

Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Wednesday 2 November 2016
Barclays' offices – Canary Wharf

Obligations under competition law

1 The Chairman reminded all members of the Group of their responsibilities in relation to compliance with competition law and the importance of taking their own independent competition law advice.

Minutes of previous meeting

2 The minutes of the previous meeting on 14 October were approved.

Update from potential secured benchmark providers

3 Representatives of the LSE Group and Euroclear UK & Ireland presented information on their proposed Sterling Secured Overnight Executed Transactions (£ SONET) benchmark, which is expected to be launched in Q1 2017. The full presentation is available on the FTSE webpages.¹ The methodology of the benchmark was proposed as the volume weighted median of the interest rates on:

- Sterling wholesale repo transactions secured against UK government securities;
- With one business day maturity;
- Settled Overnight (T+0) or tom-next (T+1), but in all cases settled on the day used in the £SONET index calculation;
- Either cleared through LCH Repoclear, or uncleared and settled through CREST using DBV;
- Executed between 00:00 hours and 18:00 hours UK time; and
- With no minimum transaction size.

4 During the period 1 July to 16 September, the proposed benchmark had captured an average daily transaction volume of £56bn, covering an estimated 70% of the gilt repo market. The remaining 30% of the market comprised uncleared gilt-specific repo settled through Euroclear, and triparty transactions. The presenters suggested that it may be possible to consider including uncleared gilt-specific repo transactions from 2017. Members stressed that such a change would need to be carefully signalled to users in advance, since the rate distribution for gilt-specific transactions may differ, with a resultant impact on the calculated rate.

5 There was some discussion of whether the median rate was the appropriate averaging methodology for a secured rate which includes both gilt-specific repo and general collateral repo. The 'specialness' of some gilt-specific repo transactions tended to negatively skew the distribution of transacted rates. The Group had previously discussed how different calculation methodologies could be used to counter this effect, while maintaining high and robust volumes.²

6 The benchmark would be incorporated into the existing benchmark governance structure of FTSE-Russell (part of LSE Group). The LSE Group had performed limited outreach amongst potential users of the benchmark, and planned to discuss the methodology with a new Advisory Committee – with representation from users, the sell-side, and platform operators, among others – prior to finalisation. It

¹ See <http://www.ftserussell.com/research-insights/SONET>

² <http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/minutes14jul15.pdf>

was agreed that any further comments from Group members would be fed back to the LSE Group through the sub-group for secured rates.

7 ICAP Information Services provided a written update on their Sterling Repo Index Rate (£RIR), which was reported at the meeting. £RIR data are provided by Brokertec and are estimated to capture 80% of the electronically traded, centrally cleared, dealer to dealer sterling repo market. ICAP were in dialogue with other potential data providers. ICAP had also commenced discussions with a number of exchanges regarding initial interest to create a sterling futures contract referencing the £RIR.

8 No further update was forthcoming from the remaining firms which had expressed interest in producing a secured rate.

OIS transition discussion

9 A potential OIS transition strategy – to implement a secured rate as the reference rate in the sterling OIS market – had been developed collaboratively between the Bank, LCH.Clearnet³, ISDA and the Chair's office, taking on board feedback from Group members at the August meeting. It was noted that detailed further work would be required to implement this plan, but this would be deferred until after the provisional RFR recommendation had been made. At this point, feedback was being sought from the Group on the approach proposed; this would be published once finalised in early 2017.

10 The proposal was for a coordinated and consensual OIS transition, requiring a mutually interdependent set of commitments amongst key stakeholders. It was explained that a consensus would need to be reached on each element of the plan in advance of initiating transition, including:

- i) a consensus to aggregate liquidity in OIS which reference the RFR from a designated point in time;
- ii) a process/timeline for securing clearing eligibility for RFR referenced contracts;
- iii) a process for implementing a change in the PAI rate and discounting methodology at clearing houses at the same point in time;
- iv) a protocol process for amending legacy bilateral swap contracts and CSAs; and
- v) a process to facilitate the “bulk” transition of the reset rate for legacy cleared OIS.

11 The Group discussed the risks involved in this transition strategy, and actions which could be taken to prevent the process resulting in a bifurcated market or an aggregate increase in basis risk. Specifically, some members noted that simultaneous agreement to implement the latter three elements would likely be required, to ensure success. It was recognised that the illustrative timeline for the transition strategy outlined indicated that in a best case scenario, completion of transition would likely be January 2021, following a three-year notice period. Members were asked to provide feedback on the strategy, via the Bank.

Presentation on EU Benchmark Regulation

12 Following the discussion in the preceding meeting on the need for clear and transparent process and governance around the evolution of a benchmark, the FCA had been asked to provide a broad overview of the EU Benchmark Regulation (EU BMR). FCA talked through the timeline for the implementation of

³ as the largest central clearing counterparty in the cleared sterling swap market; the Bank had also discussed the proposal with CME Clearing Europe.

the BMR, explaining that it entered into force in June 2016 and will apply in full from January 2018, with a subsequent 24 month transition period during which existing benchmarks may continue to be published and used without authorisation.

13 FCA explained that the regulation set out transparency requirements for administrators with their users: consulting on changes; publishing key features of the benchmark; and change and cessation plans for all benchmarks. Users themselves would in turn be required to ensure that their referenced benchmarks are authorised in the EU and that they have contingency arrangements to deal with cessation.

14 The FCA encouraged Group members to feed any comments on ESMA draft technical standards under the benchmarks regulation⁴ into their consultation, which ends 2 December 2016.

⁴ www.esma.europa.eu/system/files_force/library/2016-1406.pdf?download=1

Private sector attendees

Nick Sagers	Bank of America-Merrill Lynch
Francois Jourdain	Barclays (Chairman)
Andreas Giannopoulos	Barclays (Chair's office)
Tejonidhi Kashyap	Barclays (Chair's office)
Mike Manna	Barclays
Adrian Averde	BNP Paribas
Alain Verdickt	Citigroup
Stephen Randall	Citigroup
Arif Merali	Credit Suisse
John Hilty	Deutsche Bank
Ryan Sbarra	Deutsche Bank
Michael Graham	Goldman Sachs
Nikhil Choraria	Goldman Sachs
Christophe Rivoire	HSBC
Kari Hallgrimsson	JP Morgan
Christophe Coutte	Lloyds
Freddie Napier	Morgan Stanley
Mike Curtis	Nomura
David Bradley	Royal Bank of Scotland
Andrew Cross	Santander
Stephane Cuny	Société Générale
Chirag Dave	UBS
Phil Whitehurst	LCH.Clearnet (Observer)
Michael Davie	LSE Group (Guest, only for their presentation)
Oliver Huggins	LSE Group (Guest, only for their presentation)
Chris Woods	LSE Group (Guest, only for their presentation)
Anoushka Babbar	LSE Group (Guest, only for their presentation)
Paul Avis	LSE Group (Guest, only for their presentation)
Paul Elkins	LCH.Clearnet (Guest, only for their presentation)
Angus Scott	Euroclear (Guest, only for their presentation)

Official sector attendees

Tim Taylor	Bank of England
Will Parry	Bank of England
Rob Harris	Bank of England
Renée Horrell	Bank of England
Sakshi Gupta	Bank of England
David Geen	Bank of England
Harriet Hunnoble	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority