

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

Tuesday 2 June

Bank of England

### Minutes of 15 April 2015 meeting

1 The minutes of the previous meeting on 15 April 2015 were approved.

#### RFR selection criteria

2 The Group reviewed and approved the initial set of criteria for the selection of the Risk-Free Rate (RFR). It was agreed that they should be posted on the Bank of England website and should form the basis of discussions with end users. Final selection criteria will be agreed in advance of a decision to select the RFR.

#### Potential RFR sub group updates and interim reports

3 Representatives of the four sub-groups outlined their initial considerations of the potential RFR options: i) unsecured rates; ii) secured rates; iii) Bank Rate; iv) any other alternatives.

- i. Unsecured rates: The Group discussed initial data analysis of volumes in overnight deposit transactions. Data from the UK payment system suggests that transaction volumes of bilateral overnight deposits have remained reasonably stable since the crisis, whereas there had been a decline in the volume of brokered transactions. And the Bank of England's bi-annual money market survey showed that aggregate volumes of overnight deposits in 2014 were around £30-£40bn per day<sup>1</sup>. However, the Group noted that it was difficult to judge how volumes are likely to develop in the future – although this was considered an issue for all transaction-based rates. The Group noted that selection of an unsecured rate would have a more simple transition than other options as existing SONIA infrastructure can be developed. The Group discussed whether same-day availability was a necessary feature of the benchmark and agreed to include this in discussions with end-users.
- ii. Secured rates: Initial analysis of the UK gilt repo market showed that transaction volumes were high and robust. Aggregate volumes of cleared repo – both stock specific and general collateral (GC) repo – have been at least £30bn-£40bn per day over the past five years. Further data collection was underway – including from other market infrastructure – and it was noted that a change in market settlement practices could help identification of repo transactions, with potential volumes of at least £70bn per day. The Group discussed how stock specific repo could be included in a benchmark, even where they traded “special”. Most felt that an appropriate calculation methodology could be used to remove the effect of “specialness”, although this may lead to some uncertainty over aggregate volumes used in the benchmark and how they develop over time. The Group also discussed whether a secured rate benchmark could be based off a wider set of non-gilt collateral, although it was noted that such a rate may not reflect a risk-free borrowing rate.

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<sup>1</sup> <http://www.bankofengland.co.uk/publications/Documents/other/markets/mmlg/smms2014h2.pdf>

- iii. Bank Rate: The Group agreed that Bank Rate as an RFR was transparent and robust rate, which was used frequently in the retail and small business lending markets, with a small existing market for Bank Rate-linked derivatives. The Group felt a key disadvantage was that Bank Rate did not represent market transactions and widespread use of the rate as an RFR could place an undue restriction on the future implementation of monetary policy.
- iv. Other alternative RFRs: One option discussed was an RFR based on the UK Treasury Bill market. Current secondary market volumes were viewed as too low to support a robust benchmark and to change that could constrain the flexibility of the Debt Management Office and require strong coordination with HM Treasury. In addition, the Group felt that volumes in the UK T-Bill market could be affected by the overall fiscal position.

A second option discussed was a term Overnight Index Swap (OIS) rate. It was noted that a robust term OIS rate would require a robust overnight rate, and as such consideration of term OIS should be rolled into the unsecured and secured rate options.

A third option discussed was whether private money market activity could be combined with the rate paid on reserves by the Bank of England. The Group felt that this may be overly complex and could place some constraint on the Bank's monetary policy framework.

- 4 Based in the analysis presented, the Group agreed to focus further work on the unsecured and secured rate options. It was agreed to discontinue work on Bank Rate as a primary RFR option, but to retain it as a potential fall-back option.

#### **End-user engagement strategy**

- 5 The Group agreed the proposed strategy for engagement with the end-user investor community. In the first phase of engagement, to begin soon, the Group will hold discussions with targeted stakeholders to understand broad demands and potential constraints over RFR selection. The selection criteria and a consolidated summary of the potential RFR sub-group reports would provide context to these discussions.

- 6 The targeted stakeholders for the initial outreach would be broken into sectors:

- Clearing houses and market infrastructure
- Real money investors and hedge funds
- Pension funds and insurance companies
- Bank treasuries and swap dealers
- Corporates
- Sovereigns, supranationals and agencies

**Private sector attendees**

Nick Saggars	<b>Bank of America-Merrill Lynch</b>
Francois Jourdain	<b>Barclays (Chairman)</b>
Mike Manna	<b>Barclays</b>
Laurent Dulout	<b>BNP Paribas</b>
Mathieu Gaveau	<b>BNP Paribas</b>
Mark Smith	<b>Citigroup</b>
Alain Verdickt	<b>Citigroup</b>
Laurent Curtat	<b>Credit Suisse</b>
Adrian Munday	<b>Deutsche Bank</b>
Jonathan Hall	<b>Goldman Sachs</b>
Michael Graham	<b>Goldman Sachs</b>
Christophe Rivoire	<b>HSBC</b>
Charles Bristow	<b>JP Morgan Chase</b>
Christophe Coutte	<b>Lloyds</b>
Ed McAleer	<b>Morgan Stanley</b>
Lewis O'Donald	<b>Nomura</b>
Robert Begbie	<b>Royal Bank of Scotland</b>
Paul Barnes	<b>Santander UK</b>
Stephane Cuny	<b>Société Générale</b>
David Geen	<b>ISDA (Observer only)</b>

**Official sector attendees**

Ed Ocampo	<b>Bank of England</b>
Will Parry	<b>Bank of England</b>
Rob Harris	<b>Bank of England</b>
Carlos Molinas	<b>Financial Conduct Authority</b>
Devid Mazzonetto	<b>Financial Conduct Authority</b>