

Minutes of the Meeting of the Working Group on Sterling Risk-Free Reference Rates
Tuesday 7 November 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 6 October were approved.

White Paper responses summary document

3 The Group agreed to publish a document summarising the responses to the Group's June White Paper on SONIA as the RFR and approaches to adoption.¹

Future structure of the Working Group

4 The Chair noted that responses to the White Paper confirmed strong support for SONIA as the preferred alternative to sterling Libor, and that this marked a milestone in the Group's work.

5 The Chair proposed that an extension to the Group's mandate, and a broadening of its membership, could facilitate the next stage of work. The proposed mandate would be to catalyse a transition in bond, loan and derivative markets so that SONIA is established as the primary sterling interest rate benchmark by end-2021. The proposed new membership would include investment managers, non-financial corporates, other sterling issuers, infrastructure firms, and trade associations, alongside banks and broker dealers.

6 Existing sub-groups – which already include participation across relevant sectors and markets – would continue their work on technical transition issues and make recommendations to the newly constituted Group. Additional sub-groups would be created as necessary and constituted with an appropriate cross-section of market participants.

7 The Chair also suggested that discussion forums focussed on particular user groups could facilitate two-way communication between the new Group and the broadest possible set of stakeholders.

8 There was broad support in the Group for the need to reach out to a wider range of market participants and for the reconstitution of the Group. It was recognised and accepted that an implication of bringing in new members was that some existing members would have to stand down from the Group in order for it to remain at a manageable and effective size. There would nevertheless be scope for all current members to be involved through discussion forums and technical sub-groups. Members were asked to provide comments on the proposed changes after consulting with their

¹ The published document can be found [here](#)

internal stakeholders. The Chair and the authorities were working toward a public announcement of the new mandate and membership.²

Update from US Alternative Reference Rates Committee (ARRC) roundtable

9 The Bank of England provided a summary of the key issues raised at the ARRC roundtable which had taken place the previous week³.

10 Awareness of work on RFR adoption had significantly increased across a wide range of market participants following Andrew Bailey's speech in July on the future of Libor⁴. The Federal Reserve had announced a revised ARRC structure which involved representation from a wider range of sectors.

11 Other issues discussed at the roundtable included fallback arrangements for bonds and loans; the paced transition plan for the Secured Overnight Financing Rate (SOFR) which is the USD RFR; and the potential for a term RFR to facilitate adoption.

Update from sub-groups and other developments since the previous meeting

Futures sub-group

12 The sub-group had made progress on agreeing design preferences for a SONIA future. The next steps would be to discuss these preferences with relevant exchanges over the coming weeks. A key objective of the sub-group would be to identify pros and cons of potential designs for facilitating adoption and meeting end-users needs. The Group had agreed that, whilst it would be helpful to have a consensus on a single preferred contract design, if different competing products were to be launched which met end-users' needs, this would also be welcome.

13 The sub-group believed that a 3-month contract, which settled on IMM dates (thereby mirroring existing 3-month sterling Libor futures), might best facilitate building liquidity in the contract. However, many members felt that 1-month contracts would also be welcome, although preferences for whether these should settle on month-end or monthly IMM dates were still under discussion.

14 In addition, the sub-group had agreed that, in terms of preferred design, the futures settlement price should be on the realised SONIA rate. However, discussions were continuing as to the sub-group's preference for SONIA settlement on a compound interest basis or simple averaging basis. The sub-group chair asked for members to submit views on these points so that the sub-group could consider the issues fully.

15 It was queried whether the design of SONIA futures should be aligned with those of other currency RFRs. The sub-group chair agreed to raise this issue for further consideration.

Term Reference Rate sub-Group

16 The sub-group had agreed its Terms of Reference and was working to identify all potential use cases for term benchmarks. The sub-group chair had reached out to a broad cross-section of

² The subsequent press release announcing the new structure can be found [here](#)

³ Materials presented at the roundtable can be found [here](#)

⁴ <https://www.fca.org.uk/news/speeches/the-future-of-libor>

interested parties, including the Loan Market Association (LMA) and the Association of Corporate Treasurers (ACT), and invited them to actively participate in sub-group meetings. The sub-group had come to the initial view that there was not a use case for term benchmarks in cleared swap markets for new business activity.

17 Going forward, the sub-group planned to assess the potential underlying data sources and fixing methodologies which could support robust term SONIA benchmarks. The sub-group planned to provide written recommendations in Q1 which could form the basis for a market consultation.

Prospective Pensions and Insurance sub-group

18 There had been an initial information gathering meeting with a group of Pension Fund managers to discuss potential issues with regard to RFR transition. Issues raised included the use of Libor for benchmarking pension funds; the need to engage pension fund trustees on the topic of RFR adoption; the issue of whether SONIA referencing swaps were treated the same way as Libor swaps under regulations such as EMIR and MIFID II; and how a fair conversion rate would be determined for legacy Libor products.

19 Pension fund attendees were asked to provide use cases for a term reference rate which would then be passed on to the term reference rate sub-group. The Working Group would draft an initial Terms of Reference and workplan for a pension and insurance sub-group over the coming weeks.

Santander roundtable event

20 Since the previous Working Group meeting, Santander had hosted an end-user roundtable event on impacts of SONIA adoption in which attendees were invited to take part in an interactive questionnaire. Headline questionnaire results included: approximately 80% preferred that Libor was discontinued at some point in the future rather than existing indefinitely; most attendees already used SONIA for discounting purposes and the majority planned to use it for hedging going forward; a majority felt it would be possible to develop a robust term SONIA reference rate, but attendees were divided on the preferred tenor for this benchmark; approximately 80% of attendees felt that it was not important to have a benchmark which captured credit premia, as Libor currently does.

Engagement with ISDA Working Group

21 At the previous meeting, the Chair had asked the Group to consider how best to engage with the ISDA working group on fallback arrangements.

22 It was agreed that the membership of the ISDA Working Group was appropriate but that coordination was needed on areas it was working on. The Chair agreed to take this forward for clarification with ISDA and would update the Group at the next meeting.

Private sector attendees

Francois Jourdain	Barclays (Chair)
Andreas Giannopoulos	Barclays (Chair's office)
Mike Manna	Barclays
Nick Saggars	BAML
Frederic Macquet	BNP Paribas
Alain Verdickt	Citigroup
Alistair Sharp	Credit Suisse
Arif Merali	Credit Suisse
Nick Gray	Deutsche Bank
Susanne Louis	Deutsche Bank
Chirag Dave	Goldman Sachs
Glenn Handley	HSBC
Kari Hallgrimsson	JP Morgan
Steve Bullock	Lloyds
Vinay Dhanuka	Morgan Stanley
Mark Thommason	RBS
Toby Stevenson	RBS
Mark Deniston	RBS
Paul Barnes	Santander
Beatrice Devillon Cohen	Societe Generale
Andrew Sacre	Societe Generale
Phil Whitehurst	LCH Ltd (Observer)
David Horner	LCH Ltd (Observer)
Katherine Darras	ISDA (Observer)

Official sector attendees

Will Parry	Bank of England
Tim Taylor	Bank of England
Ed Ocampo	Bank of England
Imane Bakkar	Bank of England
Josh Jones	Bank of England
Rob Harris	Bank of England
John Budd	Bank of England
Harriet Hunnoble	Financial Conduct Authority
Adeshini Naidoo	Financial Conduct Authority
Toby Williams	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority
Helen McHardy	Financial Conduct Authority