

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

Thursday 30 June 2016

Barclays' offices – Canary Wharf

Minutes of previous meeting

1 The minutes of the previous meeting on 11 May had been approved by written procedure prior to the meeting.

A proposal for a secured benchmark

2 Representatives from London Stock Exchange Group (Christopher Woods, Oliver Huggins and Paul Avis), LCH (Paul Elkins) and Euroclear (Angus Scott and Peter Checkley) presented to the Group regarding their proposal to produce a secured benchmark, following the publication in December of 'Design criteria for a secured overnight money market benchmark'.¹ The benchmark would use cleared specific, cleared DBV and cleared triparty datasets from LCH, and a dataset of uncleared voice-brokered DBV repo transactions from EUI.

3 Available data were estimated to cover over half of the total overnight gilt repo market. Based on these data the rate did not show a directional bias against the SONIA benchmark, and was strongly correlated with ICAP's Sterling Repo Index Rate that had been presented to the Group in April.

4 With some changes to market practices for reporting uncleared repo transactions, it was estimated that around 78% of the total overnight gilt repo market could be captured. Two changes were necessary to capture this full dataset: i) mandatory reporting of the interest rate field for DBV transactions, and ii) a flag to distinguish repo transactions from stock loan collateralisations and inter-company rebalances within the CREST DBV dataset. The former was seen as easier to implement, and could be initiated by the institutions represented on the Working Group, while the latter was already being explored by the secured sub-group.

5 There was a discussion as to whether it would be better to publish a rate on currently available data and evolve it over time as these changes are implemented or whether it was preferable to postpone introduction until a more complete data set was available. It was noted that the data didn't indicate a discernible basis between cleared and uncleared trades, which might facilitate a phased introduction.

6 The Group welcomed the initiative, and suggested that further work be undertaken to explore the steps required to include the extra activity, and further analyse the characteristics of the rate.

Letter to Euroclear UK and Ireland

7 Following the agreement, at the previous meeting, of high-level principles for relevant market infrastructure providers to promote the development of secured benchmarks, the Group discussed a draft letter to Euroclear UK and Ireland. This would be sent on behalf of the Working Group, requesting further work into the use of the RPO mechanism for settlement in the CREST system.

¹ <http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/sterlingsecure.pdf>

8 In addition, the Chair agreed to draft a letter to be sent to all Working Group member firms, requesting they make the necessary changes to their own systems to begin using the RPO flag, and reporting the interest rate field for DBV transactions.

Update on ARRC

9 The US equivalent of the Working Group, the Alternative Reference Rates Committee (ARRC) had held a roundtable on 21st June.² The event was attended by a broad range of stakeholders, including end users, members of the press, infrastructure firms, and official sector representatives. The event opened with a speech by Governor Powell,³ and there were two panel sessions providing detail on the alternate rates under consideration, and the paced transition plan for OIS reference rates. Both panels were followed by extensive Q&A.

Updates from CHF and JPY working groups

10 In addition to the summary on the US ARRC, an update was provided on the progress made by the Swiss and Japanese benchmark rate reform efforts. It was suggested that relevant ECB stakeholders might be invited to a future Working Group meeting in order to promote international co-ordination.

Update on RFR Adoption work stream

11 The work stream leads for RFR adoption presented a progress update. The proposed next steps were to further explore the identified potential issues and benefits of adopting the RFR, before Working Group members were tasked with exploring the implications for their own institution. The main points for further work were:

- i. Risk management benefits of RFR – outlining the advantages of RFR swaps for the sterling market.
- ii. Bank capital requirements – assessing the implications of a transition to RFR swaps for IRRBB Pillar II capital.
- iii. Hedge accounting – organising a meeting with accounting experts from member firms to assess and agree the approach with IASB.
- iv. Insurance hedging – organise a meeting with PRA technical experts on EIOPA risk-free rates.
- v. Futures – engage with potential exchange traded product providers for RFR linked securities.

Future Working Group scheduling

12 It was agreed that the next meeting should take place in four to five weeks, to allow further progress to be made in the active work streams. After that they would continue at that frequency until the release of the consultation on the unsecured benchmark design.

² Agenda - <https://www.newyorkfed.org/medialibrary/microsites/arrc/files/2016/Jun-21-2016-ARRC-Agenda.pdf>
Slides - <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2016/ARRC-roundtable-slides.pdf>

³ <https://www.federalreserve.gov/newsevents/speech/powell20160621a.htm>

Private sector attendees

Nick Siggers	Bank of America-Merrill Lynch
Francois Jourdain	Barclays (Chairman)
Andreas Giannopoulos	Barclays (Chair's office)
Tejonidhi Kashyap	Barclays (Chair's office)
Mike Manna	Barclays
Alain Verdict	Citigroup
Alistair Sharp	Credit Suisse
Ryan Sbarra	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Michael Graham	Goldman Sachs
Christophe Rivoire	HSBC
Charles Bristow	JP Morgan
Christophe Coutte	Lloyds
Ciaran O'Flynn	Morgan Stanley
Freddie Napier	Morgan Stanley
Mike Curtis	Nomura
Toby Stevenson	Royal Bank of Scotland
Paul Barnes	Santander
Stephane Cuny	Société Générale
Chirag Dave	UBS
Paul Canty	UBS
Kirstie Taylor	ISDA (Observer only)
Oliver Huggins	LSE Group (Guest)
Paul Avis	LSE Group (Guest)
Christopher Woods	LSE Group (Guest)
Paul Elkins	LCH.Clearnet (Guest)⁴
Angus Scott	Euroclear (Guest)
Peter Checkley	Euroclear (Guest)

Official sector attendees

Ed Ocampo	Bank of England
Tim Taylor	Bank of England
Renée Horrell	Bank of England
Ben Morley	Bank of England
Jan Lasik	Bank of England
Devid Mazzonetto	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority

⁴ Philip Whitehurst, LCH's observer on the Group, recused himself from the meeting given the discussion under item 2.