Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Tuesday 12 December 2017
Barclays' offices – 5 North Colonnade

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 7 November were approved.

Vice Chair introduction

3 Since the previous meeting, the Bank of England and FCA had announced the next phase of sterling Libor transition including broadening the participation in the Working Group[1]. Frances Hinden (Vice President Treasury Operations, Shell International Ltd) and Simon Wilkinson (Head of LDI Funds, Legal & General Investment Management) had agreed to act as Vice Chairs for the group.

Follow-up from press release

4 The Bank of England briefed the Working Group on the feedback it had received after publishing the press release. Overall, the feedback had been positive and the Bank had received a number of expressions of interest in being involved in the Working Group's work going forward.

5 The Bank and FCA were determining which firms would be invited to participate as members of the group going forward based on three criteria: market footprint in sterling markets; contribution to the overall representativeness and diversity of the group; engagement and contribution to sterling interest rate benchmark reform. The Bank thanked the existing members for their contributions to the group's work thus far. The Chair added that he would be arranging regular bank/broker dealer stakeholder forum meetings in which a broader range of market participants would be represented including all those who wished to be involved from the current working group membership.

Update from sub-groups

Pensions and Insurance adoption sub-group

6 Chirag Dave of Goldman Sachs proposed that he and David Cobbald from the Pensions Protection Fund would co-chair the group. The membership would include a broad range of participants including pension funds, insurers, trustees, trade bodies and other end-users. The sub-group's objectives would focus on promoting strategies to adopt SONIA and to convert legacy products.

7 The Chair agreed and noted that participants in sub-groups would need to be mindful of competition law considerations when engaging. This could be mitigated by the co-chairs ensuring that participants were reminded of their obligations under competition law at each meeting. The sub-groups would also publish key recommendations for wider consultation to facilitate broader transparency regarding their work.

Futures sub-group

[1] www.bankofengland.co.uk/news/2017/november/bank-and-fca-launch-next-phase-of-sterling-libor-transition-work

8 The sub-group had formed initial conclusions regarding the design of a futures contract and had subsequently discussed these with exchanges who were invited to participate in the most recent meeting.

9 The sub-group intended to make a recommendation in early 2018, ahead of the anticipated decision by exchanges to start a new futures contract once the SONIA reforms were implemented on 23 April 2018. Working Group members were invited to comment on the initial conclusions, including:

- SONIA futures should settle against a realised SONIA rate as opposed to a forward-looking term SONIA rate.
- The primary contract for SONIA futures trading should be a 3 month contract, expiring on IMM dates out to at least five years. This would be consistent with current Short Sterling contracts which should promote liquidity through basis trading, as well as facilitating transition out of current Short Sterling contracts.
- A 1 month contract settling on calendar dates, out to at least one year, would complement this 3 month contract and give more granularity at the front end of the curve.
- Fixed tick value across the futures strip, with a minimum tick value of £12.50 and a minimum bid/offer spread of 0.5 basis points. This should support liquidity by allowing trading across short sterling and SONIA futures on a comparable basis.
- The sub-group had been unable to conclude whether the settlement price should be compounded or averaged realised SONIA over the period; there is a slight preference for compounding for consistency with OTC derivatives. The sub-group chair proposed to leave the decision to the exchanges.
- Contracts should be named as the month at the start of the period as per the current convention for OTC derivatives.
- Cross-margining of futures exposures against OTC derivatives exposures at the central counterparty was viewed as desirable.
- Any options contracts developed would require delivery of a futures contract on expiry.

Term Reference Rate sub-Group

10 The sub-group chair, Nick Saggers of BAML, provided a status update. The sub-group had met seven times since its first meeting on 13 October and had received direct input from a broad range of stakeholders from outside the Working Group, including the Loan Markets Association (LMA), the Association of Corporate Treasurers (ACT), and the International Capital Markets Association (ICMA).

11 Sub-group terms of reference, which had been approved at the 7 November Working Group meeting, had been published and are available on the Group's website.[2].

12 The sub-group had concluded that there should be no need for term SONIA reference rates (TSRRs) to be used in cleared interest rate swap markets (IRS), and over time a reducing need for TSRRs in

[2] www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/sonia-reference-rates-sub-group-terms-of-reference.pdf?la=en&hash=980A1A0B2ED96FD07EABB4C1AF8B1038540201C0

bilateral swap markets. In addition, the sub-group had concluded that there should be no need for TSRRs in listed derivative markets.

13 However, the sub-group had determined that there were well-founded use cases for TSRRs in loan and bond markets. For these applications TSRRs would need to be forward looking and include, at a minimum, fixings for 1, 3, and 6-month tenors.

14 The sub group had reached the preliminary view that SONIA markets were sufficiently deep, liquid and transparent to enable the derivation of robust TSRRs, although further analysis of data on trading activity in GBP OIS was required to reach a firm conclusion.

15 Having completed an initial review of available and potentially available data sources and methodologies to derive a term rate, the sub-group considered that TSRRs derived from actionable quotes in SONIA OIS were, subject to certain conditions, likely to prove more robust than TSRRs derived in other ways that had been considered. The sub-group therefore proposed drafting design principles for TSRRs in 1, 3, and 6-month tenors derived from actionable quotes in SONIA OIS on regulated multi-lateral trading facilities (MTFs) and engaging potential administrators and other stakeholders early in 2018.

16 The chair cautioned that any recommendation to proceed with such a model would be subject to a number of conditions including, but not limited to:

- Further analysis of liquidity in the GBP OIS market as noted above;
- Agreement with a quorum of market makers to list SONIA OIS on multiple MTFs;
- The provision of requisite liquidity on those MTFs; and
- Assurance that effective measures could be taken to avoid systemic reliance on these benchmarks.

Update from ISDA Working Group

17 The ISDA working group (WG) was assessing methodologies to determine a credit spread to RFR to use in fallbacks in the event of Libor discontinuation. The WG had determined three criteria to assess these methodologies against: minimise economic value transfer; resilience to manipulation; minimise distortions due to market stress. The WG had provided an update to the OSSG at its November meeting on potential methodologies.

18 ISDA had received feedback from certain market participants suggesting they would prefer the fallbacks for existing contracts and new contracts to be published at the same time. Other participants had also noted that there would likely need to be a trade-off between the three criteria identified to assess the credit spread – e.g. one methodology might be more effective at mitigating economic value transfer but less resilient to manipulation. ISDA had also noted that fallbacks for GBP Libor would likely be developed sooner than for other currencies (USD for example) as the GBP transition was ahead in some respects and therefore could set a precedent with regard to fallbacks. ISDA would provide another update to the OSSG later on in the week.

19 ISDA had announced that it would be launching a market survey in 2018 designed to provide a consolidated summary of usages of Libor. They were keen that members of the Working Group engaged in this work.

Prospective Q&A document

20 The Bank of England presented a proposed Q&A document to be displayed on the Working Group's webpage which would provide an accessible means for interested parties to get answers to some of the more obvious questions regarding RFR transition and the group's work. Members were asked to provide comments on this document before it is published.

Private sector attendees

Francois Jourdain	**Barclays (Chair)**
Andreas Giannopoulos	**Barclays (Chair's office)**
Mike Manna	**Barclays**
Nick Saggers	**BAML**
Frederic Macquet	**BNP Paribas**
Alain Verdickt	**Citigroup**
Stephen Randall	**Citigroup**
Alistair Sharp	**Credit Suisse**
Arif Merali	**Credit Suisse**
Susanne Louis	**Deutsche Bank**
Chirag Dave	**Goldman Sachs**
Michael Graham	**Goldman Sachs**
Glenn Handley	**HSBC**
Kari Hallgrimsson	**JP Morgan**
Steve Bullock	**Lloyds**
Vinay Dhanuka	**Morgan Stanley**
Mike Curtis	**Nomura**
Mark Thommason	**RBS**
Toby Stevenson	**RBS**
Alan Williams	**Santander**
Andrew Sacre	**Societe Generale**
Ronnie Cavalli	**UBS**
Frances Hinden	**Shell (Observer)**
Phil Whitehurst	**LCH ltd (Observer)**
David Horner	**LCH ltd (Observer)**
Rick Sandilands	**ISDA (Observer)**

Official sector attendees

Ed Ocampo	**Bank of England**
Imane Bakkar	**Bank of England**
Josh Jones	**Bank of England**
John Budd	**Bank of England**
Harriet Hunnable	**Financial Conduct Authority**
Devid Mazzonetto	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**