

RFR Working Group – Sub-Group for the Development of SONIA futures

Terms of Reference

Background

- The Working Group on Sterling Risk-Free Reference Rates (the 'Working Group') was set up by the Bank of England to recommend a near risk-free reference rate (RFR) and promote its adoption as an alternative to sterling Libor. The Working Group has recommended SONIA as its preferred RFR.
- These terms of reference are for a sub-working group ('sub-Group') with a specific focus on the development of SONIA-referencing futures. The sub-Group continues to be bound by the Working Group's overall terms of reference.¹
- Three month Sterling (Short Sterling) Futures contracts are amongst the most actively traded instruments in the short-end of the sterling interest rate curve. The Working Group believes that complementing these contracts with new SONIA futures contracts would be an important element of an overall SONIA adoption plan – a view supported by market participants at a public roundtable in July 2017.²

Objectives and output:

- Overall, the sub-Group will: agree and publish a possible specification for a SONIA-referencing futures contract(s) to be traded on electronic trading platform(s), which facilitates the transition away from sterling Libor and maximise utility across a broad set of market participants. The sub-Group will also consider mechanisms to ensure the contract achieves critical liquidity.
- First, the sub-Group will identify and assess possible use cases for a SONIA-referencing futures contract across the full range of market participants, evaluating the key features of each use case and relate those to the design of a SONIA-referencing futures specification.
- Second, the sub-Group will establish a market consensus on the key selection criteria for deciding the key features of a successful SONIA-referencing futures contract, considering all relevant use cases.
- Third, the sub-Group will use those selection criteria to reach consensus on possible contract specification, including but not limited to: contract nominal amount, contract length, start/end (or rollover) dates, settlement price and/or delivery procedures and tick size. The sub-Group may also consider issues related to clearing the contract through a central counterparty.
- Fourth, the sub-Group will agree actions to ensure that the launch of a futures contract is successful in building liquidity and open interest over a reasonable timeframe. Examples include: an agreed timetable to ensure operational readiness to trade the contract; agreed steps for the promotion of end-user interest; production of relevant educational materials.

Chair

- Alastair Sharp (Credit Suisse)

Membership and consultative procedures

- Working Group members, who wish to participate in this sub-Group, will nominate representatives from their organisations to join the sub-Group.
- Other relevant market participants may attend the sub-Group, by invitation or application, with the approval of the sub-Group and Working Group Chairs and subject to logistical constraints (as managed by the sub-Group Chair).

¹ See: www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/tor.pdf

² See: www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2017/record060717.pdf

- In any event, the sub-Group will consult with a broad cross-section of market participants where appropriate, through the publication of consultative papers, hosting roundtable events, or otherwise. The types of market participants who may be invited to attend, or be consulted, includes but is not limited to: investment firms, asset managers, trading firms and others who may wish to trade SONIA-referencing futures (including industry bodies); market infrastructure firms, with experience in developing products for regulated trading platforms; and firms which specialise in providing liquidity to these platforms.
- Interested stakeholders, who would like to be consulted on the work of the sub-Group or attend the meetings, should contact RFR.Secretariat@bankofengland.gsi.gov.uk.
- Representatives from the Bank of England and the FCA will participate as ex-officio members.

Governance

- The recommended contract specification shall be agreed by consensus by the members and attendees of the sub-Group. If agreement cannot be reached, the sub-Group Chair will present the relevant options, as well as the final output, for agreement by the Working Group.
- In all other respects, the sub-group will be subject to the Governance procedures of the Group. In particular, sub-group members will comply with competition law and will be responsible for taking their own legal advice in that regard.

Reporting and transparency

- The sub-Group will make regular verbal or written updates to the Working Group, including by summarising the views of any other market participants consulted. In this way, the deliberations and activities of the sub-Group will be made public, for a broader set of market participants.
- The sub-Group may choose to publish Minutes if additional or timelier transparency on a particular topic is warranted.

Conflicts of interest

- Any actual or potential conflicts of interest by members, or their representatives, shall be noted by the organisations/individuals concerned and passed back to the Chair of the Working Group. The Chair of the Working Group will assess any raised conflict of interest in conjunction with the impacted members' assignments and responsibilities, and engage with its own legal advisors, the BoE and the FCA for possible actions, including the replacement of the conflicted members.