



Minutes

SONIA Advisory Committee

20 September 2016

Location: Bank of England

Members: Sarah John (Chair)
David Clark
Philip Chilvers
John Ewan
Andrew Hadley
Brad Jeffery
Will Parry
Peter Weston
Philip Whitehurst

Attendees: Rob Harris
Steve Wright

Apologies: Ian Mair
Alex McDonald

Minute no.	Minute	Action
1.	<p>Updates on the Bank's reform of SONIA</p> <p>The Bank provided an update on the progress and timelines for the Bank's reform of SONIA.</p> <p>The Bank's SMMD data collection had formally begun on 1st July, with 34 unsecured and 22 secured reporters sending daily data from then. The overnight unsecured volumes were broadly consistent with the results of the SMMA survey in November, at around 3-4 times current daily SONIA volumes.</p> <p>The Bank anticipated that it would share its full proposals for reformed SONIA in a public consultation, expected in early October. The current expected timeline for transition to reformed SONIA was in Q4 2017. The existing procedures for producing SONIA would remain in place until transition was complete.</p>	N/A
2.	<p>Review of SONIA Dashboard</p> <p>The Committee reviewed the SONIA Dashboard covering the period mid-May to end- August.</p> <p>Throughout the period, on average daily SONIA volumes were stable, around £8-10bn, but there were a few notable days where volumes fell slightly: the last day June, and the day after the MPC cut Bank Rate to 0.25% on the 5 August. For the period up until the cut in Bank Rate, SONIA was also stable at around 0.46%; with a 1-2 basis point fall at the end of most months. On the day of the rate cut, SONIA fell to 0.246%, before settling around 0.215% for the rest of the month.</p> <p>There were five incidents involving data errors through the period, although none sufficiently material to trigger a republication under the agreed republication threshold; i.e. the impact on SONIA was less than one basis point. The Committee noted that the WMBA had completed incident reports with the relevant contributing entities, with agreed remedial steps. The Bank noted that they had</p>	N/A

also written to the relevant entities to affirm the necessity for swift remediation.

3. Periodic review of the Data Quality Code

N/A

The Committee undertook its periodic review of the Data Quality Code. As part of this there was a discussion on the potential inclusion of an attestation by contributing entities to the WMBA's Data Quality Code.

All Committee members agreed that in general attestations had a valuable role to play in ensuring appropriate systems and controls. But it was noted that an existing incident management process was already in place to deal with issues arising in the production of SONIA since the contributed information was collected from publically available sources.

Moreover, the additional benefit needed to be balanced against the costs of imposing such a requirement, and whether these were proportional to the risks the attestation would seek to mitigate. As such, the Committee felt that an attestation may have more value if applied on an ad hoc basis, where a clear trend of poor controls was identified; this was not currently the case.

The Committee agreed to keep the concept of an attestation under review, whilst also considering the interim nature of the current SONIA production arrangements.

4. Discussion on the appropriate degree of rounding for SONIA

N/A

The Committee discussed whether the current degree of rounding for SONIA – to four decimal places – remained appropriate. Some members of the Committee felt that this gave too precise an indication of the level of trading in the underlying market given transactions were usually only entered into in whole basis points.

Other members felt that the current degree of rounding might give additional information to market participants for the purpose of pricing and modelling of interest rate derivatives. Some felt that the degree of precision needed for the derivatives market shouldn't necessarily drive the degree of rounding of the reference spot rate.

The Bank presented some brief analysis which compared current SONIA rounded to two and four decimal places. Using three month compounded SONIA rates to estimate a £100 million 3-month Overnight Indexed Swap position, on average over the past 15 years, the difference in profit and loss where SONIA was rounded to two decimal places instead of four, was negligible.

It was agreed there was no pressing need to change the calculation methodology, particularly in the light of the forthcoming reform of SONIA being undertaken by the Bank.

5. Lessons learnt from the RT hours extension, relevant to moving publication to T+1

The Chair asked for members' views as to any lessons learnt from the change in publication time of SONIA to after 18:00, which may be relevant for the Bank's plans to change the publication time of reformed SONIA to the following morning at 09:00.

Members noted that they had not experienced any noticeable operational difficulties with the change and that the lengthy notice period had helped.