Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Monday 20 February 2017
Bank of England offices - Moorgate

Obligations under competition law

1 The Chairman 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.

Update from potential secured benchmark provider

2 Representatives of the LSE Group and Euroclear UK & Ireland, involved in the development of the £SONET secured interest rate benchmark, presented their view of how, if necessary, a market led OIS transition to £SONET could be achieved. The background to this work was Chris Salmon's open letter to the Chair of the RFR WG which had set out that further work should be undertaken on OIS transition to determine whether a plan could be executed, with a high chance of success, over the next two to three years.[1]

3 The LSE Group had reached out to selected buy-side end users. They indicated that these contacts had been relatively less concerned specifically with the hurdle of OIS transition; their focus was on the overall adoption of the RFR as an alternative to Libor, of which the OIS transition was only one part.

4 The Group discussed the LSE Group's proposed transition path, which consisted four stages: building £SONET usage in the spot market; developing a term extension and OIS transition; moving sterling interest rate swap discounting to £SONET; £SONET usage as a Libor alternative. These proposals would feed into the output of the OIS transition sub-group.

Update on OIS transition workstream

5 A sub-group of the Working Group had been established to carry out the further work outlined in Chris Salmon's letter. Given the importance of end-user outreach to this work, meetings were being arranged separately with pension funds and Sovereigns, Supranationals and Agencies (SSAs). These would aim to establish the impacts of different options on each of these types of stakeholder, thereby establishing the likelihood of a market-led OIS transition. An agenda had been circulated with questions to be discussed at these meetings. WG members were also encouraged to discuss these questions with their firms' treasury departments in order to gain their perspectives.

Update on SONIA reform

6 The Bank of England presented an update on SONIA reform, summarising the February 2017 supplementary consultation and providing an update on timing.[2] This supplementary consultation followed a reconsideration of the appropriate averaging methodology, seeking feedback on the recommendation of a volume-weighted trimmed mean. Like the volume-weighted median, the trimmed mean produced a rate a little more than 1 basis point below current SONIA, and daily changes correlated highly with those of current SONIA.

[1] www.bankofengland.co.uk/markets/Documents/sterlingoperations/rfr/2016/letter061216.pdf
[2] www.bankofengland.co.uk/markets/Documents/soniareformcp0217.pdf

7 The document had also provided an update on the expected date of transition to reformed SONIA, now March or April 2018. This extended transition period reflected both feedback received on the original notice period proposed by the Bank and the additional time required to consult on the averaging methodology.

Comparing Candidate Risk-Free Rates

8 The Group discussed a set of charts comparing the behaviour of candidate risk-free rates (Reformed SONIA, £RIR and £SONET) over the previous year. During the first half of 2016 the three rates had tracked each other closely, but there had been some divergence between secured and unsecured rates since the UK referendum on membership of the European Union, and in particular around year-end. For example, 1-month compounded overnight secured rates were significantly lower than unsecured rates throughout January. Some Working Group members thought it was important that the RFR reflected funding conditions in repo markets. Others placed weight on the relatively simpler dynamics of unsecured rates and their closer tracking of Bank Rate.

9 The relative merits of the candidate risk-free rates' characteristics would be discussed in full at advocacy meetings, led by the unsecured and secured rate sub-groups, prior to the Working Group voting on a recommended RFR.

Update on ISDA-led Work on Derivative Contract Robustness

10 ISDA attendees updated the Group on the work to date on enhancing reference rate fallback provisions in contracts referencing the IBORs, in the event of their discontinuation. This work had been requested by the Financial Stability Board's Official Sector Steering Group (OSSG). ISDA had set up three currency working groups including dealers, end-users, CCPs and IBOR benchmark administrators to consider options.

11 Preliminary thoughts had been set out in an interim update from ISDA to the OSSG, covering issues such as: criteria; triggers; specific rates to consider and contract frustration. Complementarities with the RFR Group's remit had been identified: the ISDA work was dependent on the RFR recommendation, recognising that RFRs may or may not be appropriate inputs to the fallback provisions.

Near-future work plan

12 The Chair proposed a meeting schedule for the coming months. It was suggested that the next meeting would present the output of the OIS transition work. At the following meeting the relative merits of the candidate RFRs would be presented by the relevant sub-groups. Following that, it was expected that a first round of voting for a recommended RFR could occur in mid-April, with a second round of voting soon after, if needed. Group members agreed to this timeline. The Bank also agreed this timeline was appropriate, recognising it would not be publishing the final response to SONIA reform consultations until end-March.

Private sector attendees

Francois Jourdain	**Barclays (Chairman)**
Andreas Giannopoulos	**Barclays (Chair's office)**
Tejonidhi Kashyap	**Barclays (Chair's office)**
Mike Manna	**Barclays**
Adrian Averre	**BNP Paribas**
Alain Verdickt	**Citigroup**
Stephen Randall	**Citigroup**
Arif Merali	**Credit Suisse**
Ryan Sbarra	**Deutsche Bank**
Nikhil Choraria	**Goldman Sachs**
James Whittingham	**Goldman Sachs**
Glenn Handley	**HSBC**
Kari Hallgrimsson	**JP Morgan**
Christophe Coutte	**Lloyds**
Freddie Napier	**Morgan Stanley**
Toby Stevenson	**RBS**
Chirag Dave	**UBS**
Phil Whitehurst	**LCH.Clearnet (Observer)**
Catherine Farrer	**ISDA (Observer)**
Rick Sandilands	**ISDA (Observer)**
Michael Davie	**LSE Group (Guest, only for their presentation)**
Oliver Huggins	**LSE Group (Guest, only for their presentation)**
Chris Woods	**LSE Group (Guest, only for their presentation)**
Anoushka Babbar	**LSE Group (Guest, only for their presentation)**

Official sector attendees

Tim Taylor	**Bank of England**
Will Parry	**Bank of England**
Ed Ocampo	**Bank of England**
Renée Horrell	**Bank of England**
Sakshi Gupta	**Bank of England**
David Geen	**Bank of England**
Harriet Hunnable	**Financial Conduct Authority**
Devid Mazzonetto	**Financial Conduct Authority**