

SONIA

Statement of compliance with the IOSCO principles for Financial Benchmarks

As at 12 November 2021

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Executive Summary

The Bank of England (the Bank) has been the administrator of the Sterling Overnight Index Average – SONIA – benchmark since April 2016. In its administration of SONIA, the Bank seeks to be consistent with international best practice.

In 2013, the International Organization of Securities Commissions (IOSCO) issued [Principles for Financial Benchmarks \(the IOSCO principles\)](#). These have since been [endorsed by the Financial Stability Board](#), the G20's body for international coordination of financial sector policies, as part of their reform work in the aftermath of benchmark manipulation scandals. The principles, which broadly cover governance, quality of benchmark determinations, quality of the methodology, and accountability, have since been adopted widely by benchmark administrators.

SONIA has been recommended by the Working Group on Sterling Risk-Free Reference Rates as the preferred risk-free rate. The Bank has been working with the FCA and the market to support and encourage the transition away from sterling London Inter-Bank Offered Rate (LIBOR) to SONIA. As [announced by the FCA](#) in March 2021, sterling LIBOR will cease immediately in its panel bank form after 31 December 2021. As such, the Bank believes it is important to continue to be transparent to users of SONIA how we administer it.

In this report, the Bank provides an overview of how it administers SONIA and presents a self-assessment of its compliance with each IOSCO principle, describing the relevant frameworks and procedures.

Since the Bank's [previous assessment](#), the Bank has commenced publication of the SONIA Compounded Index from 3 August 2020 to support the risk-free rate transition in sterling markets. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source. The publication of the SONIA Compounded Index is governed as part of the Bank's broader SONIA administrative arrangements however the Bank does not deem the SONIA Compound Index a benchmark, and this is not in scope for this audit.

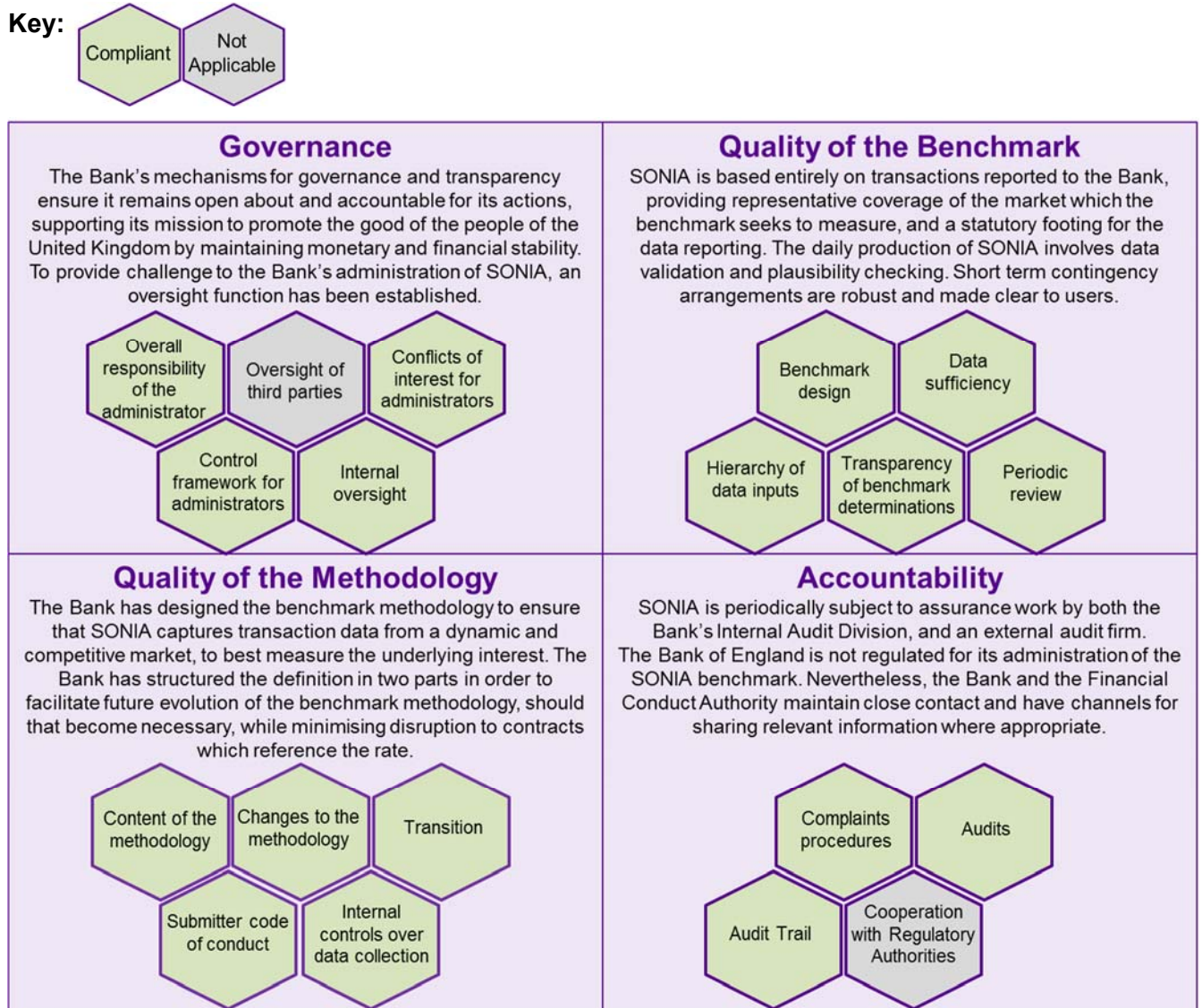
The Bank's assessment is that it is compliant with the IOSCO principles that are applicable to the Bank as SONIA's administrator, as summarised in **Figure 1**.

The Bank appointed Ernst & Young LLP (EY) to provide independent assurance on the Bank's statement of compliance that the requirements of IOSCO principles will have been achieved if the described control procedures were complied with satisfactorily. EY concluded that the control

procedures were fairly described and suitably designed to achieve the control objective as at 12 November 2021.

This statement will be subject to periodic review.

Figure 1: Summary of the Bank's self-assessment against the IOSCO principles



1. Introduction

The Bank of England (the Bank) is the central bank of the United Kingdom. Our mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.

The Bank has administered the SONIA benchmark since April 2016, taking on the full end-to-end process, including calculation and publication of the rate, in April 2018. The Bank commenced publication of the SONIA Compounded Index on 3 August 2020. SONIA is a central component of the sterling financial markets and has been identified as the sterling risk free rate which markets are transitioning to, away from sterling LIBOR which will cease immediately in its panel bank form after 31 December 2021.

As a central bank, the Bank does not fall within scope of the IOSCO principles for financial benchmarks nor UK Benchmarks Regulation (UK BMR). Nevertheless, the Bank's intent is to be consistent with international best practice for benchmark administration, as encapsulated by the IOSCO principles. As such, the Bank committed to producing an assessment of its compliance with IOSCO's Principles for Financial Benchmarks.

The input data for the SONIA calculation are extracted from the Bank's Sterling Money Market Daily data collection. The main purpose of this collection is to inform the Bank of conditions in sterling money markets, benefitting the Bank's analysis of monetary and financial conditions, and ultimately, policy decisions. Given the high importance of good quality data for achieving the Bank's policy mission, a robust data quality framework is in place for the data collection, consistent with the benchmark requirements.

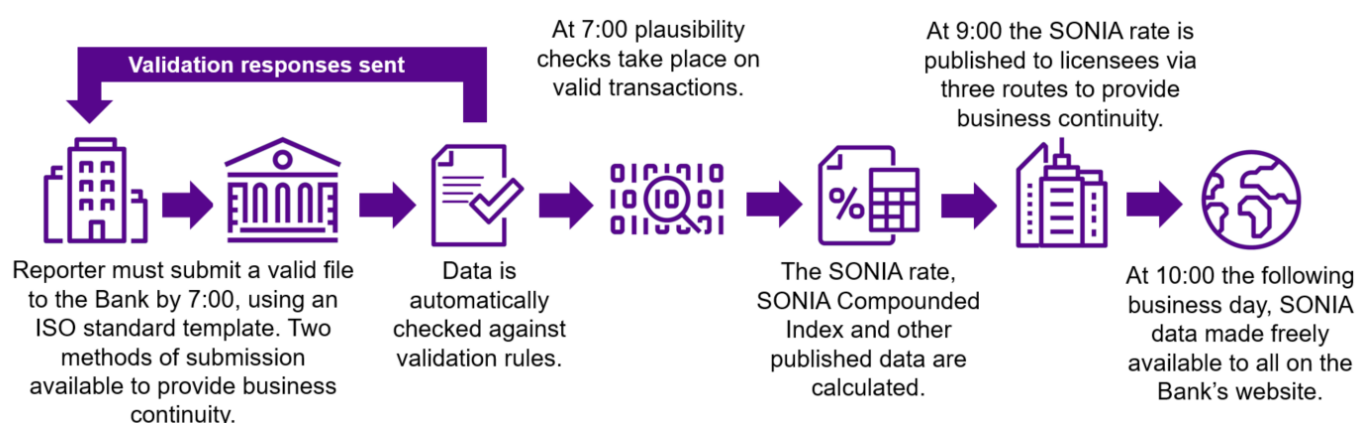
Section 2 of this document provides an overview of how the Bank administers the SONIA benchmark. This is to provide context to the subsequent sections. Section 3 is the Bank's statement of adherence with the IOSCO principles. This is underpinned by the Bank's detailed self-assessment of its compliance with each of the IOSCO principles alongside EY's summary of its evaluation procedures in section 4. Section 5 is the Independent Assurance Report from EY.

2. Overview of the Bank's administration of SONIA

2.1 Benchmark production

The Bank has robust, resilient and transparent processes for the determination of the benchmark, including controls over the data inputs. **Figure 2** gives an illustration of the daily process for the SONIA benchmark determination.

Figure 2: Illustration of the daily SONIA determination process



The daily production of SONIA involves data validation and plausibility checking of SONIA-eligible transactions each morning, in preparation for the calculation and publication of the benchmark. This is all undertaken via automated processes, subject to human review, within a single bespoke system. Calculation of the SONIA Compounded Index is also fully automated, and is based on the calculated SONIA rate each day. The Bank also monitors data quality and performs surveillance of the underlying data for suspected misconduct on an ongoing basis. As the Financial Conduct Authority (FCA) is the UK authority responsible for matters relating to market abuse, formal channels are in place for escalation of suspected misconduct identified by the Bank to the FCA.

Senior Managers at each of the reporters to the Sterling Money Market data collection attest annually to their firm's compliance with the data collection's reporting instructions. These reporting instructions cover the technical requirement of what is to be reported as well as covering wider aspects of the data quality framework, such as requirements for the individuals involved, internal controls and whistleblowing arrangements.

The Bank's business ethics policies and approach to managing potential conflicts of interest are set out in its "[Our Code](#)" document. Where perceived conflicts of interest which may influence the benchmark determination process have been identified, procedures are in place for ongoing

identification, and the Bank has in place mechanisms for the disclosure, management, mitigation and avoidance of conflicts.

2.2 Governance and oversight

The Bank's existing mechanisms for governance and transparency ensure that the Bank is and will remain open about and accountable for its actions, thereby supporting its mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.

The Bank's Court of Directors, which acts as a unitary board, sets the organisation's strategy. Supported by its Audit and Risk Committee, Court approves the Bank's risk tolerance statement and its framework for monitoring and managing risk: the 'Three Lines of Defence', illustrated in **Figure 3**. Risks arising from the administration of SONIA are assessed and managed in accordance with this framework. Periodic engagement with internal and external auditors serves to provide the third line of defence and to promote accountability. Accountability is further enhanced through accessible complaints procedures.

The Deputy Governor for Markets, Banking and Resolution is the Senior Manager responsible for the Bank's administration of the SONIA benchmark under the [Bank's Senior Managers Regime Statement of Responsibilities](#).

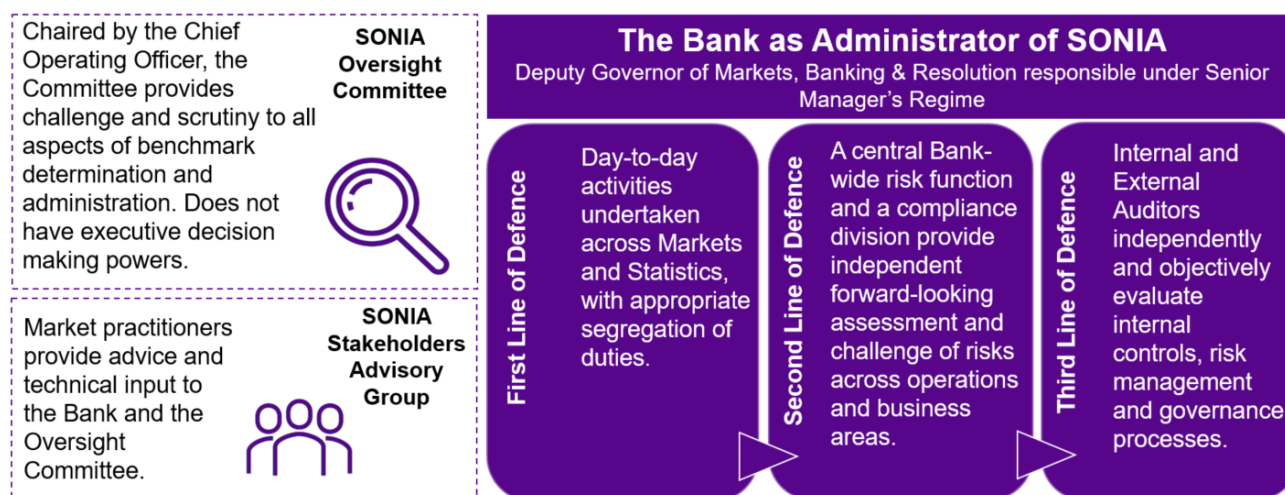
As illustrated in **Figure 3**, the Bank's executive governance of the administration of SONIA receives review and challenge from an oversight function, comprising a SONIA Oversight Committee, supported by a SONIA Stakeholder Advisory Group.

The SONIA Oversight Committee reviews and provides challenge on all aspects of the benchmark determination process and provides scrutiny of the administration of SONIA. In doing so, it is a key tool in the management of any potential conflicts of interest of the Bank as SONIA Administrator. To ensure appropriate independence, the Bank's Chief Operating Officer chairs the Committee. Other members of the Committee include Bank colleagues at Executive Director level or above from outside the direct reporting lines of those involved in the day-to-day administration and two external members, selected using criteria outlined in the [Terms of Reference](#). The Terms of Reference also link to the Conflict of Interest Code of Practice, which applies to all members of the Committee. The Committee can provide advice to Deputy Governor for Markets, Banking and Resolution with respect to their responsibilities, but the Committee itself does not have executive decision making powers.

The SONIA Stakeholder Advisory Group ensures that the Oversight Committee and the Bank remain informed about issues and risks to the benchmark. The Group is chaired by one of the

external members of the SONIA Oversight Committee, and members include representatives from key stakeholder groups, including: users of SONIA; Sterling Money Market Data reporters; market infrastructure providers; and trade associations.

Figure 3: SONIA Governance



2.3 The definition of SONIA and evolution of the methodology

The definition of SONIA has two elements:

(i) Statement of underlying interest

SONIA is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal.

(ii) Statement of methodology

On each London business day, SONIA is measured as the trimmed mean, rounded to four decimal places, of interest rates paid on eligible sterling denominated deposit transactions.

The trimmed mean is calculated as the volume-weighted mean rate, based on the central 50 per cent of the volume-weighted distribution of rates.

Eligible transactions are:

- reported to the Bank's Sterling Money Market daily data collection, in accordance with the effective version of the 'Reporting Instructions for Form SMMD';
- unsecured and of one business day maturity;
- executed between 00:00 hours and 18:00 hours UK time and settled that same-day; and

- greater than or equal to £25 million in value.

The Bank has structured the definition in this way in order to facilitate future evolution of the benchmark methodology, should that become necessary, while minimising disruption to contracts which reference the rate. Conceptually, the statement of the underlying interest is intended to be an enduring statement of the economic concept that SONIA seeks to measure. The statement of the methodology describes how the specified underlying interest is currently measured.

The publication of the SONIA Compounded Index is governed as part of the Bank's broader SONIA administrative arrangements however the Bank does not deem the SONIA Compound Index a benchmark, and this is not in scope for this audit. The definition of SONIA Compounded Index can be found in Section 2.1 of [SONIA Key Features and Policies](#).

The Bank periodically reviews the current methodology with a view to ensuring that it continues adequately to measure the underlying interest. In doing so, the Bank reviews conditions in the relevant market in order to assess whether that market has undergone or is undergoing structural change that may warrant changes to the benchmark methodology. In particular, the Bank seeks to determine whether the relevant market continues, and is expected to continue, to function sufficiently well and have sufficient volumes to form the basis for a robust and credible benchmark. In doing so, the Bank takes representations from users of the benchmark and participants in the underlying market, including via the SONIA Stakeholder Advisory Group. The SONIA methodology continues to adequately measure the underlying interest and is based on the robust and well-functioning market, this is despite of general economic uncertainty stemming from Covid-19¹.

Before making any changes to the benchmark methodology the Bank will (i) follow its benchmark governance procedures, including review by the SONIA Oversight Committee; and (ii) to the extent possible or practicable, conduct a public consultation to enable persons affected to provide feedback on the proposed change.

¹ See: [Minutes of the SONIA Stakeholder Advisory Group - 02 November 2020](#) and [Minutes of the SONIA Stakeholder Advisory Group - 25 February 2021](#)

3. Statement of Adherence

The Bank is responsible for setting appropriate internal frameworks and procedures in order to ensure the accuracy, integrity, reliability and independence of the SONIA benchmark including the identification of the control objectives and the description and design of the Bank's control procedures to effectively address the provisions of the IOSCO Principles for Financial Benchmarks (IOSCO Principles) with respect to the administration of the Sterling Overnight Index Average (SONIA).

In the next section of this report, the Bank sets out a description of how the relevant frameworks and control procedures address each of the IOSCO Principles for Financial Benchmarks (IOSCO principles), operated as at 12 November 2021, and I confirm that:

- a) The report describes fairly the control procedures which were in place as at 12 November 2021; and
- b) The control procedures are suitably designed such that the specified control objectives, including the provisions of the IOSCO Principles, can be achieved and to our knowledge and belief the described control procedures were complied with.



Dave Ramsden
Deputy Governor, Markets, Banking and Resolution
Bank of England

4. The IOSCO Principles, the Bank's self-assessment, and EY's evaluation procedures

Governance

Principle	Bank of England Self-Assessment	EY Evaluation Procedures
<p>1. Overall Responsibility of the Administrator</p> <p>The Administrator should retain primary responsibility for all aspects of the Benchmark determination process. For example, this includes:</p> <p>a) Development: The definition of the Benchmark and Benchmark Methodology;</p> <p>b) Determination and Dissemination: Accurate and timely compilation and publication and distribution of the Benchmark;</p> <p>c) Operation: Ensuring appropriate transparency over significant decisions affecting the compilation of the Benchmark and any related determination process, including contingency measures in the event of absence of or insufficient inputs, market stress or disruption, failure of critical infrastructure, or other relevant factors; and</p> <p>d) Governance: Establishing credible and transparent governance, oversight and accountability procedures for the Benchmark determination process, including an identifiable oversight function accountable for the development, issuance and operation of the Benchmark.</p>	<p>The Bank considers that it is compliant with this principle.</p> <p>The Bank of England (the Bank) is the Administrator of the SONIA benchmark and has responsibility for all aspects of its development, determination, dissemination, operation and governance.</p> <p>The Deputy Governor for Markets, Banking and Resolution is the Senior Manager responsible for the Bank's administration of the SONIA benchmark under the Bank's Senior Managers Regime Statement of Responsibilities. The Bank's existing mechanisms for governance and transparency ensure that the Bank is and will remain open about and accountable for its actions, thereby supporting its mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. The Bank's organisational structure is illustrated in this link.</p> <p>The SONIA Key features and policies document provides relevant information on each element of the Bank's responsibilities to users. This includes:</p> <p>1) The definition of the benchmark, which is separated into an underlying interest and a statement of methodology in order to enable any future evolution of the methodology</p>	<p>We obtained the Bank's Senior Managers Regime Statement of Responsibilities and inspected for evidence that the Bank's Deputy Governor for Markets, Banking and Resolution is responsible for administration of the SONIA benchmark.</p> <p>We obtained the SONIA Key Features and Policies document and inspected for evidence that the Bank accepted its responsibility as the Benchmark Administrator of SONIA and that it describes the Bank's responsibilities for development, determination, and dissemination of the benchmark.</p> <p>We obtained a sample of the Bank's contractual agreements for licensing the redistribution of the benchmark to end users for evidence that the Bank's responsibilities are defined for dissemination of the benchmark.</p> <p>We obtained the SONIA Key Features and Policies document and inspected for evidence of short term contingency arrangements in the event of disruption to production of SONIA or insufficient data received by the Bank.</p> <p>We inspected the internal SMMD daily publication procedure document for evidence of the</p>

to be anchored by the economic concept that SONIA seeks to measure (further covered in Principle 6).

2) The inputs, including how the Bank ensures data quality (further covered in Principles 14 and 15); the outputs of the benchmark (further covered in Principle 9) and how the benchmark can be accessed, including the licencing arrangements.

3) The resilience of the systems and processes for the calculation of SONIA and short-term contingency arrangements (further covered in Principles 7 and 8).

4) Policies for handling data errors, including circumstances in which the benchmark would be republished and how transparency over data errors is ensured (further covered in Principle 9).

5) The structure of the oversight function, which has been established to provide challenge to the Bank's administration of SONIA (further covered in Principle 5).

process for publishing the contingency SONIA.

We obtained the Bank's SONIA Control Framework and inspected for evidence that responsibility for operational risk management for administration of SONIA, including disaster recovery and business continuity plan is appropriately assigned within the Bank's Executive risk management framework.

We obtained the Bank's Technology Incident Management policy and inspected for evidence that it covers disruptions to the infrastructure, and it states the activities required to allow the Bank to continue to operate if there were any issues. Please also refer to our response to Principle 7 and 8.

We obtained SONIA Key Features and Policies document and inspected for evidence that it covers policies for handling data errors and circumstances under which the benchmark would be republished. Please also refer to our response to Principle 9.

We obtained the SONIA Business Continuity Framework and inspected for evidence that it covers disruptions to the daily SONIA determination process. Please also refer to our response to Principle 7 and 8.

We obtained the Terms of Reference of the SONIA Oversight Committee and inspected for evidence that it is responsible for

providing challenge to the Bank's benchmark determination process.

We obtained the minutes of meeting of the SONIA Oversight Committee and inspected for evidence that the benchmark methodology was approved.

Please also refer to our response to Principle 5.

2. Oversight of Third Parties

Where activities relating to the Benchmark determination process are undertaken by third parties - for example collection of inputs, publication or where a third party acts as Calculation Agent - the Administrator should maintain appropriate oversight of such third parties. The Administrator (and its oversight function) should consider adopting policies and procedures that:

- a) Clearly define and substantiate through appropriate written arrangements the roles and obligations of third parties who participate in the Benchmark determination process, as well as the standards the Administrator expects these third parties to comply with;
- b) Monitor third parties' compliance with the standards set out by the Administrator;
- c) Make Available to Stakeholders and any relevant Regulatory Authority the identity and roles of third parties who participate in the Benchmark determination process; and

This principle is not applicable to the arrangements of the Bank.

All aspects of the administration of SONIA, as defined in Principle 1, are undertaken by the Bank.

We performed a walkthrough of the SONIA calculation and publication process and observed that no part of the calculation or publication process is outsourced.

d) Take reasonable steps, including contingency plans, to avoid undue operational risk related to the participation of third parties in the Benchmark determination process. This Principle does not apply in relation to a third party from whom an Administrator sources data if that third party is a Regulated Market or Exchange.

3. Conflicts of Interest for Administrators

To protect the integrity and independence of Benchmark determinations, Administrators should document, implement and enforce policies and procedures for the identification, disclosure, management, mitigation or avoidance of conflicts of interest. Administrators should review and update their policies and procedures as appropriate.

Administrators should disclose any material conflicts of interest to their users and any relevant Regulatory Authority, if any.

The framework should be appropriately tailored to the level of existing or potential conflicts of interest identified and the risks that the Benchmark poses and should seek to ensure:

- a) Existing or potential conflicts of interest do not inappropriately influence Benchmark determinations;
- b) Personal interests and connections or business connections do not compromise

The Bank considers that it is compliant with this principle.

“[Our Code](#)” encompasses the Bank’s business ethics policies, including the approach to the management of conflicts of interest and handling and protecting information. Compliance with Our Code is supported by an annual attestation process. A central compliance function at the Bank serves to:

- promote the Bank’s culture of integrity;
- monitor compliance with Our Code;
- review the effectiveness of Our Code; and
- support remedial action.

Under the Senior Managers Regime, the Bank’s Conflicts Officer is responsible for the Bank’s conflicts of interest policies for all employees.

Within this framework, the Bank has carefully considered whether its responsibility for the administration of SONIA poses any existing or potential conflicts of interest for the institution or for the staff involved in the benchmark. This exercise has not identified any existing or potential conflicts of interest which influence

We obtained the Bank’s ‘Our Code’ policy and inspected for evidence that the policies cover both actual and potential conflicts of interest that and that it is reviewed periodically by the Governors.

For a sample of employees and Oversight Committee members, we inspected evidence of their completed Our Code attestation for 2020 applicable for the period 23 November 2020 to 13 December 2021.

We obtained the Bank’s Our Code Policy and inspected for evidence that it states that declarations are required to be submitted to the Compliance team.

We obtained the Bank’s Our Code policy and inspected for evidence that it addresses the confidentiality of data and information.

We obtained the Bank’s Senior Managers Regime Statement of Responsibilities and inspected for evidence that the Bank’s Conflicts Officer is responsible for the Bank’s

the Administrator's performance of its functions;

c) Segregation of reporting lines within the Administrator, where appropriate, to clearly define responsibilities and prevent unnecessary or undisclosed conflicts of interest or the perception of such conflicts;

d) Adequate supervision and sign-off by authorised or qualified employees prior to releasing Benchmark determinations;

e) The confidentiality of data, information and other inputs submitted to, received by or produced by the Administrator, subject to the disclosure obligations of the Administrator;

f) Effective procedures to control the exchange of information between staff engaged in activities involving a risk of conflicts of interest or between staff and third parties, where that information may reasonably affect any Benchmark determinations; and

g) Adequate remuneration policies that ensure all staff who participate in the Benchmark determination are not directly or indirectly rewarded or incentivised by the levels of the Benchmark.

An Administrator's conflict of interest framework should seek to mitigate existing or potential conflicts created by its ownership structure or control, or due to other interests the Administrator's staff or wider group may have in relation to Benchmark

the benchmark determination process. Procedures are in place for future identification of conflicts of interest, and the Bank has in place mechanisms for the disclosure, management, mitigation and avoidance of conflicts, summarised as follows. These policies are reviewed on an at least annual basis, and as new activities are taken on by the affected areas of the Bank, and updated as appropriate.

The daily benchmark determination process is appropriately segmented across business areas, separating duties of data collection, validation and plausibility checking from those of calculation and publication. As an example, those who liaise with reporting institutions on their data submissions do not have access to the rate prior to its publication. The underlying data are collected under the Bank of England Act 1998; all data are processed consistent with the confidentiality requirements of the Act.

The calculation process is designed so that there is no discretion applied by Bank staff. As set out in the Key features and policies document, based on information gathered through validation and plausibility checking and conversations with data reporters, where there is sufficient doubt over a transaction's accuracy, staff can exclude it from the calculation. Such an action is subject to system-enforced manager approval prior to publication, and would be subject to post-publication review, including by the SONIA Oversight Committee (further described in Principle 5). Those with the ability to exclude transactions do not have any

conflicts of interest policies for all employees.

We obtained the Conflicts of Interest Policy for SONIA and inspected for evidence that the documentation outlines the Bank's conflict of interest framework, conflict risk assessment and related internal controls.

We obtained the SONIA Conflicts Policy and inspected for evidence that it describes how the bank ensures it identifies and mitigates perceived conflicts of interest with respect to the bank's responsibilities for administering the SONIA benchmark including outlining the bank's controls for managing such conflicts.

We obtained the Terms of Reference and the minutes of meeting of the SONIA Oversight Committee and inspected for evidence that they cover the duties for the committee to review the Conflicts Register for the SONIA Oversight Committee.

We obtained the SONIA Oversight Committee minutes and inspected for evidence that the Conflicts Register for the SONIA Oversight Committee are reviewed.

We performed a walkthrough of the Bank's remuneration policies and discretionary bonus process for employees, to obtain evidence that benchmark determination is not directly or indirectly rewarded

determinations. To this end, the framework should:

- a) Include measures to avoid, mitigate or disclose conflicts of interest that may exist between its Benchmark determination business (including all staff who perform or otherwise participate in Benchmark production responsibilities), and any other business of the Administrator or any of its affiliates; and
- b) Provide that an Administrator discloses conflicts of interest arising from the ownership structure or the control of the Administrator to its Stakeholders and any relevant Regulatory Authority in a timely manner.

discretionary duties which would lead to a conflict of interest. No staff are rewarded based on the level of the Benchmark.

The SONIA Oversight Committee is a key tool in the management of the Bank's conflicts of interest as SONIA administrator. As an example in the context of evolution, as outlined against Principle 12, evolution of the benchmark would be subject to review by the SONIA Oversight Committee, and to the extent possible/practicable, public consultation.

Individually, section 1 of "[Our Code](#)", 'Acting with integrity, demonstrating impartiality', is particularly relevant to colleagues in their duties relating to administration of SONIA. For example, this section prohibits staff from undertaking speculative transactions, and requires them to disclose close personal relationships that could create or be perceived as creating a conflict of interest, influence or unfair advantage.

The SONIA Oversight Committee members are subject to Our Code and to the Committee's [Conflicts of Interest Code of Practice](#). The Code sets out principles, guidelines and procedures for identifying, monitoring and managing actual or potential conflicts of interest.

or incentivised by the levels of the Benchmark.

We obtained the Bank's mandatory training programme and inspected for evidence:

- the programme covers all employees of the Bank
- the training content includes conflicts of interest; and
- conflicts of interest training is updated annually.

We obtained and reviewed the internal governance structure within the Bank's SONIA Control Framework and inspected for evidence relating to segregation of duties. We inspected for evidence that the responsibilities of the key teams have been clearly defined and documented and clear reporting lines are established.

We obtained the Conflicts Register for the SONIA Oversight Committee and inspected for evidence that identified or potential conflicts of interest have been documented on the Conflicts Register for the SONIA Oversight Committee, including the associated mitigating processes and controls to minimise such conflicts of interest.

We enquired with management whether there were any instances of actual conflicts of interest as at 12 November 2021 and were informed that there have been no such instances.

For a sample of employees, we obtained the Bank's mandatory training programme and inspected

for evidence that the employees are trained on the content of the Our Code policy.

We obtained a letter of representation from the Head of Sterling Markets Division at the Bank, confirming that employees involved in the determination of the benchmark are not remunerated based upon the level of the benchmark.

4. Control Framework for Administrators

[4.1] An Administrator should implement an appropriate control framework for the process of determining and distributing the Benchmark. The control framework should be appropriately tailored to the materiality of the potential or existing conflicts of interest identified, the extent of the use of discretion in the Benchmark setting process and to the nature of Benchmark inputs and outputs. The control framework should be documented and available to relevant Regulatory Authorities, if any. A summary of its main features should be Published or Made Available to Stakeholders.

This control framework should be reviewed periodically and updated as appropriate. The framework should address the following areas:

- a) Conflicts of interest in line with Principle 3 on conflicts of interests;
- b) Integrity and quality of Benchmark determination:

The Bank considers that it is compliant with this principle.

The Bank of England has implemented a control framework for its administration of SONIA, which is reviewed at least annually. This covers:

- a) Conflicts of Interest: In line with Principle 3, the Bank has carefully considered whether its responsibility for the administration of SONIA poses any existing or potential conflicts of interest for the institution or for the staff involved in the benchmark. This exercise has not identified any existing or potential conflicts of interest which influence the benchmark determination process. Procedures are in place for future identification of conflicts of interest, and the Bank has in place mechanisms for the disclosure, management, mitigation and avoidance of conflicts.
- b) Integrity and quality of Benchmark determination: In line with principles 6-15, the Bank has robust, resilient and transparent processes for the determination of the Benchmark, including controls over the data inputs. Risks within the administration

We obtained and reviewed the Bank's SONIA Control Framework and inspected for evidence that the framework identifies high level risk themes and the associated key controls.

Please refer to Principle 3 for responses to conflict of interests.

We obtained the Bank's SONIA Control Framework and inspected for evidence that the policies and procedures are as described in the Bank's response for (b) and (c).

We obtained the Bank's Performance Management Guide and Guidelines for Local Talent Reviews and inspected for evidence that there is a formal appraisal process that allows for the identification of development opportunities for all employees of the Bank and an appraisal process of job performance against key job competencies.

We obtained a sample of job descriptions and profiles and inspected that roles and responsibilities are defined in a consistent manner for personnel

- i. Arrangements to ensure that the quality and integrity of Benchmarks is maintained, in line with principles 6 to 15 on the quality of the Benchmark and Methodology;
- ii. Arrangements to promote the integrity of Benchmark inputs, including adequate due diligence on input sources;
- iii. Arrangements to ensure accountability and complaints mechanisms are effective, in line with principles 16 to 19; and
- iv. Providing robust infrastructure, policies and procedures for the management of risk, including operational risk.

c) Whistleblowing mechanism:

Administrators should establish an effective whistleblowing mechanism to facilitate early awareness of any potential misconduct or irregularities that may arise. This mechanism should allow for external reporting of such cases where appropriate.

d) Expertise:

- i. Ensuring Benchmark determinations are made by personnel who possess the relevant levels of expertise, with a process for periodic review of their competence; and
- ii. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel.

[4.2] Where a Benchmark is based on Submissions: Administrators should promote the integrity of inputs by:

of SONIA are assessed and managed in accordance with the risk tolerance agreed by the [Court of Directors](#) and within the Bank's 'Three Lines of Defence' framework. There is an alternative process for data collection and two alternative processes for data publication should the primary method be unavailable, with the Bank maintaining operational readiness to use these. In line with principles 16-19, complaints procedures, and periodic engagement with internal and external auditors also serve to promote accountability.

c) Whistleblowing mechanism: Bank of England staff are encouraged and empowered to speak up about malpractice or misconduct or to raise serious concerns if they feel the Bank or anyone in it is contravening the policies in Our Code. Additionally, the Bank has established an external whistleblowing mechanism to facilitate early awareness of potential misconduct or irregularities relating to SONIA. The Bank has requested all Form SMMD reporting institutions to authorise their UK employees to use the Bank's whistleblowing mechanism in order to make whistleblowing disclosures to the Bank in relation to the SONIA benchmark, allowing such disclosures to be protected. As at 12 November 2021, all institutions had made this attestation.

d) Expertise: Segregation of duties between different areas of the Bank ensures that staff perform processes relevant to their area of expertise. Their performance is reviewed in an annual cycle against objectives relevant to their duties, and local area management are

involved in the provision of the benchmark.

We obtained the Sterling Money Market Data Collection Reporting Instructions issued by the Bank and inspected that the sufficiency requirements for reporting institutions are as described in the Bank's response.

We performed a walkthrough of the calculation and publication process and noted that the submissions underwent validation checks prior to inclusion in the calculation.

We obtained the Bank's whistleblowing policy and inspected for evidence that there is a whistleblowing process in place for internal and external reporting.

We obtained confirmation from management that there have been no whistleblowing events relating to SONIA.

- a) Ensuring as far as possible that the Submitters comprise an appropriately representative group of participants taking into consideration the underlying Interest measured by the Benchmark;
- b) Employing a system of appropriate measures so that, to the extent possible, Submitters comply with the Submission guidelines, as defined in the Submitter Code of Conduct and the Administrators' applicable quality and integrity standards for Submission;
- c) Specifying how frequently Submissions should be made and specifying that inputs or Submissions should be made for every Benchmark determination; and
- d) Establishing and employing measures to effectively monitor and scrutinise inputs or Submissions. This should include pre-compilation or pre-publication monitoring to identify and avoid errors in inputs or Submissions, as well as *ex-post* analysis of trends and outliers.
- responsible for managing their human resources effectively to ensure business continuity, Bank-wide training relevant for the business ethics policies is undertaken in conjunction with staff attestations to 'Our Code' and local area training relevant to the functions performed in that area is also undertaken.
- Consistent with Principle 14, the SONIA input data are extracted from the Form SMMD data collection, which is collected by the Bank exercising its statutory powers under the Bank of England Act 1998. The data are purely transaction based, with no expert judgement applied. The Financial Conduct Authority (FCA) does not regard reporters to Form SMMD as benchmark submitters or contributors, as the data is not primarily provided for the purposes of the benchmark. Nevertheless, the [Form SMMD Reporting Instructions](#) ensure that there is a data quality framework in place to help ensure consistency with international best practice for the production of benchmarks.
- Principle 7 goes into further detail on ensuring a representative and sufficient population; Principle 14 details how the Bank ensures quality and integrity standards of reported data, and defines the data to be submitted; and Principle 15 explains the Bank's internal checks and monitoring frameworks over the data, both pre- and post-publication.

5. Internal Oversight

Administrators should establish an oversight function to review and provide challenge on all aspects of the Benchmark determination process. This should include consideration of the features and intended, expected or known usage of the Benchmark and the materiality of existing or potential conflicts of interest identified.

The oversight function should be carried out either by a separate committee, or other appropriate governance arrangements. The oversight function and its composition should be appropriate to provide effective scrutiny of the Administrator. Such oversight function could consider groups of Benchmarks by type or asset class, provided that it otherwise complies with this Principle.

An Administrator should develop and maintain robust procedures regarding its oversight function, which should be documented and available to relevant Regulatory Authorities, if any. The main features of the procedures should be Made Available to Stakeholders. These procedures should include:

- a) The terms of reference of the oversight function;
- b) Criteria to select members of the oversight function;
- c) The summary details of membership of any committee or arrangement charged with the oversight function, along with any declarations of conflicts of interest and processes for election,

The Bank considers that it is compliant with this principle.

The Bank has established a SONIA Oversight Committee. Its role is to review and provide challenge on all aspects of the benchmark determination process and provide scrutiny of the administration of SONIA. The Committee can provide advice to Deputy Governor for Markets, Banking and Resolution with respect to their responsibilities, but the Committee itself does not have executive decision making powers. In doing so, it is a key tool in the management of the Bank's conflicts of interest as SONIA Administrator (further covered in Principle 3).

The responsibilities of the Committee include:

- overseeing the periodic reviews of the benchmark methodology with a view to ensuring that it continues adequately to measure the underlying interest, and if necessary oversee any changes to the methodology;
- overseeing the administrator's control framework, management and operation of the benchmark, commissioning audits as necessary;
- overseeing the data quality controls, and the administrative arrangements for addressing breaches of the Reporting Instructions and escalating suspected misconduct; and
- monitoring the frequency of errors and republications and the actions of the administrator

We obtained the Terms of Reference of the SONIA Oversight Committee and inspected for evidence that the roles and responsibilities of the SONIA Oversight Committee are as described in the Bank's response.

We obtained and inspected the Bank's SONIA Oversight Committee External Member Candidate Briefing Pack for evidence of the criteria for selection of the members of the SONIA Oversight Committee.

For a selection of the committee members, we obtained their signed terms of appointment letter and inspected for evidence that they include the criteria for membership and the processes for nomination and replacement of committee members.

We have obtained the SONIA Oversight Committee management information packs and inspected for evidence of information that the Bank provides to the committee members is as described in the Bank's response.

Please refer to Principle 3 for responses to conflict of interests.

We obtained the Terms of Reference of the SONIA Stakeholder Advisory Group and inspected for evidence that the roles and responsibilities of the SONIA Stakeholder Advisory Group

nomination or removal and replacement of committee members.

The responsibilities of the oversight function include:

- a) Oversight of the Benchmark design:
 - i. Periodic review of the definition of the Benchmark and its Methodology;
 - ii. Taking measures to remain informed about issues and risks to the Benchmark, as well as commissioning external reviews of the Benchmark (as appropriate);
 - iii. Overseeing any changes to the Benchmark Methodology, including assessing whether the Methodology continues to appropriately measure the underlying Interest, reviewing proposed and implemented changes to the Methodology, and authorising or requesting the Administrator to undertake a consultation with Stakeholders where known or its Subscribers on such changes as per Principle 12; and
 - iv. Reviewing and approving procedures for termination of the Benchmark, including guidelines that set out how the Administrator should consult with Stakeholders about such cessation.
- b) Oversight of the integrity of Benchmark determination and control framework:
 - i. Overseeing the management and operation of the Benchmark, including activities related to Benchmark determination undertaken by a third party;
 - ii. Considering the results of internal and external audits, and

in challenging or validating input data.

Membership of the Committee includes Bank colleagues at Director level or above from outside the direct reporting lines of those involved in the day-to-day administration. In order to provide further independent challenge, the Committee includes two external members, selected using criteria outlined in the [Terms of Reference](#). The Terms of Reference also link to the [Conflict of Interest Code of Practice](#), which applied to all members of the Committee.

In order to help the Oversight Committee discharge their duties, the Bank provide them with management information, including (but not limited to):

- internal and external audit reports and management responses;
- explanation of occasions when the Bank has excluded a transaction from the calculation of SONIA;
- summary of the timeliness and accuracy of daily reporting to Form SMMD and the actions taken by the Bank when issues arise;
- data on the functioning of the market underlying the SONIA benchmark; and
- summary of the surveillance of the SONIA input data, including actions and escalations taken by the Bank resulting from its surveillance.
- If it were to be necessary to make changes to the benchmark methodology, the

are as described in the Bank's response.

We performed a walkthrough of the calculation and publication process and noted that there is no expert judgement applied.

following up on the implementation of remedial actions highlighted in the results of these audits; and

iii. Overseeing any exercise of Expert Judgment by the Administrator and ensuring Published Methodologies have been followed.

Where conflicts of interests may arise in the Administrator due to its ownership structures or controlling interests, or due to other activities conducted by any entity owning or controlling the Administrator or by the Administrator or any of its affiliates: the Administrator should establish an independent oversight function which includes a balanced representation of a range of Stakeholders where known, Subscribers and Submitters, which is chosen to counterbalance the relevant conflict of interest.

Where a Benchmark is based on Submissions: the oversight function should provide suitable oversight and challenge of the Submissions by:

- a) Overseeing and challenging the scrutiny and monitoring of inputs or Submissions by the Administrator. This could include regular discussions of inputs or Submission patterns, defining parameters against which inputs or Submissions can be analysed, or querying the role of the Administrator in challenging or sampling unusual inputs or Submissions;
- b) Overseeing the Code of Conduct for Submitters;

Oversight Committee would have an important role in providing challenge to the Bank's proposals prior to any public consultation process (further described under Principle 12).

In order to help the Bank and the Oversight Committee remain informed about issues and risks to the Benchmark, the SONIA Stakeholder Advisory Group meets twice annually to provide the Bank with insight from the market (see [Terms of Reference](#)). The Group comprises representatives from key stakeholder groups and is chaired by an External Member of the Oversight Committee. The responsibilities of the Group include:

- Providing advice on the functioning of the underlying market being measured by the SONIA benchmark
- Reviewing the published policy documentation associated with the benchmark, e.g. errors policy, republication
- Providing perspectives on whether the methodology continues to appropriately measure the underlying interest
- Provide advice on any changes required to the benchmark determination
- Providing feedback on any proposed changes to the benchmark methodology

- c) Establishing effective arrangements to address breaches of the Code of Conduct for Submitters; and
- d) Establishing measures to detect potential anomalous or suspicious Submissions and in case of suspicious activities, to report them, as well as any misconduct by Submitters of which it becomes aware to the relevant Regulatory Authorities, if any.

Quality of the Benchmark

Principle	Bank of England Self-Assessment	EY Evaluation Procedures
<p>6. Benchmark Design</p> <p>The design of the Benchmark should seek to achieve, and result in an accurate and reliable representation of the economic realities of the Interest it seeks to measure, and eliminate factors that might result in a distortion of the price, rate, index or value of the Benchmark.</p> <p>Benchmark design should take into account the following generic non-exclusive features, and other factors should be considered, as appropriate to the particular Interest:</p> <p>a) Adequacy of the sample used to represent the Interest;</p> <p>b) Size and liquidity of the relevant market (for example whether there is sufficient trading to provide observable, transparent pricing);</p> <p>c) Relative size of the underlying market in relation to the volume of trading in the market that references the Benchmark;</p> <p>d) The distribution of trading among Market Participants (market concentration);</p> <p>e) Market dynamics (e.g., to ensure that the Benchmark reflects changes to the assets underpinning a Benchmark).</p>	<p>The Bank considers that it is compliant with this principle.</p> <p>In line with principles 10-13, the Bank has designed SONIA in such a way as to facilitate evolution of the benchmark in future, if that were to become necessary, without disruption to contracts referencing it. In particular, the Bank has defined SONIA in two distinct parts:</p> <ul style="list-style-type: none"> • Statement of underlying interest, which is intended to be an enduring statement of the economic concept that SONIA seeks to measure; and • Statement of the methodology, which describes how the specified underlying interest is currently to be measured. <p>The methodology for SONIA is designed and periodically reviewed to ensure that it continues to adequately measure the underlying interest:</p> <p><i>SONIA is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal.</i></p> <p>In line with principles 7-9, the Bank has designed the benchmark methodology to ensure that SONIA captures transaction data from a dynamic and competitive market to best measure the underlying interest. This design process included several</p>	<p>We obtained the SONIA Key Features and Policies document and inspected for evidence that it included the benchmark definition and the benchmark methodology; and are as described in the Bank's response.</p> <p>We obtained and inspected the results of the public consultations and confirmed that these are as described in the Bank's response.</p> <p>We obtained the methodology and inspected for evidence that it included the benchmark definition, the underlying economic reality, and the benchmark methodology as described in the Bank's response.</p>

public consultations, during which feedback was sought and received from a wide array of stakeholders on all aspects of the methodology. In March 2017, the Bank published [a summary of the consultation feedback and design of SONIA](#).

7. Data Sufficiency

The data used to construct a Benchmark determination should be sufficient to accurately and reliably represent the Interest measured by the Benchmark and should:

- a) Be based on prices, rates, indices or values that have been formed by the competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable; and
- b) Be anchored by observable transactions entered into at arm's length between buyers and sellers in the market for the Interest the Benchmark measures in order for it to function as a credible indicator of prices, rates, indices or values.

This Principle requires that a Benchmark be based upon (i.e., *anchored in*) an active market having observable *Bona Fide*, Arms-Length Transactions. This does not mean that every individual Benchmark determination must be constructed solely of transaction data. Provided that an active market exists, conditions in the market on any given day might require the Administrator to rely on different forms of data tied to observable market data as an adjunct or

The Bank considers that it is compliant with this principle.

The Form SMMD data collection is designed to capture at least 95% of overnight unsecured deposits in the sterling market. The Form SMMD reporting population is reviewed annually, with reference to a dataset collected from all banks and building societies incorporated in the UK or authorised to accept deposits through a UK branch and all PRA-designated investment firms. This captures volumes across the main segments of the sterling money markets.

Eligible sterling transactions are extracted from the Form SMMD collection, in accordance with the statement of methodology. Reported transactions are negotiated cash deposits with wholesale market participants, excluding intragroup transactions. Data is reported at the transaction level: as such, no expert judgement is applied.

The Bank publishes quarterly statistics based on SMMD collection which suggest the overnight unsecured market remains dynamic and competitive.

On a daily basis, the Bank considers that the data submitted via its Sterling Money Market daily data collection

We obtained the Sterling Money Market Data Collection Reporting Instructions issued by the Bank and inspected that the criteria for reporter selection and transaction in scope for reporting in SMMD form are as described in the Bank's response.

We obtained evidence that the SMMA forms had been submitted in line with the SMMA instructions.

For a sample of SMM Reporting Banks, we obtained the submitted SMMA forms and inspected for evidence that the information was collated as part of the annual review of the SMMD reporting population.

We obtained the SONIA Key Features and Policies document and inspected for evidence that the data sufficiency requirement and contingency methodology are as described in the Bank's response.

We performed a walkthrough of the SONIA calculation and observed the process and inspected corroborating documentation for evidence that the contingency requirements are

supplement to transactions. Depending upon the Administrator's Methodology, this could result in an individual Benchmark determination being based predominantly, or exclusively, on bids and offers or extrapolations from prior transactions. This is further clarified in Principle 8.21

Provided that subparagraphs (a) and (b) above are met, Principle 7 does not preclude Benchmark Administrators from using executable bids or offers as a means to construct Benchmarks where anchored in an observable market consisting of *Bona Fide*, Arms-Length transactions.²³

This Principle also recognizes that various indices may be designed to measure or reflect the performance of a rule-based investment strategy, the volatility or behaviour of an index or market or other aspects of an active market. Principle 7 does not preclude the use of non-transactional data for such indices that are not designed to represent transactions and where the nature of the index is such that non-transactional data is used to reflect what the index is designed to measure. For example, certain volatility indices, which are designed to measure the expected volatility of an index of securities transactions, rely on non-transactional data, but the data is derived from and thus "*anchored*" in an actual functioning securities or options market.

are sufficient to produce SONIA unless:

- five or more reporters in the unsecured population have failed to submit a valid file; and
- the volume of SONIA-eligible transactions is <70% of the mean of the previous five business days for which SONIA has been calculated in line with the statement of methodology.

The methodology for calculating SONIA if the data are not sufficient on any one day is outlined under Principle 8.

as described in the Bank's response.

We obtained confirmation from management that the contingency process has not been required to date.

Please refer to Principle 8 for methodology for calculating SONIA if the data is insufficient.

8. Hierarchy of Data Inputs

An Administrator should establish and Publish or Make Available clear guidelines regarding the hierarchy of data inputs and exercise of Expert Judgment used for the determination of Benchmarks. In general, the hierarchy of data inputs should include:

- a) Where a Benchmark is dependent upon Submissions, the Submitters' own concluded arms-length transactions in the underlying interest or related markets;
- b) Reported or observed concluded Arm's-length Transactions in the underlying interest;
- c) Reported or observed concluded Arm's-length Transactions in related markets;
- d) Firm (executable) bids and offers; and
- e) Other market information or Expert Judgments.

Provided that the Data Sufficiency Principle is met (i.e., an active market exists), this Principle is not intended to restrict an Administrator's flexibility to use inputs consistent with the Administrator's approach to ensuring the quality, integrity, continuity and reliability of its Benchmark determinations, as set out in the Administrator's Methodology. The Administrator should retain flexibility to use the inputs it believes are appropriate under its Methodology to ensure the quality and integrity of its Benchmark. For example, certain Administrators may decide to rely

The Bank considers that it is compliant with this principle.

SONIA is based entirely on transactions reported to the Bank's Form SMMD data collection, in accordance with the effective version of the '[Reporting Instructions for Form SMMD](#)', provided that the data received are sufficient to produce the benchmark, as set out in Principle 7.

If the data sufficiency conditions are not met, SONIA will be determined as:

The level of Bank Rate plus the mean of the spread of SONIA to Bank Rate over the previous five publication days, excluding the days with the highest and lowest spread to Bank Rate. For these purposes the relevant level of Bank Rate is that at the close of the SONIA transaction window.

In the event that the contingency methodology is used, this will be clearly indicated to licensees in the data file provided.

This methodology is only intended to be used for relatively short-term contingency events. If such an event was expected to be prolonged, the Bank would consider the appropriate response at the time, with reference to the review and evolution process, as outlined in Principle 12.

The daily production of SONIA involves data validation and plausibility checking of SONIA-eligible transactions from 07:00 each morning, in preparation for publication of the benchmark at 09:00. During this time, the Bank raises queries with the

We obtained the Sterling Money Market Data Collection Reporting Instructions issued by the Bank is publicly available and inspected that the sufficiency requirements for reporting institutions are as described in the Bank's response.

We obtained the SONIA Key Features and Policies document and inspected for evidence that it included the contingency methodology and disclosure requirements as described in the Bank's response.

We performed a walkthrough of the SONIA calculation and observed the process and inspected corroborating documentation for evidence of the contingency requirements as described in the Bank's response.

We obtained confirmation from management that the contingency process has not been required to date.

We obtained the detailed internal procedure documentation and inspected for evidence of the contingency processes including clearly indicating to licensees in the data file provided.

We obtained the job instructions for daily processes and controls over the collection, validation and plausibility and inspected for evidence of data validation and plausibility activities as described in the Bank's response.

We have obtained the pro-forma SONIA Oversight Committee

upon Expert Judgment in an active albeit low liquidity market, when transactions may not be consistently available each day. IOSCO also recognizes that there might be circumstances (e.g., a low liquidity market) when a confirmed bid or offer might carry more meaning than an outlier transaction. Under these circumstances, non-transactional data such as bids and offers and extrapolations from prior transactions might predominate in a given Benchmark determination.

reporting institutions where appropriate, providing an opportunity to confirm any trade information suspected to be erroneous ahead of publication. Taking into account responses from reporters, any trade information which are confirmed, or remain suspected, as erroneous can be excluded from the calculation by the Bank. There is a well-defined process for excluding such transactions.

management information packs and inspected for evidence of information that the Bank will provide to the committee members includes summary of data validation, plausibility errors and of instances where judgement was applied.

9. Transparency of Benchmark Determinations

The Administrator should describe and publish with each Benchmark determination, to the extent reasonable without delaying an Administrator publication deadline:

a) A concise explanation, sufficient to facilitate a Stakeholder's or Market Authority's ability to understand how the determination was developed, including, at a minimum, the size and liquidity of the market being assessed (meaning the number and volume of transactions submitted), the range and average volume and range and average of price, and indicative percentages of each type of market data that have been considered in a Benchmark determination; terms referring to the pricing Methodology should be included (i.e., *transaction-based*, *spread-based* or *interpolated/extrapolated*);

The Bank considers that it is compliant with this principle.

The SONIA rate for a given London business day is published at 09:00 on the following London business day, via the authorised distributors. It is made freely available via the Bank's Interactive Statistical Database by 10:00 on the working day after it is first published.

Alongside the daily publication of SONIA, the following information is also provided:

- aggregate volume;
- the rate occurring at the 10th percentile of volume;
- the rate occurring at the 25th percentile of volume;
- the rate occurring at the 75th percentile of volume;
- the rate occurring at the 90th percentile of volume; and
- the SONIA Compounded Index.

SONIA is based entirely on transactions reported to the Bank's Form SMMD data collection and

We obtained the SONIA Key Features and Policies document and inspected for evidence that it included the information that will be published alongside the benchmark daily as described in the Bank's response.

For a sample of daily benchmark publications, we inspected that it includes details of the process used to determine the benchmark as described in the Bank's response and is publicly available on the Bank's website

Please refer to Principle 8 for transactions suspected as erroneous.

b) A concise explanation of the extent to which and the basis upon which Expert Judgment if any, was used in establishing a Benchmark determination.

calculated in accordance with the Statement of methodology. No expert judgement is applied by externals. The Bank can exclude transactions confirmed by reporter as erroneous, as noted under Principle 8.

As a further enhancement to the transparency of the benchmark determination process and recognising that errors in the process may occur in limited circumstances, the Bank has made clear to users, policies for handling data errors. This includes criteria for republication of the benchmark and that the Bank will periodically publish summary information on errors that did not meet the republication criteria.

10. Periodic Review

The Administrator should periodically review the conditions in the underlying Interest that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology. The Administrator also should periodically review whether the Interest has diminished or is non-functioning such that it can no longer function as the basis for a credible Benchmark.

The Administrator should Publish or Make Available a summary of such reviews where material revisions have been made to a Benchmark, including the rationale for the revisions.

The Bank considers that it is compliant with this principle.

As per Principle 6, the Bank has designed SONIA in such a way as to facilitate evolution of the benchmark in future, if that were to become necessary, without disruption to contracts referencing it.

The Bank periodically reviews the current methodology with a view to ensuring that it continues adequately to measure the underlying interest.

In doing so, the Bank reviews conditions in the relevant market in order to assess whether that market has undergone or is undergoing structural change that may warrant changes to the benchmark methodology. In particular, the Bank seeks to determine whether the relevant market continues, and is expected to continue, to function sufficiently well and have sufficient

We obtained the SONIA Key Features and Policies document and inspected for evidence the policies and procedures are as described in the Bank's response.

We obtained the Terms of Reference of the SONIA Oversight Committee and inspected evidence the committee is responsible for oversight of changes to benchmark methodology.

We obtained the minutes of meetings of the SONIA Oversight Committee and inspected for evidence of review of the benchmark methodology.

We obtained the Terms of Reference of the SONIA Stakeholder Advisory Group being established and inspected evidence that the advisory group is

volumes to form the basis for a robust and credible benchmark.

The Bank also takes account of representations from users of SONIA, the Oversight Committee and the Stakeholder Advisory Group as to the possible need for changes in the methodology.

As set out under principle 12, the Bank would, to the extent possible or practicable, conduct a public consultation to enable persons affected to provide feedback on the proposed change.

Any material changes to the benchmark methodology would be announced to the market and reflected in the SONIA Key features and policies document.

responsible for providing advice on the functioning of the underlying market measured by the benchmark and feedback on any proposed changes to the methodology.

We obtained the minutes of meetings of the SONIA Stakeholder Advisory Group and inspected for evidence of discussion of the functioning of the underlying market measured by the benchmark and feedback on any proposed changes to the methodology.

We obtained and reviewed the Bank's SONIA Control Framework and inspected for evidence that the framework includes policies for announcement of methodology changes to the market.

Quality of the Methodology

Principle	Bank of England Self-Assessment	EY Evaluation Procedures
11. Content of the Methodology <p>The Administrator should document and Publish or Make Available the Methodology used to make Benchmark determinations. The Administrator should provide the rationale for adopting a particular Methodology. The Published Methodology should provide sufficient detail to allow Stakeholders to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular Stakeholders, and its appropriateness as a reference for financial instruments.</p> <p>At a minimum, the Methodology should contain:</p> <ul style="list-style-type: none"> a) Definitions of key terms; b) All criteria and procedures used to develop the Benchmark, including input selection, the mix of inputs used to derive the Benchmark, the guidelines that control the exercise of Expert Judgment by the Administrator, priority given to certain data types, minimum data needed to determine a Benchmark, and any models or extrapolation methods; c) Procedures and practices designed to promote consistency in the exercise of Expert Judgment 	<p>The Bank considers that it is compliant with this principle.</p> <p>The SONIA Key features and policies document provides existing and potential users of the SONIA benchmark with relevant information regarding benchmark determination, publication and governance. This includes:</p> <ul style="list-style-type: none"> 1) The statement of methodology. As set out in Principle 6, this describes how the specified underlying interest of SONIA is currently to be measured. The statement of methodology specifies: the frequency of the series; the averaging methodology; and the transaction eligibility criteria. One of the eligibility criterion is that the data is reported on the Bank's Sterling Money Market daily data collection. The Reporting Instructions for this collection further provide information on the scope of transactions reported and the determination of the reporting population. The Statement of methodology also describes the calculation methodology for the SONIA Compounded Index. 2) As noted under principle 8, the Bank can exclude transactions from the calculation that are confirmed, or remain suspected, as erroneous. There are clear guidelines and documentation for this process. 	<p>We obtained the SONIA Key Features and Policies document and inspected for evidence the policies and procedures are as described in the Bank's response.</p> <p>We obtained the Sterling Money Market Data Collection Reporting Instructions issued by the Bank and inspected that the sufficiency requirements for reporting institutions are as described in the Bank's response.</p> <p>We obtained the job instructions for daily processes and controls over the collection, validation and plausibility and inspected for evidence of data validation and plausibility activities are as described in the Bank's response.</p>

between Benchmark determinations;

d) The procedures which govern Benchmark determination in periods of market stress or disruption, or periods where data sources may be absent (e.g., theoretical estimation models);

e) The procedures for dealing with error reports, including when a revision of a Benchmark would be applicable;

f) Information regarding the frequency for internal reviews and approvals of the Methodology. Where applicable, the Published Methodologies should also include information regarding the procedures and frequency for external review of the Methodology;

g) The circumstances and procedures under which the Administrator will consult with Stakeholders, as appropriate; and

h) The identification of potential limitations of a Benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs.

Where a Benchmark is based on Submissions, the additional Principle also applies:

The Administrator should clearly establish criteria for including and excluding Submitters. The criteria should consider any issues arising from the location of the Submitter, if in a different jurisdiction to the Administrator. These criteria

3) The daily publication arrangements, stating that alongside the headline rate, the following will also be provided: aggregate volume; the rates occurring at the 10th, 25th, 75th, and 90th percentiles; and the SONIA Compounded Index.

4) The data quality procedures describing the process for validating and plausibility checking the input data ahead of publication.

5) The short-term contingency arrangements, outlining thresholds used to determine whether data submitted are sufficient to produce SONIA, and how SONIA is determined if the data are not sufficient.

6) Policies for handling data errors, explaining circumstances in which the benchmark would be republished, and how the Bank will make users aware of summary information on errors that did not meet the republication criteria.

7) The processes for reviewing the current methodology to ensure that it continues to adequately measure the underlying interest, and for making any necessary changes arising from such reviews (further covered in Principle 10 and 12).

should be available to any relevant Regulatory Authorities, if any, and Published or Made Available to Stakeholders. Any provisions related to changes in composition, including notice periods should be made clear.

12. Changes to the Methodology

An Administrator should Publish or Make Available the rationale of any proposed material change in its Methodology, and procedures for making such changes. These procedures should clearly define what constitutes a material change, and the method and timing for consulting or notifying Subscribers (and other Stakeholders where appropriate, taking into account the breadth and depth of the Benchmark's use) of changes.

Those procedures should be consistent with the overriding objective that an Administrator must ensure the continued integrity of its Benchmark determinations. When changes are proposed, the Administrator should specify exactly what these changes entail and when they are intended to apply.

The Administrator should specify how changes to the Methodology will be scrutinised, by the oversight function.

The Administrator should develop Stakeholder consultation procedures in relation to changes to the Methodology that are deemed material by the oversight

The Bank considers that it is compliant with this principle.

If the Bank determines, on the basis of its periodic review of the methodology (outlined under Principle 10), that any changes to the statement of methodology are warranted, it may make such changes as it reasonably considers necessary in order to address any issues identified. As explained under Principle 6, if future evolution of the benchmark were to become necessary, the Bank has designed SONIA in such a way as to facilitate this, without disruption to contracts referencing it. The methodology would evolve, anchored by the enduring underlying interest.

Before making any changes to the benchmark methodology the Bank will (i) follow its benchmark governance procedures, including review by the Oversight Committee; and (ii) to the extent possible or practicable, conduct a public consultation to enable persons affected, including the SONIA Stakeholder Advisory Group, to provide feedback on the proposed change.

We obtained the SONIA Key Features and Policies document and inspected for evidence the policies and procedures are as described in the Bank's response.

We obtained the Terms of Reference of the SONIA Oversight Committee and inspected evidence the committee is responsible for oversight of changes to benchmark methodology.

We obtained the Terms of Reference of the SONIA Stakeholder Advisory Group being established and inspected evidence that the advisory group is responsible for providing advice on the functioning of the underlying market measured by the benchmark and feedback on any proposed changes to the methodology.

Please refer to Principle 10 for periodic review of the methodology.

function, and that are appropriate and proportionate to the breadth and depth of the Benchmark's use and the nature of the Stakeholders. Procedures should:

- a) Provide advance notice and a clear timeframe that gives Stakeholders sufficient opportunity to analyse and comment on the impact of such proposed material changes, having regard to the Administrator's assessment of the overall circumstances; and
- b) Provide for Stakeholders' summary comments, and the Administrator's summary response to those comments, to be made accessible to all Stakeholders after any given consultation period, except where the commenter has requested confidentiality.

13. Transition

Administrators should have clear written policies and procedures, to address the need for possible cessation of a Benchmark, due to market structure change, product definition change, or any other condition which makes the Benchmark no longer representative of its intended Interest. These policies and procedures should be proportionate to the estimated breadth and depth of contracts and financial instruments that reference a Benchmark and the economic and financial stability impact that might result from the cessation of the Benchmark. The Administrator should take into account the views of Stakeholders and any relevant Regulatory and

The Bank considers that it is compliant with the intent of this principle.

The Bank considers that, given the scope of the underlying interest of SONIA, and therefore scope for evolution of the benchmark, cessation is highly unlikely. As explained against Principle 12, if the Bank determines that the current methodology is not adequately measuring the underlying interest, it will make changes as it reasonably considers necessary.

Such changes may include, for example, refinements to the calculation methodology or scope of eligible transactions within the relevant market. They may also include the introduction of a methodology which has reference to other actively traded money market

Please refer to Principle 1 for measurement of underlying interest. Please refer to Principle 10 and 12 for changes in methodology.

National Authorities in determining what policies and procedures are appropriate for a particular Benchmark.

These written policies and procedures should be Published or Made Available to all Stakeholders.

Administrators should encourage Subscribers and other Stakeholders who have financial instruments that reference a Benchmark to take steps to make sure that:

- a) Contracts or other financial instruments that reference a Benchmark, have robust fall-back provisions in the event of material changes to, or cessation of, the referenced Benchmark; and
- b) Stakeholders are aware of the possibility that various factors, including external factors beyond the control of the Administrator, might necessitate material changes to a Benchmark.

Administrators' written policies and procedures to address the possibility of Benchmark cessation could include the following factors, if determined to be reasonable and appropriate by the Administrator:

- a) Criteria to guide the selection of a credible, alternative Benchmark such as, but not limited to, criteria that seek to match to the extent practicable the existing Benchmark's characteristics (e.g., credit quality, maturities and liquidity of the alternative market), differentials between Benchmarks, the extent to which an alternative Benchmark meets the asset/liability needs of

instruments, for example UK-gilt collateralised repurchase agreements, or to the Bank of England official interest rates, so long as the Bank considers that they provide an appropriate measure of the underlying interest.

Nevertheless, in the unlikely event that the benchmark could not be evolved in such a way that continued to adequately measure the underlying interest, the Bank would consider cessation. Before taking a decision to cease the benchmark, the Bank will (i) follow its benchmark governance procedures, including review by the Oversight Committee; and (ii) to the extent possible or practicable, conduct a public consultation to enable persons affected to provide feedback on the proposed cessation.

Stakeholders, whether the revised Benchmark is investable, the availability of transparent transaction data, the impact on Stakeholders and impact of existing legislation;

b) The practicality of maintaining parallel Benchmarks (e.g., where feasible, maintain the existing Benchmark for a defined period of time to permit existing contracts and financial instruments to mature and publish a new Benchmark) in order to accommodate an orderly transition to a new Benchmark;

c) The procedures that the Administrator would follow in the event that a suitable alternative cannot be identified;

d) In the case of a Benchmark or a tenor of a Benchmark that will be discontinued completely, the policy defining the period of time in which the Benchmark will continue to be produced in order to permit existing contracts to migrate to an alternative Benchmark if necessary; and

e) The process by which the Administrator will engage Stakeholders and relevant Market and National Authorities, as appropriate, in the process for selecting and moving towards an alternative Benchmark, including the timeframe for any such action commensurate with the tenors of the financial instruments referencing the Benchmarks and the adequacy of notice that will be provided to Stakeholders.

14. Submitter Code of Conduct

Where a Benchmark is based on Submissions, the following additional Principle also applies:

The Administrator should develop guidelines for Submitters (“Submitter Code of Conduct”), which should be available to any relevant Regulatory Authorities, if any and Published or Made Available to Stakeholders.

The Administrator should only use inputs or Submissions from entities which adhere to the Submitter Code of Conduct and the Administrator should appropriately monitor and record adherence from Submitters. The Administrator should require Submitters to confirm adherence to the Submitter Code of Conduct annually and whenever a change to the Submitter Code of Conduct has occurred.

The Administrator’s oversight function should be responsible for the continuing review and oversight of the Submitter Code of Conduct.

The Submitter Code of Conduct should address:

- a) The selection of inputs;
- b) Who may submit data and information to the Administrator;
- c) Quality control procedures to verify the identity of a Submitter and any employee(s) of a Submitter who report(s) data or information and the authorization

The Bank considers that it is compliant with the intent of this principle.

The SONIA input data are extracted from the Form SMMD data collection. The main purpose of this collection is to provide the Bank with a rich picture of activity in sterling money markets, benefitting the Bank’s analysis of monetary and financial conditions and ultimately informing policy decisions.

The information is collected by the Bank exercising its statutory powers under the Bank of England Act 1998. The data are purely transaction based, with no expert judgement applied by reporters. The FCA does not regard reporters to Form SMMD as benchmark submitters or contributors, as the data are collected to support the Bank’s policy objectives, rather than uniquely for the purposes of the benchmark.

Nevertheless, given the importance of accurate data for the Bank, the [Form SMMD Reporting Instructions](#) ensure that there is a robust data quality framework in place. This framework is consistent with international best practice for the production of benchmarks; in particular, this Principle. As such, the Form SMMD Reporting Instructions can be considered as equivalent to a Submitter Code of Conduct. For example, the Reporting Instructions cover:

- 1) The purpose of the data collection, explaining that: the data are collected using the Bank’s statutory powers; the data are a key input to the Bank’s policy functions;

We obtained the Sterling Money Market Data Collection Reporting Instructions issued by the Bank and inspected that the sufficiency requirements for reporting institutions are as described in the Bank’s response.

We have obtained and inspected a sample of RSA attestation provided by SMMD reporters.

of such person(s) to report market data on behalf of a Submitter;	and that a subset of the data form the basis of SONIA.
d) Criteria applied to employees of a Submitter who are permitted to submit data or information to an Administrator on behalf of a Submitter;	2) Defines the reporting population (further covered in principle 7).
e) Policies to discourage the interim withdrawal of Submitters from surveys or Panels;	3) The scope of transactions to be captured in reporting.
f) Policies to encourage Submitters to submit all relevant data; and	4) The method of reporting, via an ISO standard which ensures validation is an integral part of the process, with contingency submission methods in place.
g) The Submitters' internal systems and controls, which should include:	5) Requirements for individuals involved in reporting.
i. Procedures for submitting inputs, including Methodologies to determine the type of eligible inputs, in line with the Administrator's Methodologies;	6) Requirements for reporting institutions' internal controls and record keeping.
ii. Procedures to detect and evaluate suspicious inputs or transactions, including inter-group transactions, and to ensure the <i>Bona Fide</i> nature of such inputs, where appropriate;	7) Expectations for communications from reporters.
iii. Policies guiding and detailing the use of Expert Judgment, including documentation requirements;	8) Whistleblowing arrangements.
iv. Record keeping policies;	9) The Reporting Standards Attestation (RSA) process, which serves to confirm a reporting institution's adherence to the Reporting Instructions. The RSA is usually signed by two approved persons under the Senior Manager's Regime, ensuring that appropriate accountability and governance arrangements are in place at reporting institutions in relation to their Form SMMD data.
v. Pre-Submission validation of inputs, and procedures for multiple reviews by senior staff to check inputs;	
vi. Training, including training with respect to any relevant regulation (covering Benchmark regulation or any market abuse regime);	
vii. Suspicious Submission reporting;	
viii. Roles and responsibilities of key personnel and accountability lines;	

ix. Internal sign off procedures by management for submitting inputs;

x. Whistle blowing policies (in line with Principle 4); and

xi. Conflicts of interest procedures and policies, including prohibitions on the Submission of data from Front Office Functions unless the Administrator is satisfied that there are adequate internal oversight and verification procedures for Front Office Function Submissions of data to an Administrator (including safeguards and supervision to address possible conflicts of interests as per paragraphs (v) and (ix) above), the physical separation of employees and reporting lines where appropriate, the consideration of how to identify, disclose, manage, mitigate and avoid existing or potential incentives to manipulate or otherwise influence data inputs (whether or not in order to influence the Benchmark levels), including, without limitation, through appropriate remuneration policies and by effectively addressing conflicts of interest which may exist between the Submitter's Submission activities (including all staff who perform or otherwise participate in Benchmark Submission responsibilities), and any other business of the Submitter or of any of its affiliates or any of their respective clients or customers.

15. Internal Controls over Data Collection

When an Administrator collects data from any external source the Administrator should ensure that

The Bank considers that it is compliant with this principle.

The Form SMMD is collected, validated, plausibility checked and

We obtained the job instructions for daily processes and controls over the collection, validation and plausibility of data reported by the reporting institutions in SMMD

there are appropriate internal controls over its data collection and transmission processes. These controls should address the process for selecting the source, collecting the data and protecting the integrity and confidentiality of the data. Where Administrators receive data from employees of the Front Office Function, the Administrator should seek corroborating data from other sources.

used to calculate the SONIA rate within a single bespoke system. This system is subject to robust access and change management procedures.

The daily production of SONIA involves data validation as files are submitted. From 07:00, plausibility checking of SONIA-eligible transactions is undertaken, in preparation for publication of the benchmark at 09:00. During this time, the Bank raises queries with the reporting institutions where appropriate, providing an opportunity to confirm any trades suspected to be erroneous ahead of publication. Reporters are required to have appropriate contacts available during this time to respond promptly to such queries. Taking into account responses from reporters, any trades which are confirmed, or remain suspected, as erroneous can be excluded from the calculation by the Bank. Such an action is subject to system-enforced manager approval prior to publication, and would be subject to post-publication review, including by the Oversight Committee.

The Bank also monitors data quality and performs post publication surveillance of the underlying data for suspected misconduct on an ongoing basis. Escalation procedures are outlined in the [Reporting Instructions](#), including to the FCA for matters impacting the SONIA benchmark; or the PRA in circumstances of deficiencies relating to the firms systems and controls.

forms and confirmed that the processes are as described in the Bank's response.

We obtained the Sterling Money Market Data Collection Reporting Instructions issued by the Bank and inspected that the process for selection of annual reporters is as described in the Bank's response.

We obtained the Bank's IT policies and procedures on change management, privileged user access management, incident management, back-up and retention and business continuity and IT disaster recovery relevant to the IT systems used in the collection and validation of data, plausibility check, calculation and publication of the benchmark, and inspected evidence of internal controls as described in the job instructions for daily processes.

We obtained confirmation from management that the list of users with access to the IT systems used in the collection and validation of data, plausibility check, calculation and publication of the benchmark on 12 November 2021 is appropriate.

Accountability

Principle	Bank of England Self-Assessment	EY Evaluation Procedures
<p>16. Complaints Procedures</p> <p>The Administrator should establish and Publish or Make Available a written complaints procedures policy, by which Stakeholders may submit complaints including concerning whether a specific Benchmark determination is representative of the underlying Interest it seeks to measure, applications of the Methodology in relation to a specific Benchmark determination(s) and other Administrator decisions in relation to a Benchmark determination.</p> <p>The complaints procedures policy should:</p> <p>a) Permit complaints to be submitted through a user-friendly complaints process such as an electronic Submission process;</p> <p>b) Contain procedures for receiving and investigating a complaint made about the Administrator's Benchmark determination process on a timely and fair basis by personnel who are independent of any personnel who may be or may have been involved in the subject of the complaint, advising the complainant and other relevant parties of the outcome of its investigation within a reasonable period and retaining all records concerning complaints;</p>	<p>The Bank considers that it is compliant with this principle.</p> <p>The Bank has a dedicated complaints email account which anyone who wishes to submit a complaint in relation to the Bank's administration of SONIA may use. This is monitored by staff in the Prudential Regulation Authority, outside of the SONIA benchmark production reporting lines.</p> <p>The escalation path followed is appropriate to the type of complaint of dispute. For example, if the complaint or dispute concerns whether SONIA is representative of the underlying interest it seeks to measure, this would be considered as part of the Bank's periodic review of the methodology, and the governance processes outlined against Principles 10 and 12 followed thereafter. Should the complaint or dispute relate to market conduct issues, formal channels are in place for escalation to the FCA (see Principle 19).</p> <p>The Bank states that complaints will be acknowledged within five working days and responded to within 28 working days.</p> <p>Retention of records related to complaints would be treated in line with the Bank's broader records management policies, further explained in Principle 18.</p>	<p>We obtained the SONIA Key Features and Policies document and inspected for evidence the policies and procedures are as described in the Bank's response.</p> <p>We obtained and reviewed the Bank's SONIA Control Framework and inspected for evidence that complaints, monitoring and escalation is as described in the Bank's response.</p>

c) Contain a process for escalating complaints, as appropriate, to the Administrator's governance body; and

d) Require all documents relating to a complaint, including those submitted by the complainant as well as the Administrator's own record, to be retained for a minimum of five years, subject to applicable national legal or regulatory requirements.

Disputes about a Benchmarking determination, which are not formal complaints, should be resolved by the Administrator by reference to its standard appropriate procedures. If a complaint results in a change in a Benchmark determination, that should be Published or Made Available to Subscribers and Published or Made Available to Stakeholders as soon as possible as set out in the Methodology.

17. Audits

The Administrator should appoint an independent internal or external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated criteria and with the Principles. The frequency of audits should be proportionate to the size and complexity of the Administrator's operations.

Where appropriate to the level of existing or potential conflicts of interest identified by the Administrator (except for

The Bank considers that it is compliant with this principle.

Within the framework of the Bank's [Internal Audit Charter](#), SONIA is periodically subject to assurance work by the Internal Audit Division. The Bank's Internal Audit Division is independent of the day-to-day business of the Bank and derives its authority from Court, via the Audit & Risk Committee and the Governor, with the support of Executive Management.

Additionally, an external audit firm provide assurance on this

We obtained the Form SMMD Reporting Instructions and inspected them for evidence of the record keeping requirements as described in the Bank's response.

We obtained and inspected the Bank's Internal Audit Charter and terms of reference to evidence that SONIA benchmark is subject to periodic internal audit reviews.

We obtained the Terms of Reference of the SONIA Oversight Committee and inspected for evidence that the roles and responsibilities of the SONIA Oversight Committee for internal

Benchmarks that are otherwise regulated or supervised by a National Authority other than a relevant Regulatory Authority), an Administrator should appoint an independent external auditor with appropriate experience and capability to periodically review and report on the Administrator's adherence to its stated Methodology. The frequency of audits should be proportionate to the size and complexity of the Administrator's Benchmark operations and the breadth and depth of Benchmark use by Stakeholders.

comply/explain statement against the IOSCO principles periodically.

and external audit are as described in the Bank's response.

All audit reports, including management responses, are reviewed by internal governance and shared with the SONIA Oversight Committee.

18. Audit Trail

[18.1] Written records should be retained by the Administrator for five years, subject to applicable national legal or regulatory requirements on:

- a) All market data, Submissions and any other data and information sources relied upon for Benchmark determination;
- b) The exercise of Expert Judgment made by the Administrator in reaching a Benchmark determination;
- c) Other changes in or deviations from standard procedures and Methodologies, including those made during periods of market stress or disruption;
- d) The identity of each person involved in producing a Benchmark determination; and

The Bank considers that it is compliant with this principle.

The transaction data reported on Form SMMD and outputs published are stored for at least five years in the Bank's internal database. This also records which people have been involved in benchmark production, the outcome of any plausibility checks raised and where transactions have been excluded from the benchmark calculation, as set out under Principle 8.

Additionally, written records relevant to the wider administration responsibilities are subject to the Bank's Record Keeping policies. As set out in Our Code, these policies ensure that, where a record is significant to the Bank's business activities, including the production of SONIA, it is saved in an appropriate records folder, with a full and accurate document profile and appropriately restricted access.

We obtained a selection of records from the Bank's database and inspected for evidence that: data inputs and Benchmark determination is retained for at least five years.

e) Any queries and responses relating to data inputs.

If these records are held by a Regulated Market or Exchange the Administrator may rely on these records for compliance with this Principle, subject to appropriate written record sharing agreements.

The Form SMMD Reporting Instructions set out record keeping requirements for reporting institutions, outlining the records which they should maintain for a minimum of five years.

[18.2] When a Benchmark is based on Submissions, the following additional Principle also applies:

Submitters should retain records for five years subject to applicable national legal or regulatory requirements on:

- a) The procedures and Methodologies governing the Submission of inputs;
- b) The identity of any other person who submitted or otherwise generated any of the data or information provided to the Administrator;
- c) Names and roles of individuals responsible for Submission and Submission oversight;
- d) Relevant communications between submitting parties;
- e) Any interaction with the Administrator;
- f) Any queries received regarding data or information provided to the Administrator;
- g) Declaration of any conflicts of interests and aggregate exposures to Benchmark related instruments;

h) Exposures of individual traders/desks to Benchmark related instruments in order to facilitate audits and investigations; and

i) Findings of external/internal audits, when available, related to Benchmark Submission remedial actions and progress in implementing them.

19. Cooperation with Regulatory Authorities

Relevant documents, Audit Trails and other documents subject to these Principles shall be made readily available by the relevant parties to the relevant Regulatory Authorities in carrying out their regulatory or supervisory duties and handed over promptly upon request.

This principle is not applicable to the arrangements of the Bank, but the Bank considers that it is compliant with its intent.

The Bank of England is not regulated for its administration of the SONIA benchmark: EU BMR Article 2 (2.a) specifies that the regulation shall not apply to a central bank.

Nevertheless, the Bank and the Financial Conduct Authority maintain close contact and appropriate channels for sharing relevant information. For example:

- As the FCA is responsible for matters relating to market abuse, formal channels are in place for escalation of suspected misconduct identified by the Bank to the FCA; and
- In order to aid the FCA's understanding of the markets underlying key interest rate benchmarks, and to help discharge their ongoing supervisory functions in this area, the Bank shares the disaggregated SMMD data with the FCA upon request.

5. Independent Auditor's Assurance Report

Independent practitioner's assurance report to the Deputy Governor for Markets, Banking and Resolution (the "Deputy Governor") of the Bank of England (the "Bank") in respect of the Bank's statement of compliance with the IOSCO Principles for Financial Benchmarks for Sterling Overnight Index Average ("SONIA"), explaining where this is not appropriate given the Bank's position as the United Kingdom's central bank (the "Statement of compliance") as at 12 November 2021

We have carried out:

- a. A reasonable assurance engagement in respect of the Bank's control procedures that relate to compliance with the Principles for Financial Benchmarks published by the International Organisation of Securities Commissions dated July 2013 (the 'IOSCO Principles') with regards to the administration of SONIA, excluding Principles 4.2(b) and 18.2, in accordance with the terms of our engagement letter dated 10 August 2017 and the addendums dated 30 July 2020 and 28 July 2021 (the "Engagement letter").
- b. A limited assurance engagement in respect of the Bank's control procedures that relate to the IOSCO Principles 4.2(b) and 18.2, in accordance with the terms of the Engagement letter.

This report covers the description and design effectiveness of control procedures, related to the application of the requirements for IOSCO Principles, explaining where this is not appropriate given the Bank's position as the United Kingdom's central bank, for SONIA as at 12 November 2021.

This report is made solely for the use of the Deputy Governor and the Governors of the Bank, as a body, of the Bank, and solely for the purpose of reporting on the Bank's Statement of compliance with the IOSCO Principles, in accordance with the terms of the Engagement letter. Our work has been undertaken so that we might report to the Deputy Governor and Governors of the Bank those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Deputy Governor and the Governors of the Bank, as a body, and the Bank for our work, for this report or for the conclusions we have formed.

Respective responsibilities of the Bank and Ernst & Young LLP

The Deputy Governor is responsible for ensuring that the Bank designs, implements and monitors compliance with policies and procedures that comply with the IOSCO Principles. The Deputy Governor is responsible for preparing the Bank's Statement of compliance with the IOSCO Principles in Section 4 which includes the related control procedures.

Our responsibilities for this engagement are to form an independent conclusion, based on the work carried out in relation to the control procedures described in the Bank's Statement of compliance with the requirements of the IOSCO Principles in respect of SONIA benchmark and report this to you as the Governors of the Bank.

Our approach

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) (UK) 3000 (July 2020) Assurance Engagements other than audits or reviews of historical financial information ("ISAE (UK) 3000 (July 2020)") as promulgated by the Financial Reporting Council (FRC) and the Institute of Chartered Accountants in England and Wales' Technical Release (Tech 02/14FSF) Assurance Reports on Benchmark and Indices. We performed a reasonable assurance engagement as defined in ISAE (UK) 3000 (July 2020). For the purpose of the engagement, we have been provided by the Deputy Governor and the Governors of the Bank with the Statement of Compliance.

The criteria against which the control procedures were evaluated are the IOSCO Principles. Our work was based upon obtaining an understanding of the control procedures as described in Section 4 and evaluating the Bank's Statement of compliance with the IOSCO Principles, as described in Section 4, excluding IOSCO Principles 4.2(b) and 18.2, to obtain reasonable assurance so as to form our conclusion. Our work also included tests of specific control procedures, to obtain evidence about their effectiveness in meeting the related IOSCO Principles.

The objective of a reasonable assurance engagement is to perform such procedures on a sample basis so as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express a positive conclusion on the Bank's Statement of compliance with the IOSCO Principles, excluding Principles 4.2(b) and 18.2.

The objective of a limited assurance engagement is to perform such procedures on a sample basis so as to obtain information and explanations which we consider necessary in order to provide us with sufficient and appropriate evidence to express our conclusion. The extent of procedures performed is more limited than for a reasonable assurance engagement, and therefore less assurance is obtained for IOSCO Principles 4.2(b) and 18.2. Our procedures were not sufficient to enable us to conclude on the design effectiveness of controls in place to address IOSCO Principles 4.2(b) and 18.2, and accordingly, we do not express an opinion thereon.

We have performed the procedures agreed with you and set out in our Engagement Letter. Our work was based upon obtaining an understanding of the control objectives and related control procedures, as described in the Statement of Compliance and evaluating the Statement of Compliance. The nature, timing and extent of the tests we applied and the criteria against which the control procedures were evaluated are detailed in Section 4.

In performing this engagement, we have applied International Standard on Quality Control 1 and the independence and other ethical requirements of the International Ethics Standards Board for Accountants.

Inherent limitations

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such control procedures cannot guarantee protection against (among other things) fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, our conclusion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate.

Our engagement is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the information.

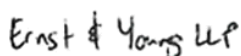
Reasonable assurance conclusion on the Bank's Statement of compliance with the IOSCO principles, excluding principles 4.2(b) and 18.2

In our opinion, in all material respects:

- ▶ The Bank's Statement of compliance in Section 4 describes fairly, in all material respects, the control procedures for compliance with the requirements of the IOSCO Principles, excluding Principles 4.2(b) and 18.2, as at 12 November 2021; and
- ▶ The control procedures described in the Bank's Statement of compliance in Section 4 were suitably designed such that there is reasonable, but not absolute, assurance that the requirements of the IOSCO Principles, excluding Principles 4.2(b) and 18.2, would have been achieved if the described control procedures, which were in place as at 12 November 2021, were complied with satisfactorily.

Limited assurance conclusion on the IOSCO principles 4.2(b) and 18.2

Based on the results of our procedures, nothing has come to our attention to indicate that the control procedures described in the Bank's Statement of compliance in Section 4 that relate to the IOSCO Principles 4.2(b) and 18.2 which were in place as at 12 November 2021 is not fairly stated, in all material respects.



Ernst & Young LLP

London

13 April 2022