

Minutes of the Working Group on Sterling Risk-Free Reference Rates

Wednesday 21 May 2018

Shell Centre, London, SE1 7NA

Competition law and conflicts of interest

1. The Chair welcomed attendees and reminded them of their responsibilities in relation to competition law and the importance of taking their own independent advice.
2. Two members declared that they had conflicts of interest with regard to the Term SONIA Reference Rate Consultation item given they were both benchmark administrators. They confirmed they would not participate in any vote on this subject.

ISDA European Accounting Committee 'EAC' presentation

3. Antonio Corbi (ISDA) and David Bisnath (Deutsche Bank) has been invited to present to the group on behalf of the ISDA European Accounting Committee (the Committee). The presentation covered the accounting implications of RFR transition.
4. The Committee had had early discussions on the potential accounting implications based on initial engagement with the audit industry. Implications included:
 - a. The impact on hedge accounting relationships. For example, implications of changing the benchmark of a hedging contract and how hedge effectiveness testing could be affected.
 - b. Whether replacing Libor with the RFR in contracts (including in fallback clauses) could lead to derecognition of financial instruments and the consequences of this.
 - c. The impact of Libor uncertainty on contract valuation.
5. It was noted that, in the US, the Financial Accounting Standards Board (FASB) had issued a public consultation on allowing SOFR (the US RFR) to be designated as a benchmark for hedge accounting purposes. This work was not required for SONIA as SONIA benchmark can already be used in hedge accounting relationships.
6. The EAC was due to engage with the International Accounting Standards Board on RFR transition imminently to present a consistent view of issues and potential solutions for the European banking industry. It was agreed that the IASB would be a very important stakeholder for the transition, and the Bank of England reported that it had had initial discussions with the IASB. The Bank encouraged Working Group members to keep up to date with developments going forward via their finance departments.

Milestones document/Communications & Outreach sub-group Terms of Reference

7. The Working Group agreed key transition milestones which would be published alongside the minutes of the meeting.
8. There were no comments on the Communications & Outreach sub-group Terms of Reference which would be taken to the first meeting of the sub-group for final approval. The Chair and final membership of that sub-group had not yet been determined.

Term SONIA Reference Rate (TSRR) Consultation

9. The TSRR sub-group Chair introduced the draft consultation paper which explored potential use cases for a term reference rate as well as how they could be constructed.
10. Members opined that the availability of robust TSRR benchmarks could facilitate benchmark transition for an important set of end users, particularly in loan and debt capital markets. However, there were differing views regarding the use of TSRRs beyond these markets. Members noted that direct use of overnight rates offered distinct benefits – particularly in derivatives markets – and should be encouraged where feasible and appropriate. Some members discussed whether it would be possible to limit the usage of these term rates, others questioned whether the consultation should provide any normative judgements regarding the use of TSRRs at this stage.
11. It was agreed that the consultation document could be shortened and simplified ahead of publication to focus more explicitly on feasibility of construction, potential data sources, potential methodologies, and actions required for implementation. . It was suggested that an explanatory materials could be published separately to cover topics such as best practice on referencing SONIA in products.
12. It was agreed that the document should make clear where on the transition critical path a TSRR would be needed. Some members highlighted that waiting for an imminent TSRR was delaying some market participants making efforts to transition and that cash markets, in particular, would be slower to adopt without a TSRR.
13. Members concluded that the consultation should be updated in line with the views expressed and brought to the Working Group's next meeting on 2 July. It would then be discussed further ahead of publication.

ISDA fallback work

14. Scott O'Malia (ISDA) updated the Working Group on progress towards determining Libor fallbacks in derivatives contracts. ISDA were targeting a June publication date for a consultation paper on how RFRs could be used as the basis of robust fallbacks. In particular it would consider how a credit spread could be determined in order to make RFRs more economically equivalent to Libor and reduce the risk of market disruption. It would ask respondents to rank three proposed approaches to determining the credit spread adjustment¹.
15. One member noted that this was a sensitive issue as any public statement on this subject could move the market basis between SONIA and Libor. Another member noted that uncertainty regarding the fallback also impacted market pricing.
16. Members agreed that it would be helpful to discuss the consultation at its next meeting including whether it should feed back an agreed view to ISDA.

Other sub-group updates

¹ [ISDA have proposed that fallbacks will point to the RFRs selected by private sector working groups convened by central banks](#) (with an appropriate tenor adjustment) plus credit spread adjustments to account for the Libor – OIS spread. The latter would be point-in-time adjustments that would remain fixed for the remaining life of applicable contracts.

Bond markets

17. The sub-group had discussed how a backward looking, compounded SONIA could be referenced in bond issuances. It had concluded that this would be feasible but could take time. It would now consider in more detail how certain challenges could be overcome.
18. The sub-group would also look in more detail at how use of SONIA could be encouraged in bond markets and the extent to which it would be helpful for there to be market guidance on potential risk factors in issuing Libor-linked bonds.

Pension Funds and Insurance Companies

19. The sub-group had conducted a survey on sub-group members' use of SONIA and Libor. The survey concluded that barriers to pension funds using SONIA were low but regulation was a barrier for insurance firms due to the mandated Libor-based EIOPA discounting curves. The sub-group would consider how insurers could transition to using SONIA within the current regulatory framework.

Syndicated loans

20. The sub-group had concluded that the desire for a TSRR and international coordination were the syndicated loan market's key issues with regard to RFR transition. The sub-group Chair had met with loan system providers to understand the challenges of using a daily compounded SONIA rate.
21. In terms of documentation, the sub-group would consider how templates would need to be updated to refer to a daily compounded SONIA rate.
22. Separately, the LMA would also be publishing generic template language which would allow future Libor-referencing loans to be amended so that they reference an alternative rate if necessary,

SONIA futures products

23. Certain providers had already launched futures products with others having announced subsequent product launches. The sub-group would likely have one further meeting in which to discuss how market liquidity in SONIA futures products could be encouraged.

AOB

24. The Chair reflected on the Working Group's progress since its membership was revised at the start of 2018. The number of firms engaged in the Working Group either directly or via sub-groups and forums had considerably increased, reflecting efforts to broaden engagement. The Chair suggested that such broad participation was welcome but made coordination between sub-groups more challenging.
25. It was agreed that the Chair, Vice-Chairs and sub-group Chairs should meet more frequently to coordinate work across the various sub-groups. It was also agreed that, where more effort was required to deliver certain technical work, the Working Group members would provide the core resources required.

Private sector attendees

Francois Jourdain	Barclays (Chair)
Andreas Giannopoulos	Barclays (Chair's office)
Joseph McQuade	Barclays (Chair's office)
Frances Hinden	Shell (Vice Chair)
Simon Wilkinson	Legal & General Investment Management (Vice Chair)
Robert De Roeck	Aberdeen Standard Investments
Shaun Kennedy	Associated British Ports
Sarah Boyce	Association of Corporate Treasurers
Nick Saggars	Bank of America Merrill Lynch
Robert Mitchelson	Blackrock
Panayiotis Stergiou	Deutsche Bank
David Bisnath	Deutsche Bank (representing the ISDA European Accounting Committee – 1st item only)
Axel van Nederveen	European Bank for Reconstruction & Development
Sarah-Jane Chilver-Stainer	GlaxoSmithKline
Chirag Dave	Goldman Sachs
Daniele Forni	HSBC
Chris Rhodes	ICE Group
Paul Richards	ICMA
Vanaja Indra	Insight Investment
Galina Dimintrova	Investment Association
Scott O'Malia	ISDA
Rick Sandilands	ISDA
Antonio Corbi	ISDA (representing the ISDA European Accounting Committee – 1st item only)
Clare Dawson	Loan Market Association
Philip Whitehurst	London Stock Exchange Group
Ian Fox	Lloyds Banking Group
David Covey	M&G Investments
Richard Merrett	Nationwide Building Society
Kwok Liu	National Grid
Kieran Higgins	Royal Bank of Scotland Group

Official sector attendees

Tim Taylor	Bank of England
Ed Ocampo	Bank of England
Imane Bakkar	Bank of England
Josh Jones	Bank of England
Edwin Schooling-Latter	Financial Conduct Authority
Harriet Hunnable	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority
Toby Williams	Financial Conduct Authority