

Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Tuesday 7 April 2017
Bank of England offices – Moorgate

Obligations under competition law

1 The Chair reminded all members of the Group of their responsibilities in relation to compliance with competition law and the importance of taking their own independent competition law advice.

Minutes of previous meeting

2 The minutes of the previous meeting on 28 March were approved.

Agreement of voting procedures

3 It was agreed that the available candidate RFRs were: SONIA (unsecured), £ SONET (secured) or £ RIR (secured).

4 The Chair proposed a set of voting procedures, designed to achieve consensus on the preferred RFR, which were agreed. The ultimate objective of the Working Group is to develop a robust alternative to sterling Libor, and to catalyse a safe change in market practice so that a significant portion of derivative and other contracts reference the new RFR rather than Libor in a reasonable timeframe. In this context, member firms would be asked which candidate RFR represents best practice for use in derivative and other contracts.

5 Member firms' votes would be submitted confidentially to the Bank of England following the meeting and the outcome published as an addendum to these Minutes.

Confirmation of selection criteria

6 The Group reviewed the RFR selection criteria and no amendments were proposed.¹

Advocacy session and debate

7 The secured and unsecured rate sub-Groups presented their concluding remarks on the respective candidate RFRs. Broadly speaking, all three options were considered viable candidate RFRs. Discussion of their relative merits focused in particular on the following selection criteria.

- Sufficient and reliable market data: The secured rate sub-Group highlighted that daily volumes for the secured RFR candidates have been high in recent months, demonstrating robustness of the underlying market and hence the benchmarks. £ RIR volumes are lower than £ SONET volumes (average since 1 July 2016: £26.7bn vs. £58.8bn, respectively) because £ SONET comprises transactions conducted on other electronic repo trading platforms in addition to Brokertec, as well as uncleared DBV transactions settled through CREST. A few members of the Group noted that £ SONET might capture gilt-for-GC collateral swap transactions (due to the manner of settlement), which are not outright repo transactions and as such may be less indicative of repo rates.

¹ See www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrselection.pdf

The unsecured sub-Group argued that reformed SONIA was likely to be similarly robust, since daily volumes have recently been around four times that for current SONIA – averaging £39.4bn, since 1 July 2016.

- Robustness to changes in market structure: The secured sub-Group observed that FTSE-Russell had demonstrated strong willingness to evolve or expand the data inputs to £ SONET, to ensure the measure captured as many relevant transactions as possible.

The unsecured sub-Group noted that the Bank had outlined a detailed process for evolution of SONIA, which would provide reassurance to users that the rate would continue to exist even in the event that the unsecured market experiences structural change.

- Appropriate governance and commercial sustainability: The secured sub-Group noted that FTSE-Russell's proposed governance arrangements for £ SONET were well developed. The Group expected that the Bank's governance procedures would be similarly effective and noted that a public sector administrator would be less likely to be affected by conflicts of interest that might arise for commercial administrators.
- Sensitivity to market conditions and policy rates: Some Group members argued that the gilt repo market has a broad and diverse set of participants, with activity on both sides of the market. This is demonstrated by movements in rates at month-end dates, as well as rate increases around the UK's referendum of EU membership and falls in average rates in late-2016 in response to collateral availability. The Group debated whether this responsiveness in rates would be a desirable feature for all potential users of an RFR seeking a 'general measure of interest rates'.

Some members argued that reformed SONIA's proximity to, and correlation with, Bank Rate would ensure its applicability as an RFR. Other members argued that unsecured overnight deposits did not represent a relevant funding source for many market participants, and hence use of SONIA as a hedging tool may not be that relevant.

- Ease of understanding: It was also noted that SONIA, as an unsecured rate, was easier to understand conceptually and movements in the rate were simpler to explain since they were not affected by extraneous factors, unlike the secured rate candidates which were affected by the supply of and demand for collateral.
- Ease of transition: Group members noted that recommending SONIA as an RFR would not require an OIS transition. By comparison, a voluntary transition of the OIS market to a secured rate would be required, and was thought only likely to succeed if there was near-unanimous support from market participants. Some felt that this level of support would not be achievable.
- Same day availability: Reformed SONIA will be published at 09:00 the day after that to which the rate pertains, which would impact or delay settlement of sterling OIS and/or collateral remuneration payments. It was noted that there was precedent for this and the operational issues were manageable. By comparison, £ SONET will be published at 21:00 on the same day and while this may be better, some members noted that might still be too late to feed into relevant systems, with similar operational issues to SONIA. £ RIR is published on the same day at 18:00.

8 In forming their individual assessments of the candidate RFRs, and voting for their preferred RFR, member institutions would place different weights on these arguments, and the relative importance of the various selection criteria.

9 The Chair concluded the session by thanking the Group for their engagement in the debate. He noted that the important work done to develop and reform each of the candidate rates has already enhanced the transparency and resilience of sterling money markets, with material benefits for a broad spectrum of market participants.

Addendum: Outcome of the vote – the Group’s recommended Sterling RFR

10 Following the meeting, by written procedure, members agreed to recommend SONIA as the RFR for sterling markets, by more than the two-thirds supermajority required by the Group’s Terms of Reference.²

11 This recommendation, together with the Group’s proposed steps toward an implementation and adoption plan, would be subject to a broad market consultation to be held in the middle of 2017.

² See www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/tor.pdf

Private sector attendees

Nick Sagers	BAML
Francois Jourdain	Barclays (Chair)
Farah Mansoor	Barclays (Chair's office)
Mike Manna	Barclays
Stephen Randall	Citigroup
Arif Merali	Credit Suisse
John Hilty	Deutsche Bank
Juergen Feil	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Michael Graham	Goldman Sachs
Glenn Handley	HSBC
Kari Hallgrimsson	JP Morgan
Ian Fox	Lloyds
Freddie Napier	Morgan Stanley
Mike Curtis	Nomura
Simon Wilson	RBS
Mark Thommason	RBS
Paul Barnes	Santander
Chirag Dave	UBS
Phil Whitehurst	LCH Ltd (Observer)
Rick Sandilands	ISDA (Observer)

Official sector attendees

Will Parry	Bank of England
Ed Ocampo	Bank of England
Rob Harris	Bank of England
Renée Horrell	Bank of England
Sakshi Gupta	Bank of England
David Geen	Bank of England
Richard Grafen	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority