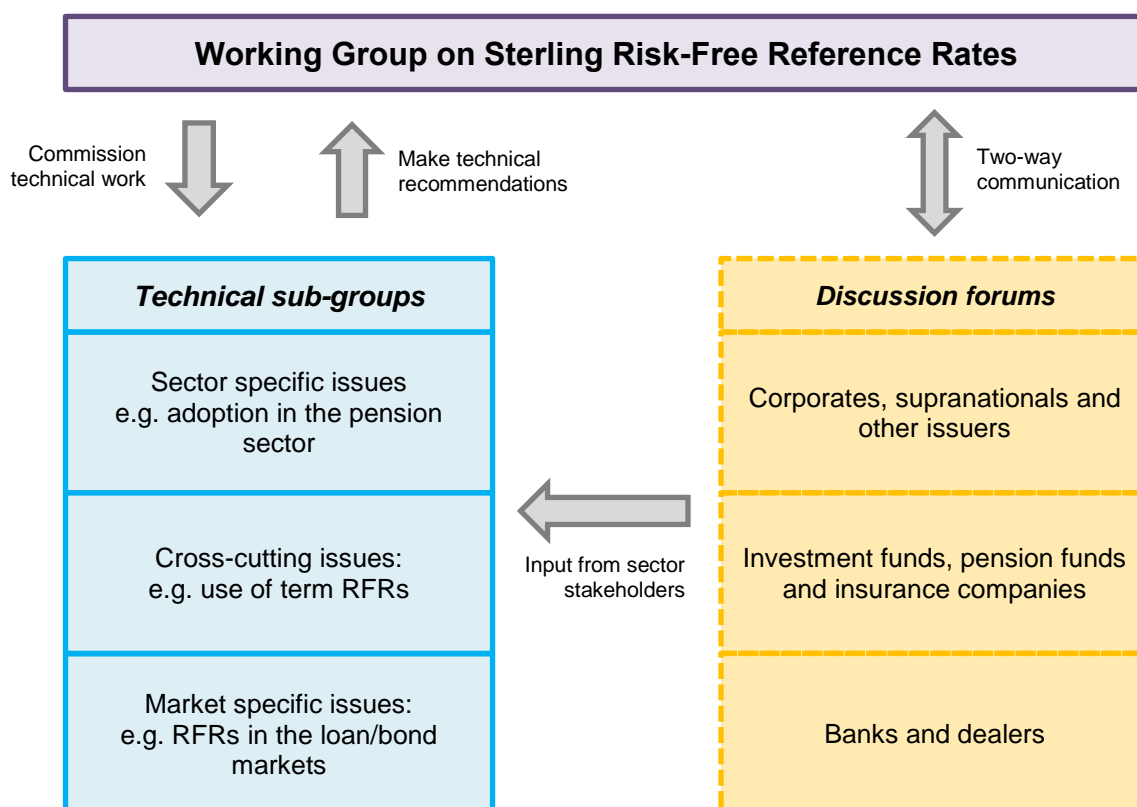
Ensuring broad engagement

The Working Group is expected to reflect and help shape market opinion, and ensure engagement across as broad a set of stakeholders as possible. It may do so, for example, by establishing sector-specific forums with the aims of facilitating discussion and engagement within particular industry sectors, and disseminating its recommendations.

Use of professional services firms

The Working Group may also commission formal assistance from professional services firms, where necessary, on a *pro bono* basis.

Figure 1, below, shows the structure of the Working Group, its sub-groups and possible discussion forums.



Governance and transparency

Governance arrangements

To further its objectives the Working Group may produce reports and make recommendations to market participants, or in consultation with the Bank and the FCA, to the authorities.

Wherever possible any conclusions or recommendations of the Working Group should be agreed by consensus. Where a consensus cannot be achieved, the conclusions or recommendations of the Working Group will be subject to a vote. When such votes occur, each Working Group member, with the exception of the Bank and the FCA, will have one vote. The approval of conclusions and recommendations requires a two-thirds super majority. Dissenting views will be noted in the minutes of the Working Group meetings.

The Working Group requires, in addition to either the Chair or a vice-Chair, a minimum attendance of 15 members, including (in the judgement of the relevant chair or vice-chair and in consultation with the Bank and the FCA) sufficient sectoral diversity. If the Working Group is not quorate, meetings may proceed but recommendations or conclusions cannot be approved.

The Bank and the FCA may provide guidance to the Working Group, including by suggesting specific objectives, amending these Terms of Reference, or reviewing the membership as necessary, in order to achieve the overall objective set out above.

Transparency

It is essential that the Working Group operates in a transparent manner. This is necessary to provide the opportunity for the broadest possible engagement in the Working Group's work; to support the legitimacy of any conclusions or recommendations it makes; and to ensure that market participants who are not directly involved are appropriately informed of the Working Group's work.

As noted above, the Working Group has been constituted, and will operate, in a way that ensures broad engagement. As part of this, the Working Group and any sub-groups will consult with a broad cross-section of market participants where appropriate, for example through the publication of consultative papers, or the hosting of roundtable events.

The minutes of the Working Group meetings, once approved, will be published on a timely basis on the Bank's website.⁷ Subject to their approval by the Working Group, updates on the deliberations of any forums or sub-groups created will be published regularly, and interim updates may be published if more timely transparency on a particular topic is warranted.

The Bank and the FCA will disclose these Terms of Reference, and the institutional membership of the Working Group, on the Bank's website.

Confidentiality

Any non-public information disclosed or opinions expressed during Working Group meetings, or in forum, or sub-group meetings will be treated as confidential unless and until the Working Group has authorised their public release. Once approved, minutes of Working Group meetings will be made publicly available on the Bank's website.

⁷ Accessible here: www.bankofengland.co.uk/markets/Pages/benchmarks/rfr.aspx

Working Group members may be exposed to sensitive information and, potentially, to material non-public information in the course of their work. It is understood that Working Group members' staff may see some documents relating to the Working Group, but unnecessary involvement of third parties in handling this material is strongly discouraged. Members are reminded of their legal obligations in relation to material non-public information, including under the Market Abuse Regulation (Regulation (EU) No 596/2014).

In all cases where third parties see Working Group documentation, individual members are responsible for ensuring that those third parties are aware of and respect the confidentiality and sensitivity which attaches to the Working Group and the documents in question.

Competition law

It is the responsibility of Working Group members, members of the sub-groups and participants to forums to ensure they understand their responsibilities under, and fully comply with, all applicable competition laws, including UK and EU competition laws.

To the extent that any individual is unclear of these responsibilities, they should consult the legal and/or compliance teams at their respective institution for further guidance.

Particular care will need to be exercised in order to make sure that Working Group members, members of the sub-groups and participants in forums familiarise themselves with the concept of competitively sensitive information and do not unilaterally disclose or exchange it under any circumstance. The Bank and the FCA understand that technical, operational and administrative advice/input/feedback relating to the implementation of SONIA will be discussed in meetings of the Working Group, sub-groups and forums. However, if the disclosure or exchange of potentially competitively sensitive information is absolutely necessary for the smooth functioning of any of the Working Group, sub-groups and forums, then procedures will need to be put in place to make sure that the information is suitably anonymised and aggregated and can be shared in compliance with UK and EU competition laws.

In addition, if, for instance, during a Working Group or other meeting, a participant has concerns about the discussion from a competition law compliance perspective – for example, due to sharing competitively sensitive information – the participants should make their concerns known to the meeting as a whole, and the discussion giving rise to such concerns should cease. If such discussion does not cease, the participants concerned should leave the relevant meeting and request that their departure and the reasons for it are included in the minutes of that meeting.

In line with the above, members of the Working Group, sub-groups or forums may not use their position for commercial advantage by citing participation in client promotional materials.

Conflicts of interest

Any actual or potential conflicts of interest by members (or their representatives) shall be noted by the relevant member and passed back to the Chair of the Working Group. The Chair of the Working Group will assess any raised conflict of interest in conjunction with the impacted members' assignments and responsibilities, and engage with its own legal advisors, the Bank and the FCA to consider possible actions, including the replacement of the conflicted members.