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

Wednesday 11 May

Bank of England

Minutes of previous meeting

1 The minutes of the previous meeting on 18 April 2016 were approved.

Competition considerations

2 The Working Group's terms of reference state clearly the responsibility of Working Group members to understand their obligations under all applicable competition laws. In view of the fact that the Group expected to make decisions in coming months, and that Working Group attendees had changed over time, the Chair took the opportunity to remind members of their individual responsibilities in respect of competition law.

Interim Report of the Working Group

3 Comments were welcomed on a draft of the Interim Report, prepared by Bank of England secretariat and the Chair's office. The Report provided a summary of progress since the Working Group's inaugural meeting and an outline of its future work programme. In doing so, the Group's aim was to begin engaging a broader set of stakeholders in order to inform its deliberations.[1]

Development of secured benchmarks

4 The secured rate sub-Group had continued to consider ways to promote the development of secured benchmarks, focusing on the availability of transaction data for gilt repo. It was proposed that the Group produce a set of high-level principles for relevant market infrastructure providers, to facilitate post-trade transparency, including inputs to potential third party benchmarks. The principles were agreed as:

a) All appropriate transaction data should be available for use to the benchmark administrator;

b) All appropriate transaction data that is submitted should be populated with adequate settlement identification procedures;

c) A complete trade record should be provided, which includes but is not limited to, economic fundamentals and trade identification;

d) The process of submitting data to an administrator should have robust governance in place, including adequate controls that recognise the risk of future inefficiencies;

e) Risk management, control procedures and front-to-back processes should be documented.

5 It was further proposed that these high-level guidelines could be accompanied by targeted requests, made by the Group, for improvements in the availability of data from specific infrastructure providers. The Group recognised that for infrastructure providers implementation of these guidelines may require action from users of the infrastructure: Working Group members were committed to support any action as necessary.

[1] The Interim Report was subsequently published and is available here: http://www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2016/rfrwgintrep16.pdf

Future robustness of overnight benchmarks

6 Following on from the discussion at the previous meeting, which had focused on secured money markets, the unsecured rate sub-Group leads presented initial views on whether there were actions the official sector could consider that would support activity in the unsecured money markets.

7 The sub-Group outlined a number of factors which may inhibit transaction volumes of both borrowing and lending in the unsecured money markets. In the context of the FPC's forthcoming review of possible refinements to internationally agreed post-crisis regulations, the leads noted that a reduction in risk-weighted capital requirements, or a reduction in the required stable funding, could promote liquidity in overnight lending markets. On the borrowing side, the leads noted that the exclusion of central bank reserves and HQLA from the Leverage Ratio exposure measure could also promote liquidity; consistent with the findings of the secured rate sub-Group in the previous meeting.

8 Turning back to secured markets, it was suggested that a slight amendment to the implementation of the Liquidity Coverage Ratio (LCR) could boost transaction volumes by encouraging greater rollover of liquid asset buffers (LABs). PRA-regulated firms are currently required to periodically realise a "significant proportion" of the assets in their LABs over a twelve-month period.

9 Again, the Group 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.

10 The Group also discussed ways in which the design of the Bank's Sterling Monetary Framework (SMF) could impact sterling money market transaction volumes. For example, under a reserves targeting monetary framework, banks would be required to more actively manage their reserves balances, by comparison with the current 'floor' framework under Quantitative Easing.[2] In addition, some members suggested broadening access to the SMF – to include any market participants more able and willing to arbitrage price discrepancies in short-term money markets – although the impact on transaction volumes was not clear.

11 Stepping back from the specific factors affecting the outlook for money market activity, the Group discussed in broader terms the nature of intermediation in unsecured and secured markets.

12 The banking sector intermediates funds in the overnight unsecured market. As the cost to banks of such intermediation had risen, some felt that banks had become less willing to accept overnight deposits, other than as part of a broader banking relationship with their clients. Moreover there was a sense that few banks were active lenders in the private market. It was not clear the extent to which this was a permanent change in the unsecured market.

13 In contrast to the unsecured market, the Group felt that the constituency of borrowers in the secured markets was much broader, and banks were active as both borrowers and lenders, including through interbank activity. It was noted that in the future, non-bank agents may be willing to take on the role of

[2] For further background, see the Bank of England's Red Book, available here: http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/redbook.aspx

intermediation, which reduces the reliance on banks to do so. The implication of this is that in the longer term a secured benchmark would need to have access to data on transactions between non-banks.

14 The Group also noted a high degree of uncertainty over the impact of the implementation of structural reforms and the ring-fencing of retail banking operations on the structure of the sterling money markets.

Update on RFR Adoption workstream

15 The workstream leads for RFR adoption plans presented a progress update. The next steps would be to further refine the issues and identify potential solutions that could facilitate RFR adoption, and to plan how to engage end-users to support the process of RFR adoption.

Private sector attendees

Nick Saggers	**Bank of America-Merrill Lynch**
Francois Jourdain	**Barclays (Chairman)**
Andreas Giannopoulos	**Barclays (Chair's office)**
Tejonidhi Kashyap	**Barclays (Chair's office)**
Bineet Shah	**Barclays**
Patrick Chauvet	**BNP Paribas**
Stephen Randall	**Citigroup**
Arif Merali	**Credit Suisse**
John Hilty	**Deutsche Bank**
Ryan Sbarra	**Deutsche Bank**
Nikhil Choraria	**Goldman Sachs**
Michael Graham	**Goldman Sachs**
Jean-Michel Meyer	**HSBC**
Christophe Coutte	**Lloyds**
Ciaran O'Flynn	**Morgan Stanley**
Freddie Napier	**Morgan Stanley**
Mike Curtis	**Nomura**
Toby Stevenson	**Royal Bank of Scotland**
David Bradley	**Royal Bank of Scotland**
Paul Barnes	**Santander**
Stephane Cuny	**Société Générale**
Chirag Dave	**UBS**
Paul Canty	**UBS**
Catherine Farrer	**ISDA (Observer only)**
Philip Whitehurst	**LCH.Clearnet (Observer only)**

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**
Ben Morley	**Bank of England**
Neel Acharya	**Bank of England**
Devid Mazzonetto	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**