

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

Friday 21st September 2018

Shell Centre, London, SE1 7NA

Competition law reminder

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 from the legal and/or compliance teams at their respective institutions.

ISDA fallback criteria discussion

2. In line with the proposal agreed at the previous meeting, members had sent the secretariat views on criteria that might helpfully be considered when evaluating the various credit spread adjustment options in the ISDA fallback consultation¹. These contributions had been amalgamated by the secretariat, and presented to the Working Group in the form of a statement that could be published in order to assist market participants in assessing the options set out in the consultation paper.
3. The FCA outlined the parameters for the discussion given the potential risk for inside information to be inadvertently created or disclosed, coupled with potential competition law risks. It was noted that it would be appropriate and useful for members to make technical comments as part of the discussion, but the FCA counselled against members providing their firm's non-public views on the spread adjustment options, or identifying a group consensus on a preferred spread adjustment option.
4. A number of elements of the statement were debated², in particular:
 - a. Members agreed that 'value transfer' was a very important consideration. However there was diversity of views regarding how the concept of 'value' should be applied in a fallback scenario.

There was also a debate around whether to include reference to market participants' own balance sheets in terms of the impact of value transfer. Members came to the view that it would be useful for respondents to consider matters from a broader perspective and the market impact in general as opposed to mainly considering their own balance sheets.
 - b. The extent to which the potential spread adjustment outcome being 'bounded' was positive or negative. It was agreed that there were both benefits and drawbacks of this in the context of the transition. One member noted that, in this context, there were benefits and drawbacks of uncertainty on the level of the credit spread adjustment.
 - c. Whether to reference the importance of consistency in fallback approaches across different markets and products. Some participants highlighted the potential benefits of relatively consistent fallback approaches (including the triggers or fallbacks) between markets. The Working Group agreed to include this as a consideration but also noted that, whilst this may be desirable, it remained for individual market participants to consider their preferred approach.

¹ <https://www.isda.org/2018/07/12/interbank-offered-rate-ibor-fallbacks-for-2006-isda-definitions>

² The Working Group reiterates that market participants are free to have regard to any criteria they feel appropriate and to weight them as they see fit. Respondents should arrive at their own conclusions when responding to ISDA.

- d. Some members pointed out the importance of a widespread uptake of the fallback into legacy contracts. They considered that there would be material risks to the market and financial system associated with having large positions across old and new contractual definitions.
5. It was agreed that the statement would be published on the working group's website³.

Approach to legal risks associated with the Working Group's work

6. The Bank of England highlighted some of the legislation and regulation which forms part of the legal environment in which the Working Group operates, and of which Working Group members should be cognisant when participating in meetings.
7. This legislation and regulation included the EU Market Abuse Regulation⁴, Senior Managers and Certification Regime, FCA Principles for Business and PRA Fundamental Rules for firms authorised under Part 4a of the Financial Services and Markets Act 2000, and Competition Law. The Working Group's current approach was for individual members to obtain their own legal advice. In particular, it was highlighted that it was not the role of Bank of England and FCA in attendance at Working Group meetings to provide legal advice to members. Members had been asked to consider ahead of the meeting whether the Working Group employing external legal counsel might be appropriate.
8. Members were asked to provide views via email to the secretariat on whether external legal counsel was desirable. The Bank of England, as secretariat, would present possible next steps at the next meeting in light of that feedback.

Sub-group and forum updates

Bond market sub-group

9. The sub-group was drafting a consultation on proposed market conventions for referencing SONIA compounded over the interest period which would be submitted to the Working Group for approval and publication in the coming months.
10. It was noted that the Alternative Reference Rates Committee (ARRC – USD RFR committee) was planning a consultation imminently on USD LIBOR fallbacks in cash products⁵.

Loan market sub-group

11. The sub-group would be participating in the drafting on the aforementioned consultation on proposed market conventions for referencing SONIA compounded over the interest period to make it relevant to loan markets.

³ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/considerations-around-credit-spread-adjustment-options-in-isd-a-consultation-on-fallback-rates.pdf?la=en&hash=3EF522B0034C85B0699CA39A81F5A45DF904474C>

⁴ Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC Text with EEA relevance

⁵ The consultation was subsequently published and can be found here:
<https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2018/ARRC-Sept-24-2018-announcement.pdf>

12. The sub-group was also drafting a paper on the risks of transacting loans linked to LIBOR maturing beyond 2021, similar to the paper published by the Working Group in July on the same topic for bonds⁶, to be approved and published by the Working Group in the coming weeks.
13. The sub-group chair (also CEO of the Loan Market Association (LMA)) flagged that the Association of Corporate Treasurers and LMA had recently updated their guide to RFR transition⁷. The forthcoming LMA conference on 25th September 2018 would include a panel on RFR transition. She noted that awareness of the need to transition remained low outside of the large financial centres.

Communications & Outreach sub-group

14. In terms of immediate deliverables, the sub-group was preparing a 'starter pack' of key facts and messages in relation to RFR transition designed to improve awareness amongst those with less familiarity with the topic. The pack would be presented to the Working Group for approval before publication. The sub-group was also preparing a draft newsletter to be circulated frequently (either quarterly or monthly) to give regular key updates on RFR transition.
15. In the longer term, the sub-group would be formulating a media strategy to boost engagement as well as developing a targeted stakeholder outreach approach.

Pension Funds & Insurance Company sub-group

16. The sub-group was continuing to work on a forthcoming presentation to EIOPA's working group on risk-free curves regarding RFR transition. As part of this they had engaged members of the Working Group on Euro Risk-Free Rates given the relevance of the topics to both working groups.

Cross-currency swap sub-group

17. The ARRC had convened a sub-group with membership from RFR working groups in different currency jurisdictions to look at this topic. The sub-group was undertaking technical work to understand key transition issues in this area.

Infrastructure sub-group

18. The Working Group briefly discussed the infrastructure sub-group, outlining that work was ongoing on drafting the Terms of References and establishing the membership.

Banking Industry forum

19. The forum had discussed the ongoing work on cash market conventions for referencing SONIA compounded over the interest period and had noted the need to ensure alignment, where appropriate, with derivative market conventions.

⁶ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/risk-free-reference-rates-new-issuance-of-sterling-bonds-referencing-libor.pdf?la=en&hash=12F13D37E21F4B789813ED7386F34DA347370323>

⁷ https://www.lma.eu.com/application/files/1215/3726/6638/LMA_and_ACT_LIBOR_Guide_second_edition.pdf

Non-financial corporate forum

20. The last meeting of the forum had been an educational session in which ISDA had given a presentation on the fallback consultation and the Term SONIA Reference Rates sub-group chair had presented on the recent consultation closing 30th September 2018⁸ .

Investment Managers forum

21. Similarly, the last meeting of the forum had involved an update from the Bank of England on the recently published consultations.

⁸ <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/consultation-on-term-sonia-reference-rates.pdf?la=en&hash=6B9ABB4E8E2E226D12E1571ED20534BAFD277204>

Private sector attendees

Francois Jourdain	Barclays (Chair)
Andreas Giannopoulos	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 Siggers	Bank of America Merrill Lynch
Doug Laurie	Barclays
Timothy Tomalin Reeves	Citadel
Simon Goodwin	Deutsche Bank
Jasper Lillingston	European Bank for Reconstruction & Development
Aude Pacatte	European Bank for Reconstruction & Development
Tom Gilliam	GlaxoSmithKline
Chirag Dave	Goldman Sachs
Bharat Kumar	HSBC
Chris Rhodes	ICE Group
Charlotte Bellamy	ICMA
Robert Gall	Insight Investment
Ross Barrett	Investment Association
Clare Dawson (phone)	Loan Market Association
Philip Whitehurst	London Stock Exchange Group
Ian Fox	Lloyds Banking Group
Dave Covey	M&G Investments
Tom Dyson	Nationwide Building Society

Official sector attendees

Rhys Phillips	Bank of England
Imane Bakkar	Bank of England
Josh Jones	Bank of England
Charlotte Pope-Williams	Bank of England
Harriet Hunnable	Financial Conduct Authority
April Richardson	Financial Conduct Authority
Devid Mazonnetto	Financial Conduct Authority
Toby Williams	Financial Conduct Authority

