

Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates

Wednesday 15 April

Bank of England

Minutes of 18 March 2015 meeting

1 The minutes of the previous meeting on 18 March 2015 were approved.

Objectives, success criteria and RFR selection criteria

2 The Group's objective, as Chris Salmon had set out in March, was to identify a suitable near risk-free reference rate for sterling markets, and formulate a transition plan to catalyse a change in market practice so that a significant portion of derivatives contracts reference the new RFR rather than LIBOR. The Group agreed that two success criteria followed from that overall objective:

- To establish a robust and credible RFR which has broad market support and is widely used as a reference rate, initially in derivatives markets; and
- To effect a transition away from Libor to the new RFR for relevant products and markets, that meets pre-determined metrics of success, to be agreed by the group.

The Group noted that these would have to be translated into specific, measurable, criteria later in the process – ahead of transition to the new RFR – and agreed to revisit this question at that point.

3 There was a discussion of the criteria that would be relevant in selecting a RFR. It was important to reach agreement on the high-level selection criteria before the Group's work in exploring potential RFR options began in earnest. These could be revisited, and the various criteria weighed up, once the Group reached the point of making its final decision on the RFR. It was suggested that assessment of RFRs against the agreed criteria would not necessarily be an outright optimisation exercise. For example some criteria might be considered as "hurdles" for the RFR to meet. An initial discussion of selection criteria covered:

- Conceptual suitability (e.g. proximity to 'risk-free')
- Assessment of the proposed RFR against the IOSCO Principles for Financial Benchmarks
- Ease of implementation
- Ease of transition away from Libor
- Issues with adoption by end-users (hedgers, arbitragers, risk takers)
- Benchmark sustainability
- Consistency with USD and euro markets

4 It was agreed that the Chairman, with support from the Bank, would give further thought to selection criteria and – in light of the discussion made at the meeting – propose a provisional list that the Group would review by written procedure ahead of its next meeting.

Work plan for the Working Group

5 The Chairman introduced a proposed workplan for the Group. It was agreed that four sub-groups would explore RFR options, respectively covering: unsecured rates; secured rates; Bank Rate; and other potential RFRs.

6 These 'vertical' workstreams would begin by evaluating the 'fundamental' or innate properties of each candidate benchmark, as distinct from issues relating to implementation and transition. For those RFRs considered viable in the first phase, a second phase would consider implementation and transition issues.

7 The early engagement of stakeholders and benchmark users was identified as a key part of the process of creating a successful RFR. It was agreed that, once the first phase of the vertical workstreams was well underway, an outreach programme would begin to engage with external stakeholders and end users. Outreach would be organised into a number of 'horizontal' work streams, each targeting particular groups of end-users. Specifically, these would cover:

- Clearing houses and regulators
- Real money investors, Hedge funds
- Pension funds, insurance companies
- Bank Treasuries
- Corporates
- Supranationals

The Group also noted the need to engage with the retail and commercial banking departments of their own institutions.

8 There was a discussion of the proposed timeline for the Group's work. It was agreed that adoption and transition plans should be in place by the end of the year. Key decisions due over the summer would need to be carefully scheduled to account for Group members' availability.

9 The Working Group agreed it would be beneficial to meet once every three weeks or so to review the progress made by the sub-groups, which would meet more frequently. The next full Working Group meeting would be held in the week commencing 11 May 2015, in order to avoid the General Election in the preceding week, with the expectation that the four sub-groups would meet several times in the interim.

Private sector attendees

Nick Sagers	Bank of America-Merrill Lynch
Francois Jourdain	Barclays (Chairman)
Mike Manna	Barclays
Mark Smith	Citigroup
Alain Verdickt	Citigroup
Laurent Curtat	Credit Suisse
Adrian Munday	Deutsche Bank
Jonathan Hall	Goldman Sachs
Christophe Rivoire	HSBC
Charles Bristow	JP Morgan Chase
Christophe Coutte	Lloyds
Richard Moore	Lloyds
Ed McAleer	Morgan Stanley
Lewis O'Donald	Nomura
Tom Heenan	Nomura
Peter Nielsen	Royal Bank of Scotland
Paul Barnes	Santander UK
Stephane Cuny	Société Générale
David Ghosh	UBS
David Geen	ISDA (Observer only)

Official sector attendees

Ed Ocampo	Bank of England
Tim Taylor	Bank of England
Will Parry	Bank of England
Carlos Molinas	Financial Conduct Authority