

Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Monday 18 April
Bank of England

Minutes of previous meeting

1 The minutes of the previous meeting on 1 March 2016 had been approved by written procedure prior to the meeting.

Sterling Repo Index Rate

2 EBS BrokerTec and ICAP Information Services had previously presented to the Working Group a proposed new secured benchmark that was, at that time, under development. The benchmark had now been launched as the Sterling Repo Index Rate (RIR), and BrokerTec/ICAP were invited to present on the details of the new benchmark.

3 The Sterling RIR benchmark is compiled using data on cleared, inter-dealer, one-day maturity gilt repo transactions from the BrokerTec trading platforms, although data from other platforms is being considered. The rate is now being published daily, with a 10-year time series of rates and volumes publically available. The rate closely tracks existing overnight market interest rates, with average daily Repo volumes around £15-20bn per day through 2015.

4 ICAP briefly outlined their intentions to generate legal definitions for the benchmark – alongside their equivalent euro-denominated repo benchmarks (RepoFunds Rate) – in order to facilitate the development of an OIS or futures product which referenced the Sterling RIR.

5 The Group welcomed the development of ICAP's Sterling RIR as bringing further transparency to the gilt repo market. In discussion, they noted that the benchmark covered a broader portion of the inter-dealer gilt repo market than currently available benchmarks, but did not include uncleared or dealer-client transactions, which make up a significant part of the market.

Update on other potential secured benchmark providers

6 The secured rate sub-Group provided an update on their recent discussions with the other firms who had expressed an interest in producing a secured benchmark. Following discussions, the sub-Group had provided initial feedback and areas for further consideration, with a view to each proposal being presented to the full Working Group in due course.

Future robustness of overnight benchmarks

7 Following the request from the Chair at the previous meeting, the secured sub-Group's leads presented their initial views on whether there were actions the official sector could consider to support activity in the secured money markets. In the context of the FPC's recent discussion of whether there were possible refinements to internationally agreed post-crisis regulations that could further promote market effectiveness without compromising resilience,¹ the leads noted that the removal of central bank money and high quality government bonds from the leverage ratio exposure measure could promote

¹ See paragraphs 59 and 60 of the Record of the FPC meeting, available at <http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2016/record1604.pdf>

liquidity in the gilt repo market, and consequently, benchmark robustness. However Group members recognised that proposing modifications to prudential regulations was beyond the remit of the Group, and such modifications would in any case be subject to far broader considerations than the narrow issue of benchmark robustness.

8 The unsecured market sub-Group would provide their views at the next meeting.

Workstream on RFR adoption plans

9 The workstream lead for RFR adoption plans presented initial thoughts to the Group, with suggested further work. Areas under consideration included:

- i. Accounting and hedge accounting practices – to consider issues related to re-designation of fair value and cash flow relationships and any associated impact on profit & loss;
- ii. Systems and operational issues – the initial view was that banking systems will be able to deal with multiple reference rates, although further investigation was required;
- iii. The potential role of cash markets in generating interest in the RFR – where cash market instruments, such as corporate loan and deposit markets, also refer once the RFR, this would generate a need to hedge those exposures using derivatives which reference the RFR;
- iv. Legal issues and/or constraints regarding large-scale adoption – further investigation was required;
- v. The impact of pricing and valuation adjustments – this had been discussed extensively, but corporate lending which references LIBOR should be considered, since pricing may be based on multi-year income models; and
- vi. The potential for inertia and costs associated with adoption.

Interim Report of the Working Group

10 Recognising increased interest in the deliberations of the Working Group, and the need to broaden the scope of end-user engagement, the Chair had proposed the production of an Interim Report. The Chair's office and Bank of England secretariat shared an outline Report, and comments were welcomed. A first draft would be produced for discussion at the next meeting.

Private sector attendees

Nick Saggars	Bank of America-Merrill Lynch
Francois Jourdain	Barclays (Chairman)
Andreas Giannopoulos	Barclays (Chair's office)
Mike Manna	Barclays
Bruno Chauviere	BNP Paribas
Alain Verdickt	Citigroup
Stephen Randall	Citigroup
Arif Merali	Credit Suisse
John Hilty	Deutsche Bank
Ryan Sbarra	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Michael Graham	Goldman Sachs
Glenn Handley	HSBC
Ian Fox	Lloyds
Freddie Napier	Morgan Stanley
Mike Curtis	Nomura
Toby Stevenson	Royal Bank of Scotland
David Bradley	Royal Bank of Scotland
Paul Barnes	Santander
Chirag Dave	UBS
Catherine Farrer	ISDA (Observer only)
Philip Whitehurst	LCH.Clearnet (Observer only)
John Edwards	EBS Brokertec (Guest)
Jan de Smedt	ICAP Information Services (Guest)

Official sector attendees

Ed Ocampo	Bank of England
Tim Taylor	Bank of England
Will Parry	Bank of England
Rob Harris	Bank of England
Renée Horrell	Bank of England
Neel Acharya	Bank of England
Devid Mazzonetto	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority