

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

Tuesday 13 October

Bank of England

Minutes of 23 September 2015 meeting

1 The Minutes of the previous meeting on 23 September were approved.

Candidate RFR characteristics

2 The secured rate sub-group summarised their analysis for the production of a secured rate. Immediately available data in the overnight gilt repo market showed estimated volumes around £65bn, but the addition of bilaterally-agreed, stock specific repo trades could increase this to around £110bn. It was noted that end-period reporting dates continued to have a negative impact on secured overnight rates. The key uncertainty was which entity would produce a rate.

3 The volumes underlying a reformed SONIA rate are uncertain, but the Group recognised that the Bank will publish further information in the SONIA reform consultation due in 2016.

4 The Group agreed one important component of success would be to ensure that a broad range of market participants with two-way interest across the term structure would be willing to switch to the selected RFR. By way of example, where one set of participants agreed to transition but another set refused it could result in an unbalanced market for basis swaps, which might raise the cost of hedging. In addition, the support of relevant regulatory authorities for particular sectors might be required (e.g. EIOPA for Pension funds and Insurers), for example to promote the alignment of valuation curves with the selected RFR.

OIS transition considerations

5 The Group discussed plans around transitioning derivatives to the selected RFR. Two broad approaches were discussed: a gradual change over a period of time; or a bulk transition of all new and legacy contracts at a pre-determined point (referred to as a 'big bang' approach). Overall, it was noted that were the Group to choose SONIA, transition risks were much lower because it is the incumbent reference rate in the OIS market, regardless of the approach used.

6 By comparison, were the Group to choose a secured rate, there were a number of challenges to a successful big bang transition. Firstly, a synthetic time series of the rate may be required in order to create a cleared product. Secondly, it might be difficult to achieve consensus among clearing members to change the price alignment interest rate at the central counterparty. Thirdly, bilateral credit support annexes would need to be renegotiated simultaneously, which could be a costly exercise. A gradual transition approach to a secured RFR would be less risky and the Group discussed the steps required to achieve this over two years, but noted that this implied a long period with sub-optimal outcomes.

7 It was agreed that additional work was needed to ascertain the willingness and likelihood of different participants and sectors to transition to the new RFR.

LIBOR transition considerations

8 There was a discussion around how to achieve one of the Group's stated objectives – replacing LIBOR with the RFR for a meaningful proportion of relevant contracts, such as swaps.

9 The Group discussed that demand arising from corporate hedging activities might be an important factor in supporting the transition to the new RFR, so it would be important to engage the corporate sector.

10 Some Group members noted that it would be important to understand the impact of transition on market participants in various sectors, including the impact of economic re-distribution resulting from a switch to the new RFR. It was proposed the Group could potentially go back to end user outreach groups to summarise the work completed so far and seek further feedback to help inform probabilities of success for each candidate RFR.

11 A key feature of participants' willingness to transition might be their existing and potential future exposures. The Group discussed the option to create a "map" of firms' exposures to different reference rates and maturities, broken down by participant sector. The map could improve understanding as to which sectors might be more or less willing to transition. However, as some Group members felt these data could be too sensitive, it was decided not to carry out this exercise at this time.

12 The Bank confirmed that the prior expectation was that the transition away from LIBOR would be gradual rather than big bang, due to the complexity of products and long term structure of existing contracts, including second order derivatives. Many participants felt that a gradual approach was appropriate for the transition from LIBOR to the RFR. Some queried whether the proposed extent of transition away from LIBOR would be limited to interest rate swaps, or would also include loans, bonds or more exotic derivatives.

13 The Group noted that previous market attempts for a big bang-style transition, such as the introduction of the euro, had required legislative initiatives.

Next steps

14 Although some Group members expressed a preference to vote for a RFR now, the consensus of the meeting was to defer a decision on the choice of RFR until: details of a secured rate administrator were clearer; there is a better understanding of how an OIS transition would be achieved; and a fuller understanding of the depth of the reformed SONIA market.

15 It was proposed that a position paper would be produced outlining the desirable features of a secured rate benchmark to ensure potential benchmark administrators were aware of the Group's preferred methodology, in addition to those who had presented to the Group.

16 The Chair proposed that work should begin to focus on outreach to market participants to discuss transition planning and the development of a liquid market referencing the RFR.

17 The group agreed to start two work streams to plan, respectively:

- a) a transition of the OIS market to a new RFR (if secured is chosen).
- b) a transition of Libor-based contracts to a new RFR.

18 It was agreed that these work streams would deliver comprehensive but contingent transition plans by Q1 2016.

Private sector attendees

Nick Sagers	Bank of America-Merrill Lynch
Francois Jourdain	Barclays (Chairman)
Andreas Giannopoulos	Barclays
Tejonidhi Kashyap	Barclays
Mike Manna	Barclays
Laurent Dulout	BNP Paribas
Alain Verdickt	Citigroup
Laurent Curtat	Credit Suisse
Adrian Munday	Deutsche Bank
Michael Graham	Goldman Sachs
Nikhil Choraria	Goldman Sachs
Christophe Rivoire	HSBC
Glenn Handley	HSBC
Charles Bristow	JP Morgan Chase
Christophe Coutte	Lloyds
Mike Curtis	Nomura
David Bradley	Royal Bank of Scotland
Toby Stevenson	Royal Bank of Scotland
Simon Wilson	Royal Bank of Scotland
Paul Barnes	Santander UK
Stephane Cuny	Société Générale
David Ghosh	UBS
Paul Canty	UBS
David Geen	ISDA (Observer only)
Philip Whitehurst	LCH.Clearnet (Observer only)

Official sector attendees

Ed Ocampo	Bank of England
Will Parry	Bank of England
Rob Harris	Bank of England
Ben Morley	Bank of England
Jan Lasik	Bank of England
Carlos Molinas	Financial Conduct Authority