RFR Working Group – Sub-group on Term SONIA Reference Rates

Terms of Reference

Background

- The Working Group on Sterling Risk-Free Reference Rates (the ‘Working Group’) was set up by the Bank of England to recommend a near risk-free reference rate (RFR) and promote its adoption as an alternative to sterling Libor. The Working Group has recommended SONIA as its preferred RFR.

- These terms of reference are for a sub-working group (‘sub-Group’) with a specific focus on the development of term SONIA reference rates. The sub-Group continues to be bound by the Working Group’s overall terms of reference.

- Many sterling financial contracts reference 3 or 6 month Libor, whilst SONIA is an overnight index. However, feedback from several respondents to the Working Group’s White Paper, and from attendees at the July 2017 Roundtable, indicated a strong preference for term reference rates in certain applications. These could in principle be derived from the pricing of actively traded derivatives markets referencing SONIA.

- Term reference rates could create additional fragilities for users as their robustness will depend on the depth of derivative markets referencing SONIA, in addition to the robustness of SONIA itself. So it will be important to carefully assess these risks and ensure that any market-led solution is robust and reliable.

Objectives and output

- Identify and assess relevant potential use cases for term SONIA reference rates and the significance of each for a range of sterling market participants.

- Identify and review potential data inputs and calculation methodologies for term reference rates (e.g. based on pricing data from SONIA futures contracts, OIS order books on MTFs, or transaction data from swap data repositories) in order to assess:
  - Consistency with the IOSCO principles for financial benchmarks (e.g. requirement for sufficient market data to produce a robust and reliable index);
  - Compliance with applicable regulatory requirements for benchmarks, including under the BMR;
  - Robustness to changes in market structure; and
  - Resistance to manipulation.

- Based on the above, recommend whether, for which applications, and for what tenors term SONIA reference rates may be appropriate.

- Propose measures with the aim of avoiding systemic reliance on these indices – for example, promoting broad outreach and education on usage of risk-free reference rates.

- Agree design criteria for potential administrators and data providers to develop term reference rates, as appropriate. These will be presented for approval by the broader Group and, subject to appropriate consultation, published on its website.

Chair

- Nick Saggers (Bank of America Merrill Lynch).
Membership and consultative procedures

- Working Group members, who wish to participate in this sub-Group, will nominate representatives from their organisations to join the sub-Group.

- Other relevant market participants may attend the sub-Group, by invitation or application, with the approval of the sub-Group and Working Group Chairs and subject to logistical constraints (as managed by the sub-Group Chair).

- In any event, the sub-Group will consult with a broad cross-section of market participants where appropriate, through the publication of consultative papers, hosting roundtable events, or otherwise. The types of market participants who may be invited to attend, or be consulted, includes but is not limited to: investment firms, asset managers, trading firms and others who may wish to trade SONIA-referencing futures (including industry bodies); market infrastructure firms, with experience in developing products for regulated trading platforms; and firms which specialise in providing liquidity to these platforms.

- Interested stakeholders, who would like to be consulted on the work of the sub-Group or attend the meetings, should contact RFR.Secretariat@bankofengland.gsi.gov.uk.

- Representatives from the Bank of England and the FCA will participate as ex-officio members.

Governance

- Recommendations shall be agreed by consensus by the members and attendees of the sub-group. If agreement cannot be reached, the Chair will present the relevant options, as well as the final output, for agreement by the Working Group.

- In all other respects, the sub-group will be subject to the Governance procedures of the Group. In particular, sub-group members will comply with competition law and will be responsible for taking their own legal advice in that regard.

Reporting and transparency

- The Sub-group will make regular verbal or written updates to the Group, including summarising the views of any other market participants consulted. A summary of these updates will be recorded in the Group’s published minutes.

- The sub-Group may choose to publish Minutes if additional or timelier transparency on a particular topic is warranted.

Conflicts of interest

- Any actual or potential conflicts of interest by members, or their representatives, shall be noted by the organisations/individuals concerned 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 BoE and the FCA for possible actions, including the replacement of the conflicted members.