

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

Monday 15th October 2018

Shell Centre, London, SE1 7NA

Introduction

1. The Chair welcomed attendees and highlighted that Simon Wilkinson (Legal and General Investment Management) would be stepping down as Vice-Chair of the Working Group on Sterling Risk-Free Reference Rates (the 'Working Group'). He thanked Simon for his hard work over the past year in support of the Working Group's objectives. Simon thanked the Chair and noted that he would continue to follow the Working Group's progress going forward given its importance for financial markets.

Competition law reminder

2. The Chair reminded members of their responsibilities in relation to competition law and the importance of taking their own independent advice from the legal and/or compliance teams at their respective institutions.

Communication & Outreach sub-group deliverables

3. The Communication & Outreach sub-group co-chairs presented recent deliverables for the Working Group to review.

Media strategy

4. It was noted that there was a lot of appetite from media organisations for content relating to RFR transition and this represented an opportunity for the Working Group to ensure clear, consistent and positive messages were disseminated. The sub-group had drafted a media strategy to leverage this interest including through targeted events and articles; regular engagement with the media; use of social media; and deploying content effectively.
5. The sub-group chairs highlighted that, in order to effectively deliver the media strategy, the Working Group would need to be able to call on spokespeople for particular topics. Members were asked to highlight to the secretariat the topics where they felt they could add value as spokespeople.
6. Members emphasised the benefits of coordinating with other relevant stakeholders on media engagement, for example, trade associations and the official sector. It was also suggested that the sub-group considers forthcoming conferences at which to deliver key messages.
7. Members were asked to provide feedback on the media strategy more broadly, including suggested media lines and future milestones for potential media engagement.

Starter pack

8. The sub-group had produced a "starter pack" designed as a briefing pack that could be used to explain the project's rationale and main features to those with little knowledge of RFR transition. It was envisaged that this pack could act as a briefing for members' clients on the topic.
9. It was debated whether to include reference to the LIBOR manipulation scandal as part of the document. Some members highlighted that it would be difficult to avoid making reference to the scandal as it was what many individuals less familiar with benchmark reform associated with LIBOR.

However, it was agreed that the pack should not emphasise this topic too much as it was not directly linked to transition efforts.

10. One member noted that it would be important for the sub-group to consider how to engage those stakeholders not currently aware of transition, which included going beyond the financial services community. The sub-group chair agreed and noted that this should be discussed as part of the sub-group's further consideration of targeted stakeholder outreach.
11. Another member noted that, in general, the sub-group should consider the interaction of LIBOR transition with Brexit as this subject was likely to become more important in the coming months.
12. Members were asked to feedback any additional comments on the starter pack via written procedure. They were also asked to feedback via written procedure any objection they may have to delegating authority to the Chair, Vice Chairs, sub-group chair and authorities to finalise the document for publication.

Monthly newsletter

13. The sub-group had prepared a template for a newsletter to be distributed on a monthly basis which could include: key Working Group updates; relevant market developments; relevant official sector updates; liquidity indicators; and key updates on transition in other currencies. The newsletter would be sent by the Bank of England to a mailing list of individuals engaged with and interested in the Working Group's work. It was agreed that the newsletter should include the appropriate legal disclaimers with regard to the information provided.
14. The sub-group chair proposed that delegated authority be granted to allow a smaller group to approve the newsletter each month. The Chair noted that he, the Vice Chairs and sub-group chairs met monthly for a core management meeting and this might be the appropriate forum for approving the document. He noted that it would be shared with the Working Group members for comment, rather than approval, ahead of publication each month.
15. Members were asked to feedback via written procedure any comments on the document and any objection to delegating authority to the Chair, Vice Chairs, sub-group chair and authorities to approve the newsletter each month.

Term SONIA Reference Rates consultation

16. The Bank of England explained that consultation responses already received had provided a deep and rich insight into the topic. However, some market segments and smaller firms had been unable to respond and therefore the consultation period had been extended to 26th October 2018.
17. The Chair proposed that the next meeting feature a more substantive discussion on the consultation.

Sub-group updates

Loan markets

18. The sub-group chair outlined the sub-group's current priorities which included assessing potential fallbacks to SONIA in loan contracts and a paper on the risks of transacting LIBOR-linked loans maturing beyond 2021. Some members of the sub-group would be participating in a taskforce

alongside bond sub-group members working towards a proposed consultation on market conventions for referencing SONIA in loan and bond contracts.

Bond markets

19. The sub-group chair noted that recent bond issuances referencing SONIA had been helpful for building momentum for adoption. The sub-group would be considering the differences in conventions between these issuances and those referencing SOFR and would share reflections with the taskforce on market conventions for referencing SONIA.
20. The sub-group would be discussing the recent Alternative Reference Rates Committee (ARRC) consultation on fallbacks to USD LIBOR-referencing floating rate notes¹ and considering whether an equivalent piece of work would be helpful for sterling markets. Finally, it was also considering potential market-based solutions to support legacy conversion.

Pension Funds and Insurance Companies

21. The sub-group would be taking part in a call later in the month with EIOPA to discuss the barriers to RFR transition under Solvency II, in particular the mandated LIBOR-based discount curves.

Infrastructure

22. The sub-group chair presented the proposed Terms of Reference for the sub-group. Members were asked to provide feedback via written procedure. The sub-group was expected to meet for the first time before the end of the month in which it would discuss an initial list of potential infrastructure related barriers to transition.

Cross-currency basis swap sub-group

23. The sub-group was convened by the Federal Reserve earlier in the year and included representation from a number of different RFR transition currency working groups. It had already discussed proposed conventions for RFR to RFR dealer cross-currency basis swaps and was turning its attention to RFR to term RFR swaps. The Chair asked members to volunteer if they wanted to be involved in this part of the sub-group's work.
24. One member asked how the governance for this sub-group would operate. The Chair explained that key papers would be presented to the Working Group for views with potential public consultations as appropriate. He noted that he had a regular monthly call with the Chair of the ARRC at which he would discuss this further and feedback.

Working Group operating model

25. The Chair opened up a discussion on how the Working Group currently operated. He noted that actions by the official sector, particularly the recent Dear CEO letter², had injected greater impetus into the need to transition and the sterling market was well placed to make meaningful progress. He proposed that the Working Group would likely need more granular milestones to work to and that a

¹ <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2018/ARRC-FRN-Consultation.pdf>

² <https://www.bankofengland.co.uk/prudential-regulation/letter/2018/firms-preparations-for-transition-from-libor-to-risk-free-rates>

more targeted sub-group approach might be preferable to meet these milestones. A discussion ensued in which a number of points were emphasised including:

- a. The need for effective international coordination as many milestones would relate to issues shared across currencies or to cross currency products.
 - b. The need for greater focus on legacy LIBOR contracts and to consider the interaction between legacy conversion and the proposed fallbacks in the ISDA consultation³.
 - c. The need for appropriate fallbacks in cash markets.
 - d. The need for greater consideration of the Working Group's role and what market participants may be able to do individually.
26. The Working Group reached an initial conclusion that it would be appropriate to begin considering more granular milestones with a more targeted approach. However, it may need to await the outcomes of the Term SONIA Reference Rates and ISDA fallbacks consultation before deciding on a clear route forward in some instances. Members were asked to provide further views via written procedure.

³ <https://www.isda.org/2018/07/12/interbank-offered-rate-ibor-fallbacks-for-2006-isda-definitions>

Private sector attendees

Francois Jourdain	Barclays (Chair)
Andreas Giannopoulos	Barclays (Chairs office)
Joseph McQuade	Barclays (Chairs office)
Tej Kashyup	Barclays (Chairs office)
Frances Hinden	Shell (Vice Chair)
Simon Wilkinson	Legal & General Investment Management (Vice Chair)
Shaun Kennedy	Associated British Ports
Nick Siggers	Bank of America Merrill Lynch
Jonathan Brown	Barclays
Jon Laycock	Barclays
Rob Mitchelson	BlackRock
Michael Barron	Deutsche Bank
Jasper Lillingston	European Bank for Reconstruction & Development
Chirag Dave	Goldman Sachs
Daniele Forni	HSBC
Chris Rhodes	ICE Group
Paul Richards	ICMA
Robert Gall	Insight Investment
Galina Dimitrova	Investment Association
Rick Sandilands	ISDA
Clare Dawson	Loan Market Association
Philip Whitehurst	London Stock Exchange Group
Steve Bullock	Lloyds Banking Group
David Covey	M&G Investments
Kwok Liu	National Grid
Richard Merrett	Nationwide Building Society
Kieran Higgins	Royal Bank of Scotland
Oliver Cooke	Royal Bank of Scotland

Official sector attendees

Rhys Phillips	Bank of England
Imane Bakkar	Bank of England
Josh Jones	Bank of England
Charlotte Pope-Williams	Bank of England
Adeshini Naidoo	Financial Conduct Authority
April Richardson	Financial Conduct Authority
Sophie Green	Financial Conduct Authority
Toby Williams	Financial Conduct Authority

