

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

Friday 18 August 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. He asked that members be particularly sensitive to competition issues when working on matters relating to adoption of SONIA, which could involve engagement with service providers. In such scenarios, the Working Group will operate in a transparent and equitable way, asking that any document provided be publicly available and ensuring that all relevant providers have equal opportunity to engage.

Minutes of previous meeting

2 The minutes of the previous meeting on 22 June were approved.

Roundtable debrief and discussion of live feedback / questions received

3 Since the previous meeting, the Group had held a Roundtable convening a broad set of stakeholders to discuss both their choice of SONIA as the RFR for sterling markets and the challenges and opportunities of adoption.¹

4 During the event, audience members submitted questions and responded to polls electronically. The Group reviewed the collated questions and responses, which showed broad support for the Group's recommendation of SONIA as the RFR by the majority of attendees. The engagement from the audience mainly focussed on matters relating to the adoption of SONIA, with general recognition that a liquid SONIA futures market would be a key enabler of adoption. Some audience members deliberated how best to incentivise broad adoption, considering whether term fixings to match existing Libor maturities would be required for certain users, and whether actions or statements by regulators could help facilitate transition. Audience members also considered the possibility of transition of legacy contracts to reference the RFR.

Update from interest rate infrastructure sub-group

5 The sub-group provided an update on their thinking on the derivatives market infrastructure for SONIA, which could help to promote its adoption as an alternative to Libor.

Term fixings

6 Feedback received at the Roundtable indicated that some market participants were likely to view forward-looking term fixings as necessary for broader SONIA adoption.

7 The Working Group's preference was to encourage usage of contractual references to SONIA directly rather than references to a term fixing derived from SONIA – with cash flows determined by the average of realised daily SONIA fixings over the desired maturity. Members had some concerns regarding a forward-looking term RFR fixing, stemming in part from the limited daily volume of short-

¹ www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2017/record060717.pdf

dated OIS transactions. A calculation methodology drawing on regulated market data, together with strong governance and controls would be required to produce a robust fixing.

8 The sub-group would consider further the issue of whether and how a term fixing could be developed, including in light of feedback received from the White Paper². As part of this, members agreed to consider how any compliance risks could be managed.

Design criteria for listed SONIA futures contracts

9 The Group agreed to consider some broad design criteria that a successful SONIA futures product would, in their view, have to meet; and to invite engagement from potential providers. The Group would avoid any involvement in the pricing of such products or with specific implementation issues.

10 The Group discussed the merits of different types of futures contract design, including: the term of the future; whether a simple or a compound interest calculation was preferred; whether settlement should involve physical delivery (for example of a swap) or cash settlement; and the most appropriate rollover dates. Some felt that fungibility with the current SONIA-OIS structure would boost liquidity. Even so, the Group agreed that the views of other market participants – including specialist liquidity provision firms – would need to be taken into account.

11 The Chair had begun to reach out to potential SONIA futures providers to invite them to engage with the Group. Consistent with the aim of ensuring fair opportunity for all potential futures providers, the Group would welcome the approach of any relevant firms not already contacted.³

12 Recognising that establishing liquidity in a new futures product would take time and require appropriate infrastructure to be in place, Group members were asked to consider how long it would take their firms to be ready to trade a new SONIA future, and how best to engage clients.

Working Group structure

13 The Group agreed to split the current sub-group looking at interest rate infrastructure into two: one considering short-term trading infrastructure; the other considering term fixings.

14 In terms of engaging wider sets of stakeholders, the Group discussed the potential for a Pension and Insurance Adoption sub-Group. For the loan market and issuer adoption issues, the Group felt that parallel working groups specialising in those market segments may be more appropriate, allowing the current Working Group to continue to focus on derivatives. It was recognised that parallel groups would need to be very closely coordinated, given inter-linkages in adoption, but that any such groups should consider legacy conversion issues separately.

² www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/rfrwgwhitepaper0617.pdf
Responses to the White Paper are welcomed by 29 September 2017.

³ One member wished a potential conflict of interest to be recorded, owing to their position on the Board of a potential futures provider.

Private sector attendees

Nick Saggars	BAML
Francois Jourdain	Barclays (Chair)
Tejonidhi Kashyap	Barclays (Chair's office)
Andreas Giannopoulos	Barclays (Chair's office)
Frederic Maquet	BNP Paribas
Alain Verdickt	Citigroup
Stephen Randall	Citigroup
Alistair Sharp	Credit Suisse
Nick Gray	Deutsche Bank
Nikhil Choraria	Goldman Sachs
Glenn Handley	HSBC
Kari Hallgrimsson	JP Morgan
Martin Craggs	Lloyds
Vinay Dhanuka	Morgan Stanley
Mike Curtis	Nomura
Mark Thommason	RBS
Toby Stevenson	RBS
Ronnie Cavalli	UBS
Paul Barnes	Santander
Qassim Qureshi	Societe Generale
Phil Whitehurst	LCH ltd (Observer)
Rick Sandilands	ISDA (Observer)

Official sector attendees

Will Parry	Bank of England
Tim Taylor	Bank of England
Rob Harris	Bank of England
Renée Horrell	Bank of England
David Geen	Bank of England
Harriet Hunnabell	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority