

Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Monday 08 August 2016
Barclays' offices – Canary Wharf

Minutes of previous meeting

1 The minutes of the previous meeting on 30 June were approved.

Follow-up on secured benchmark proposal from LSE Group and EUI

2 The LSE Group and EUI had provided analysis in response to questions raised at the previous Working Group meeting on their proposed secured benchmark. This analysis was sent to the group in advance of the meeting. This included a 3 month compounded RFR rate, which the group had requested as a key indicator for the benchmark's application in swap contracts. Members noted that this series was stable and smoothed through the month-end spikes seen in the daily charts. The chart also showed that the 3 month compounded RFR had remained stable during the 2011/12 Eurozone crisis period, while 3 month Libor had increased reflecting bank credit concerns. Members were asked to provide any further feedback / questions ahead of the LSE Group/EUI being invited to present again at a subsequent meeting.

Update on SMMD data collection

3 The Bank of England SMMD data collection had formally begun on 1st July, with 34 unsecured and 22 secured reporters sending daily data from that point. The process had been running smoothly, with files received on time and the number of validation errors falling over time. The Bank had been working through data quality issues with the reporters, focusing on the unsecured market initially. The overnight unsecured volumes were broadly consistent with the results of the SMMA survey in November. SONIA reform analysis was ongoing and the Bank confirmed it would not be a position to share this analysis with the Working Group until it had published its public consultation – now expected in early October.

4 Following the 4 August announcement from the FPC and PRA regarding the exemption of central bank reserves from the leverage ratio with immediate effect, the group discussed the potential impacts on wholesale money market activity. It was generally expected that this change would cause an increase in competition for deposits, potentially resulting in a reduction in rate dispersion and slightly higher SONIA and repo rate fixings.

OIS transition strategies

5 The Working Group had previously considered both big bang and gradual OIS transition strategies; and had concluded that the former was more viable. However, concerns had been expressed, including by the Bank, about the risks associated with the big bang strategy. The discussion focussed on an intermediate strategy that seeks to avoid the need for SONIA to be discontinued at the point of transition, yet still provides a sufficient impetus to drive transition.

6 In particular, members discussed how a consensual, point-in-time transition of the overnight reset rate in both cleared and bilateral swap markets could be designed to overcome the circularity that

clearing eligibility requires liquidity, but liquidity hinges on dealers' ability to clear contracts. The group concluded that this would require a set of mutually interdependent commitments amongst OIS market stakeholders:

- a process/timeline for clearing approval;
- a protocol process for amending legacy bilateral swap contracts and CSA's;
- a process for changing the reset rate on legacy cleared contracts; and
- a process for changing the clearing house PAI rate.

7 LCH and the Bank would continue to develop these plans in collaboration with Working Group members.

RFR adoption workstream update

8 In order to communicate the advantages of a sterling RFR as an alternative to LIBOR, the RFR adoption sub-group had produced a draft document outlining the benefits to the wider market. Members provided some initial feedback and agreed to provide the sub-group any further points in order that the document could be finalised and published on the Working Group's webpage.

Discussion of responses to ARRC consultation

8 The Working Group noted that US equivalent of the Working Group, the Alternative Reference Rates Committee (ARRC), had published the consultation responses it had received to its Interim Report and Consultation.

9 The Group discussed these responses in the context of its own consultation plans. Members recognised that providing clarity to end-users in the sterling market on the benefits of RFR adoption would be key to gaining support for the new rate. This would be an important component of its consultation plans.

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)
Jon Desler	Barclays
John Hilty	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Michael Graham	Goldman Sachs
Glenn Handley	HSBC
Charles Bristow	JP Morgan
Ian Fox	Lloyds
Phil Whitehurst	LCH
Freddie Napier	Morgan Stanley
Mike Curtis	Nomura
Toby Stevenson	Royal Bank of Scotland
Alan Williams	Santander
Stephane Cuny	Société Générale
Chirag Dave	UBS
Paul Canty	UBS
Kirsty Taylor	ISDA (Observer only)

Official sector attendees

Ed Ocampo	Bank of England
Tim Taylor	Bank of England
Will Parry	Bank of England
Renée Horrell	Bank of England
Jan Lasik	Bank of England
David Geen	Bank of England
Devid Mazzonetto	Financial Conduct Authority
Katherine Smits	Financial Conduct Authority