

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

Thursday 15 December

Barclays' offices – Canary Wharf

Minutes of previous meeting

1 The Minutes of the previous meeting on 26 November had been approved by written procedure prior to the meeting.

Approval of secured benchmark design criteria

2 At its previous meeting, the Group had been invited to consider a draft 'position paper' outlining its preferred design criteria for a secured RFR, which aimed to encourage and facilitate the development of proposals for secured overnight repo indices that could serve as the RFR. The finalised paper was approved for publication to the Group's pages on the Bank's website.

Firms' reflections on OIS transition proposals

3 At the previous meeting, the Group had discussed how, if a secured rate were selected as the RFR, a transition of the SONIA OIS market to the new RFR could be achieved. A 'big bang' approach to transition had been proposed. The members of the Working Group were asked to provide their firms' views as to the feasibility and desirability of the proposal.

- a) Of those firms who expressed a view, the majority felt that the big bang transition could be feasible since it would enable the simultaneous changeover of multiple contracts and reduce the risk of fragmented liquidity. However, members highlighted some important qualifications, such as the need for: a sufficient and transparent notice period; careful management of operational risks; coordination of implementation across major currencies to improve take-up of any ISDA protocols; negligible forward basis between SONIA and the new secured RFR; and broad end-user acceptance.
- b) A few firms did not favour a big bang transition, citing concerns over the potential economic impact, especially for end-users of SONIA who are more likely to have significant net exposures to SONIA, and nervousness over risks including the potential for unintended operational disruption or other consequences.
- c) The remaining firms agreed to revert with a view after further internal consultation.

Preliminary update on end-user outreach regarding transition issues

OIS transition

4 Of those contacted, the majority of insurance company and pension fund (ICPF) users of SONIA OIS products preferred a big bang approach to transition, because it avoided the risk of bifurcated liquidity across products and restricted the potential for a protracted period of negotiation. Any economic impact of the transition would need to be considered carefully, as this could have an impact on funding positions of pension funds. This was exemplified by funds' prior experience of the volatility in index-linked

markets surrounding the Consumer Prices Advisory Committee decision on the RPI formula throughout 2012.

5 The sovereigns, supranationals and agencies (SSA) contacted felt that a big bang approach appeared feasible. Due to the cross-currency nature of SSA portfolios, some stated a preference for a simultaneous big bang across the major currencies (if required), as this might ensure economies of scale and reduce complex negotiations, if implementing an ISDA protocol mechanism. On reflection, the Group discussed that an appropriate alternative – to the extent that big bang transition was needed across multiple currencies – would be to implement regular, staggered, transitions for each currency, as this should reduce operational risk.

6 The corporate treasurers, small banks and infrastructure firms contacted so far did not provide a firm view as to the feasibility of a big bang transition for OIS. Further outreach with a wider set of market participants will continue in early 2016.

LIBOR transition

7 There was consensus among end-users that a big bang transition for LIBOR would not be appropriate or feasible; there was a strong preference for a gradual transition. It was restated that the objective of the Group was not to displace LIBOR completely; rather, it was to implement a near risk-free alternative for use in certain financial transactions, including many derivatives contracts, where such a rate may be better suited than LIBOR..

8 It was noted that ICPFs may use a diverse set of discounting curves, which in some circumstances are mandated by regulation or actuarial convention. Therefore, direction from the appropriate regulatory bodies may be required to ensure consistent and large-scale adoption of an RFR discounting curve. In some cases, ICPFs can choose the discount rate and apply a spread adjustment; such a mechanism might be used to reduce any economic impact from LIBOR transition. Insurance companies in particular highlighted the desire to minimise basis risk in their portfolios during transition.

9 Some SSAs and the larger corporate treasurers noted a strong preference for consistency in terms of RFR implemented across currencies (i.e. secured or unsecured). Consistency would be helpful in managing basis risk in cross-currency basis markets, which currently reference LIBOR, so a simultaneous transition for those markets might be appropriate.

10 Corporate treasurers also highlighted that, to generate liquidity in the new RFR derivatives market, it would be helpful if underlying assets could also reference the RFR.

Contract robustness workstream update

11 The workstream leads outlined their proposals for the development of contractual provisions, which deal with the scenario where a benchmark is no longer available because the administrator has, for whatever reason, failed to implement an alternative. This proposal had two elements:

- a) A short-term mechanical fallback would initially apply to contracts to ensure continuity. An example suggested was a temporary rate based on a historical spread to Bank Rate.

- b) A 'Determination Committee' would be convened, with the responsibility for selecting a permanent successor rate for contracts. This would be similar in concept to ISDA's existing Credit Determinations Committee, which considers various issues in relation to Credit Default Swaps (CDS) including whether a Credit Event has occurred in respect of a given entity. The Determinations Committee would need a process for identifying membership – which would need to include a broad array of relevant parties, whilst closely managing potential or perceived conflicts of interest – as well as a process for determining a permanent successor rate against objective criteria.

12 Most of the Group agreed that the proposal appeared sensible relative to the existing 'calculation agent' contractual fallback mechanisms. However, there was some concern among the Group about the possible legal implications of empowering a Committee to make decisions with a potentially wide economic impact.

13 The Determination Committee would require an administrator who would be responsible for ongoing administrative issues as well as its formal convening in the event of a benchmark discontinuation. If ISDA is asked to act as the administrator, this would be subject to ISDA Board approval. However, it was noted that other administrators may also wish to fulfil this role.

14 Once these proposals have been developed further, subject to eventual approval by the ISDA Board, legal provisions could be included in new derivatives contracts on a voluntary basis, and potentially added to legacy contracts where desired by use of an ISDA protocol. The Bank and FCA welcomed the constructive approach taken but were keen that the Group further explore the workability of the concept.

Update on other currency Working Groups

15 The Chair's office provided a short update on developments in equivalent Working Groups for the euro, Japanese yen and Swiss franc. A more detailed update from the European Money Markets Institute (EMMI) would be provided at the next meeting.

Any other business

16 The Group was asked to consider whether Intercontinental Exchange (ICE) Futures or ICE Benchmark Administration should be invited to join as standing, non-voting members. The Group agreed that, while these firms may have a role to play in developing product markets referencing the new RFR, or suitable benchmarks respectively, the most appropriate way for their input to be provided was through the Group's outreach efforts. Moreover, they could be invited as a guest to present on relevant topics of mutual interest, following the approach taken with other infrastructure providers.

Private sector attendees

Francois Jourdain	Barclays (Chairman)
Andreas Giannopoulos	Barclays (Chair's office)
Tejonidhi Kashyap	Barclays (Chair's office)
Mike Manna	Barclays
Alain Verdickt	Citigroup
John Hilty	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Michael Graham	Goldman Sachs
Glenn Handley	HSBC
Charles Bristow	JP Morgan
Steve Bullock	Lloyds
Ciaran O'Flynn	Morgan Stanley
Mike Curtis	Nomura
David Bradley	Royal Bank of Scotland
Simon Wilson	Royal Bank of Scotland
Paul Barnes	Santander UK
Stephane Cuny	Société Générale
Chirag Dave	UBS
Paul Canty	UBS
David Geen	ISDA (Observer only)
Paul Allan	ISDA (Observer only)
Philip Whitehurst	LCH.Clearnet (Observer only)

Official sector attendees

Ed Ocampo	Bank of England
Tim Taylor	Bank of England
Rob Harris	Bank of England
Ben Morley	Bank of England
Neel Acharya	Bank of England
Carlos Molinas	Financial Conduct Authority