

Minutes

SONIA Advisory Committee

12 December 2016

Location: Bank of England

Members: Sarah John (Chair)
David Clark
Alex McDonald
Philip Chilvers
John Ewan
Brad Jeffery
Ian Mair
Will Parry
Robert Thurlow
Peter Weston
Philip Whitehurst

Attendees: Rob Harris
Renée Horrell
Steve Wright

Minute no.	Minute	Action
1.	<p>Review of the SONIA Dashboard The Committee reviewed the SONIA Dashboard covering the period of September to November.</p> <p>SONIA had been stable throughout the period, with the exception of month-ends, when the rate fell slightly, but in line with recent experience. Volumes had been growing steadily throughout the period, averaging around £12bn in November, compared to £9bn in the prior quarter.</p> <p>There were three contributor system issues during the quarter. On each occasion, alternative processes allowed input data to be transferred, validated and used in the calculation, with no impact on the timely publication of the benchmark.</p> <p>The Dashboard showed a number of plausibility checks by the WMBA to contributor firms to confirm trades. On each occasion, these trades were successfully confirmed. There was some discussion of the appropriate ranges to be used for such queries, since compression of rates since the 4 August cut in Bank Rate had increased the frequency of plausibility checks. It was recognised that appropriate thresholds balanced the need to identify potentially erroneous trades and minimising the burden on brokers in responding queries. The WMBA agreed to conduct further analysis.</p>	4
2.	<p>Bank's internal audit of the interim governance arrangements for SONIA The Bank had previously made the Advisory Committee aware that an internal audit had been arranged to review the interim governance arrangements for SONIA during the period for which the WMBA act as calculation and publication agent on behalf of the Bank. This audit was completed in November 2016, having reviewed:</p> <ul style="list-style-type: none">• The role of the Advisory Committee and internal governance, which oversees the WMBA's calculation and publication of SONIA; and• Internal processes and governance for the monitoring and surveillance of the data inputs to SONIA. <p>Overall the audit found the Bank's approach was appropriate. The Bank was in the process of implementing some minor enhancements recommended by the audit</p>	N/A

report.

3. **The Reform of SONIA: consultation discussion** N/A

The Bank summarised the key points of its consultation on the reform of SONIA¹, seeking initial reactions from Committee members and encouraging formal responses from their institutions.

The Bank had proposed that the definition of SONIA be separated into a definition of the underlying interest (an enduring statement of the economic concept that the benchmark seeks to measure) and a statement of the methodology (how it is currently to be measured) that might if necessary change in response to market developments that undermined the current methodology. That would facilitate the smooth evolution of SONIA if required, allowing for greater contractual certainty/continuity.

Some Committee members felt that there was a risk that the statement of underlying interest could be mis-perceived as suggesting that specific trades exhibiting elements of risk would be excluded from the calculation.

In addition, some members felt that the proposed broad definition of the underlying interest of SONIA might lead to uncertainty as to the potential timing and scope of any future evolution. An alternative approach would be to define the underlying interest of SONIA more narrowly – specifically referencing the unsecured market – which would reduce the scope for future uncertainty about the input data, but increase the chance that any material future changes in the underlying market could lead to the cessation of SONIA, necessitating the market to transition to an alternative benchmark. The Bank viewed the approach proposed as consistent with Article 11 (input data), Article 28 (changes to and cessation of a benchmark) of the EU Benchmark Regulation and Principle 12 of the IOSCO Principles (Changes to the Methodology).

In line with the discussion at their 20 September meeting on the appropriate degree of rounding for SONIA, the Committee noted that the Bank had chosen to retain publication of the rate to four decimal places. Members agreed with this approach, viewing that this would ensure that any change in market behaviour to transact at more granular rates would be reflected in the benchmark looking forward.

The Bank encouraged members to formally respond to the consultation.

4. **Implementing the change in SONIA publication time to the following day** N/A

The Bank updated the Committee on its work with users to ensure the transition of SONIA to next-day publication proceeds smoothly (this will occur at the point the Bank takes on the publication, currently indicated to be 2017 Q4). The Bank had been working with the central counterparties to consider implications for their processes for payment of interest on margin balances (e.g. Price Alignment Interest). Similarly ISDA's Rates Market Infrastructure Group had been considering the impact on the settlement of the floating-leg payment of sterling OIS transactions.

Recognising that SONIA is widely used, including in firms' internal pricing, the Committee were encouraged to let the Bank know of any further operational issues which need to be considered prior to the implementation of the change to publication day.

¹ Available at: www.bankofengland.co.uk/markets/Documents/soniareformcp1016.pdf