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

Thursday 26 November

Barclays' offices – Canary Wharf

Minutes of previous meeting

1 The Minutes of the previous meeting on 13 October had been previously approved by written procedure.

OIS transition update

2 At its previous meeting, the Group determined that an RFR could only be a credible LIBOR alternative if it was first established as the primary reference rate for the OIS discounting curve used to value swap positions, and was the standard rate used to remunerate collateral balances.

3 The sub-group for OIS transition – which is considering how the existing OIS market could transition from referencing SONIA to referencing a secured RFR – provided an update to the Group. Two broad approaches to transition were presented: a gradual change over a period of time; or a wholesale transition of all new and legacy contracts on a pre-determined future date (referred to as a 'big bang' approach).

4 Following further analysis, the sub-group believe that a gradual transition approach had a number of significant impediments to success. First, the new OIS product will not be clearing eligible (without punitive margin) until uncleared market liquidity is established; but market makers will not be willing to provide liquidity until the product is clearable. Second, there would be a risk of fragmented liquidity between a SONIA OIS and a secured RFR OIS, which could be detrimental for both markets – potentially increasing use of LIBOR swaps. And third, there would be insufficient incentives for any market participant to be a first mover.

5 The sub-group outlined that an alternative method for transitioning the OIS market was a 'big bang' approach. This involved a switchover from SONIA to the secured RFR after a notice period of up to two years. Under this proposal, on the day of the changeover there would be an orderly, planned discontinuation of SONIA with the aim that all contracts referencing it would convert to reference the RFR.

6 For cleared swaps, in the event that an existing reference rate is not available, the rulebook provides the clearing house with discretion in designating a replacement rate. While this fallback is typically used to cover transient outages, it would also apply if the reference rate were permanently unavailable. In this latter case, the clearing house would consult with the market as to potential permanent alternatives (it could do so in advance were the existing rate known to be being phased out as of some future date). Assuming a broad consensus amongst market participants, the designated replacement rate could be a secured RFR, which would be applicable for all cleared trades from the big bang implementation date.

7 In respect of uncleared swaps, SONIA OIS transactions and Credit Support Annexes (CSAs) under which interest is paid on Sterling cash collateral balances by reference to SONIA would need to be

transitioned to a secured RFR. An ISDA protocol, which is a multilateral contractual amendment mechanism, could provide a voluntary way for market participants to amend SONIA OIS transactions and CSAs to reference the RFR instead of SONIA, subject to ISDA's internal approval processes.

8 The Group discussed the appropriate notice period for a hypothetical discontinuation of SONIA and agreed that while the majority of SONIA swap transactions expired within two years, the risk was larger for longer-maturity transactions. It was also noted that a significant volume of transactions subject to CSA's referencing SONIA would remain outstanding beyond two years. Members of the Group expressed the view that the magnitude and sign of any basis between the forward curves for SONIA and a secured RFR rate would be small and difficult to forecast beyond the first two years. The Group discussed whether during a notice period, some aspects of the gradual approach could also be implemented.

9 The Bank stated that its current policy was to reform the existing SONIA through the collection of transaction data from banks. To contemplate the discontinuation of SONIA, the Bank would require compelling analysis that such an approach was acceptable to the vast majority of market participants and that any risks to market functioning were negligible.

10 The Group agreed that a big bang approach to adopting a secured RFR could be workable and should not be ruled out at this stage, although greater detail and comfort regarding market impact would be required. Subject to further work, the Group felt that the decision between a secured or an unsecured RFR may be taken based on the innate properties of the benchmarks, rather than solely on the basis of the feasibility of transition. It was also agreed that, where appropriate, a gradual transition away from LIBOR could begin before the OIS transition was complete.

Transition end-user outreach

11 The Group discussed the proposed plans and areas of discussion for market participant outreach regarding transition issues. Outreach discussions will cover options related to both gradual and 'big bang' transition proposals for firstly moving the existing OIS market to reference the RFR (if necessary) and secondly expanding the RFR market to replace LIBOR, where appropriate. The Group agreed a set of questions to be used in those discussions.

Secured rate position paper

12 The secured rate sub-group presented their 'position paper' to the Group. The document was intended to encourage and facilitate the development of proposals for secured overnight repo indices that could serve as the RFR. The paper outlined design criteria for the production of a secured RFR, including: i) aspects of the initial selection criteria agreed by the Group; ii) clarification that the relevant secured market is overnight gilt repo; iii) that specific-collateral repo should be included alongside general collateral repo, albeit with proposals to deal with 'specialness'; iv) that a time series – historical or synthetic – of transaction volumes and rates would be necessary to facilitate clearing eligibility.

13 The Group agreed to provide comments and that the paper would be published on the Bank's website in due course.

Private sector attendees

Nick Saggers	**Bank of America-Merrill Lynch**
Francois Jourdain	**Barclays (Chairman)**
Andreas Giannopoulos	**Barclays (Chair's office)**
Tejonidhi Kashyap	**Barclays (Chair's office)**
Mike Manna	**Barclays**
Mark Smith	**Citigroup**
Laurent Curtat	**Credit Suisse**
John Hilty	**Deutsche Bank**
Nikhil Choraria	**Goldman Sachs**
Christophe Rivoire	**HSBC**
Charles Bristow	**JP Morgan**
Christophe Coutte	**Lloyds**
Shangami Alagaratnam	**Morgan Stanley**
Mike Curtis	**Nomura**
David Bradley	**Royal Bank of Scotland**
Paul Barnes	**Santander UK**
Richard Tipper	**Société Générale**
David Ghosh	**UBS**
Paul Canty	**UBS**
Paul Allan	**ISDA (Observer only)**
Philip Whitehurst	**LCH.Clearnet (Observer only)**

Official sector attendees

Ed Ocampo	**Bank of England**
Tim Taylor	**Bank of England**
Will Parry	**Bank of England**
Rob Harris	**Bank of England**
Ben Morley	**Bank of England**
Neel Acharya	**Bank of England**
Carlos Molinas	**Financial Conduct Authority**
Devid Mazzonetto	**Financial Conduct Authority**