



Minutes

SONIA Advisory Committee

12 June 2017

Location: Bank of England

Members: Sarah John (Chair)
Alex McDonald
David Clark
Philip Chilvers
Brad Jeffery
Will Parry
Rob Thurlow
Peter Weston
Philip Whitehurst

Attendees: Rob Harris
Hasmita Patel
Steve Wright

Apologies Ian Mair

Minute no.	Minute	Action
1.	<p>Review of the SONIA Dashboard</p> <p>The Committee reviewed the SONIA Dashboard covering the period of March to May 2017.</p> <p>SONIA had been stable throughout the period, with the exception of March quarter-end, when the rate fell slightly, as expected. It was noted that daily trading volumes had increased further over the quarter, reaching £17.5bn – the highest since September 2011. Bank of England attendees noted that indicative volumes in reformed SONIA had also risen accordingly.</p> <p>There was a brief discussion of possible reasons driving the increase in volumes. Most felt that a number of smaller factors may be responsible, although highlighted the following: greater availability of balance sheet for some firms to accept short-term cash deposits and arbitrage onto Bank of England reserve accounts, given changes in the leverage ratio calculation; the implementation of MiFID II rules potentially incentivising more activity through brokers (as this can facilitate trade transparency requirements); and the greater need for maintaining and managing short-term cash as a result of requirements on some participants to pay margin on bilateral derivatives.</p> <p>Committee members noted that the increase in volumes appeared to have had very little impact on the average rate.</p> <p>There were three contributor reporting issues during the quarter, from different contributors; none had impact on SONIA above the 1 basis point re-publication threshold.</p>	N/A

2. **WMBA Assurance Review, preliminary findings** N/A
 The WMBA updated the committee on the preliminary findings of the ongoing assurance review into the WMBA's production of SONIA. The review was assessing the WMBA's compliance with the IOSCO Principles for Financial Benchmarks.¹
 The full report would be presented to the Committee once complete.
3. **Errors Policy for reformed SONIA** N/A
 The Bank sought views from members on a proposed policy for publishing information on errors that might occur in the production and publication of the benchmark process, in order to improve transparency. The policy would be implemented at the switchover to reformed SONIA.
 Errors for SONIA are operational or data issues, which would have affected the published rate, but either: have an impact below the threshold for republication (two or more basis points); or are identified after the deadline for republication (noon the same day).
 The Bank noted that feedback received as part of the consultation on SONIA reform emphasised that clarity and certainty are key for almost all users of SONIA; the Committee agreed that publishing SONIA as it 'would-have-been' could create complications.
 While some members were sceptical of the merits of the additional transparency, the Committee discussed the following issues:
- Whether to publish the type of error (data errors, timeliness of reporting, administrator operational issues);
 - Whether to publish information highlighting the magnitude of the error, using set qualitative thresholds;
 - Whether to publish the direction of the impact on SONIA (i.e. positive or negative);
 - The appropriate frequency of publication, for example quarterly, although with an appropriate lag.
- The Bank would publish a finalised Errors Policy for reformed SONIA in due course.
4. **Other business** N/A
 The Committee noted that the Working Group on Sterling Risk-Free Reference Rates had recently announced SONIA as its preferred Risk-Free Rate for use in sterling derivatives and relevant financial contracts.²

¹ For more information, see: www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf

² For more information, see: www.bankofengland.co.uk/publications/Pages/news/2017/033.aspx