

**Minutes of the Working Group on Sterling Risk-Free Reference Rates**  
**Monday 19<sup>th</sup> February 2018**  
**Barclays' offices – 5 North Colonnade**

**Agenda**

1. Competition law reminder and training
2. Approval of minutes of induction event
3. Terms of Reference discussion and approval
4. Sub-groups update
5. Next steps and milestones
  - International overview of technical sub-groups
  - Next steps
6. AOB

**Introduction**

1. The chair asked members to declare if they have any conflict of interests. Subsequently to the meeting, some members notified the RFR Secretariat on their conflict of interest status.
2. Members were reminded of authorities' support for this initiative. It was noted, however, that whilst the Sterling Working Group on risk-free rates 'the Group' has a key role to facilitate the transition to risk-free rates and build consensus, it will be up to each individual firm and market participant to make decisions on their own transition path.
3. It was emphasized that the Group was reconstituted to take account of the views of a wider cross-section of sterling market participants.

**Competition Law reminder and training**

4. Training was provided to remind the group of their competition law related obligations. Members of the Group were reminded of their responsibilities in relation to compliance with competition law and the importance of taking their own independent competition law advice.

**Approval of minutes of induction event**

5. The minutes of the induction event were approved by the Group<sup>1</sup>.

**Terms of Reference discussion and approval**

6. The Terms of References<sup>2</sup> for the Group were agreed by the members.

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<sup>1</sup> <https://www.bankofengland.co.uk/minutes/2018/rfr-january-2018>

7. The chair also summarised his introductory bilateral discussions with each member by highlighting some key considerations:
- (i) Creating a SONIA offering and developing a risk-free rates based ecosystem will be a key objective to facilitate adoption. It was suggested that examining SONIA based notes issuance and enabling FRNs to be based on risk-free rates should be a focus of the bonds sub-group. Members suggested that building a new SONIA offering in primary markets would facilitate legacy conversion.
  - (ii) Members expressed greater concerns with psychological and administrative barriers than with technological or economic barriers. Members also cited fear of market fragmentation as a potential deterrent to benchmark transition.
  - (iii) Providing education and raising awareness amongst market participants and end users regarding the benchmark agenda was consistently cited as a priority. Members thought it would be particularly important to communicate that reform efforts were internationally coordinated. The Group's plans to establish industry forums were cited as a useful means to strengthen communication. One member cited ICE licensing information on Libor as a useful way to identify end-users for outreach.
  - (iv) Other uses of Libor were highlighted by non-banks, including but not limited to its usage: as an investment performance benchmark; in internal transfer pricing policies; and as a penalty interest rate in commercial contracts.
  - (v) Members provided suggestions regarding potential technical sub-groups, including: accounting and tax; technology; and non-linear products.
8. In light of 7(iii), the Investment Association mentioned that they were planning to establish a buy-side forum.

### **Sub-groups update**

9. Sub-group chairs provided updates on technical issues, with the exception of the futures sub-group as no meeting occurred since the last update. It was noted that there were no plans to publish a consultation on futures, and that the information available in the last set of published minutes provided sufficient guidance to exchanges. The next meeting<sup>3</sup> of the futures sub-group will focus on how to generate liquidity in futures products, including through user education and outreach.
10. *Pension Funds and Insurance Companies sub-group update:*
- (i) The co-chair outlined the sub-group's objectives<sup>4</sup>. The sub-group discussed alternatives for outreach to the pension trustee community, including a roundtable and/or an article on transition to risk-free rates in relevant trade publications. The sub-group also identified relevant industry conferences where members may wish to participate. The co-chair invited ISDA to attend the next PFIC sub-group meeting to update on their work on contractual fall-backs.

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<sup>2</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr-terms-of-reference.pdf?la=en&hash=8AFDB1E6B8F0353EF38C516B65C5A439E9EFE867>

<sup>3</sup> Occurred 20 February

<sup>4</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr-pension-funds-and-insurance-companies-sub-group-terms-of-reference.pdf?la=en&hash=D00979F96A60F77571CEA86EFC9E745E06D2EAAA>

- (ii) The sub-group chair was asked if the sub-group was open to more members, and he mentioned whilst there are logistical constraints for physical meetings, a dial in is available for those who wish to participate.
- (iii) A member of the Group mentioned that the EMIR margining rules<sup>5</sup> could prove an impediment. The FCA advised members of the Group that it did not think amending a reference rate or adding a fallback rate would trigger application of margin requirements, and would discuss with other relevant authorities how clarification on this point could be provided.

#### 11. Loans sub-group:

The chair of the sub-group provided an update on the first meeting held on 14 February. The sub-group is still finalising its objectives and terms of reference, but notable items discussed include:

- (i) ACT and LMA agreed to work on a quick guide providing context and update on the developments in relation to the transition to risk-free rates.
- (ii) There seems to be a strong view with respect to the need for term benchmark rates in the syndicated loan market.
- (iii) ISDA will provide a presentation on the work conducted on fall-backs at the next meeting of the sub-group in order to ensure that work in contractual provisions in loan and derivatives markets are appropriately harmonised.

#### 12. Bonds sub-group:

The chair of the sub-group provided an update on the first meeting held on 16 February. The sub-group is still finalising its objectives and terms of reference, but notable items include:

- (i) The chair provided an overview of the sub-group members, including corporate issuers, borrowers and supranational organisations, and mentioned that the DMO is an observer.
- (ii) One supranational mentioned in the sub-group meeting that they would provide details of a previous bond referencing SONIA<sup>6</sup>.
- (iii) The sub-group next steps are to draw the interdependencies between derivatives and bonds, and to define metrics for success. In addition, members will be asked to propose potential solutions for bonds' related issues. Finally law firms were asked to work collectively on the issue of standard documentation and contractual fall-backs, and to devise whether guidance is needed and whether it is feasible to convert legacy bonds at this stage.

#### 13. Term Rates sub-group:

As there was no sub-group meeting since the last Group meeting, the sub-group chair provided members with an overview of the envisaged consultation for term benchmark rates referencing SONIA. The consultation would explain the rationale for the identified use cases, and for where it concluded a term benchmark rate was not necessary. It would also outline the alternative data sources and methodologies for building a robust term benchmark, with a recommendation around using actionable

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<sup>5</sup> see page 31 <http://www.fsb.org/wp-content/uploads/P101017.pdf>

<sup>6</sup> <https://ftalphaville.ft.com/2010/03/15/174971/innovating-on-gbp-liquidity-requirements/>

OIS quotes on MTFs operating central limit order books. In this context, the Group was informed that ICE Swap rate for USD was not produced for any tenor for one day in February due to a lack of streamed actionable quotes during the fixing window. It was noted that any proposal would need to consider such an eventuality.

### **Next Steps and Milestones**

14. A tentative milestones document was provided in the meeting material, but Group members were asked to provide their own vision for key milestones for the Group, which would be detailed for 2018 and more high level for later years up to end-2021. It was re-iterated that the sequencing will be key, including which issues need to be resolved first to enable the next step.
15. Members were also tasked to suggest which new technical sub-groups should be created with a rationale. A potential sub-group on accounting and tax issues was provided as an example.
16. The Group discussed the criticality of international coordination, and that whilst it might be happening, it is not made visible to each jurisdiction's groups' members and to the wider market. One member suggested setting up a cross currency forum. Members were tasked to submit their idea(s) of the most efficient and optimal model for international coordination.

### **AOB**

17. The chair of the Group noted that he had stepped down from his role as Chief Compliance Officer of Barclays International in order to focus on his role as the Chair of the Group on Barclays' behalf.
18. The next RFRWG meetings will be scheduled for the 28 March, 21 May and 02 July.

**Private sector attendees**

Francois Jourdain	<b>Barclays (Chair)</b>
Andreas Giannopoulos	<b>Barclays (Chair's office)</b>
Nicola Northway	<b>Baker McKenzie (First item only)</b>
Simon Wilkinson	<b>Legal &amp; General Investment Management (Vice Chair)</b>
Robert De Roeck	<b>Aberdeen Standard Investments</b>
Shaun Kennedy	<b>Associated British Ports</b>
Sarah Boyce	<b>Association of Corporate Treasurers</b>
Nick Siggers	<b>Bank of America Merrill Lynch</b>
Robert Mitchelson	<b>Blackrock</b>
Timothy Tomalin-Reeves	<b>Citadel</b>
Stergiou Panayotis	<b>Deutsche Bank</b>
Michael Barron	<b>Deutsche Bank</b>
Axel van Nederveen	<b>European Bank for Reconstruction &amp; Development</b>
Jasper Lillingston	<b>European Bank for Reconstruction &amp; Development</b>
Tom Gilliam	<b>GlaxoSmithKline</b>
Chirag Dave	<b>Goldman Sachs</b>
Chris Rhodes	<b>ICE Group</b>
Paul Richards	<b>ICMA</b>
David Jamieson	<b>Insight Investment</b>
Galina Dimitrova	<b>Investment Association</b>
Rick Sandilands	<b>ISDA</b>
Ed Jenkins	<b>HSBC</b>
Clare Dawson	<b>Loan Market Association</b>
Philip Whitehurst	<b>London Stock Exchange Group</b>
Ian Fox	<b>Lloyds</b>
David Covey	<b>M&amp;G Investments</b>
Tommy Chung	<b>Nationwide Building Society</b>
Kwok Liu	<b>National Grid</b>
Kieran Higgins	<b>Royal Bank of Scotland</b>

**Official sector attendees**

Chris Salmon	<b>Bank of England</b>
Ed Ocampo	<b>Bank of England</b>
Imane Bakkar	<b>Bank of England</b>
John Budd	<b>Bank of England</b>
Edwin Schooling Latter	<b>Financial Conduct Authority</b>
Harriet Hunnoble	<b>Financial Conduct Authority</b>
Devid Mazzonetto	<b>Financial Conduct Authority</b>
Adeshini Naidoo	<b>Financial Conduct Authority</b>