

The Working Group on Sterling Risk-Free Reference Rates

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

Thursday 5th December 2019

Bank of England, Threadneedle Street, EC2R 8AH

Agenda

1. Standing Items
 - a. Welcome & Introductions
 - b. Competition Law
 - c. Minutes of previous meeting
2. Progress over the past 12 months
3. Proposed roadmap and key milestones for LIBOR transition discussion
 - a. Senior Advisory Group Update and RFR statement on 2020 targets
4. New Task Force Updates
 - a. Loan Enablers
 - b. Cash Legacy Task Force
 - c. Tough Legacy
5. Sub-group and Task Force updates
 - a. Loans Sub-Group
 - b. Infrastructure Sub-Group
 - i. Treasury management systems roundtable
 - c. Communications Sub-Group
 - i. Factsheet for publication
 - d. Pensions and Insurers Sub-Group
 - e. Term Rate Use Case Task Force
6. Bond Market
 - a. Sub-Group to present considerations and a statement on consent solicitations for endorsement from the Risk-Free Rate Working Group
7. Conventions on swaptions and non-linear products
 - a. Update on questionnaire to main swaptions dealers with preferred conventions
8. ISDA consultation summary and next steps
9. Update on OIS streaming progress
10. AOB

Standing Items

1. The Chair welcomed attendees. The Working Group's General Counsel (Greg Olsen), reminded firms of their competition law responsibilities.
2. The Working Group approved the minutes of the previous meeting.

Progress over the past 12 months

3. The Chair provided a summary of the progress made in transition away from LIBOR in 2019.

Proposed roadmap and key milestones for LIBOR transition

4. A particular focus of the Working Group for 2020 would be its end Q3 2020 target for ceasing issuance of sterling LIBOR-based cash products maturing after 2021. Other priorities for 2020 are to maintain the prominence of SONIA compounded in arrears; progress a further shift of volumes from LIBOR to SONIA in derivatives markets; establish and communicate clear conditions and frameworks to manage transition of legacy LIBOR products; and provide market input on issues around Tough Legacy.
5. The Chair reported that the Senior Advisory Group had also discussed the proposed priorities and milestones at its November meeting. Members were supportive of the plan and of the Working Group's particular focus on the end-Q3 target.
6. The Chair said the invitation for expressions of interest to join the Loan Enablers, Cash Legacy Transition and Tough Legacy Task Forces was still live on the Bank of England website. Those who wish to join should contact the RFR Secretariat.
7. Working Group members noted that targets were necessary and helpful and a level of specificity was important in order to make them meaningful and 'focus minds'. Some members noted that Roadmap targets may be reliant on third parties (e.g. vendors) limiting individual firms' ability to meet them. The targets were, by their nature, high level and had to cover many different products and businesses.
8. Another major target in Q1 2020 would be to switch the standard trading convention from LIBOR to SONIA in the interest rate swap market. The Bank and FCA had held conversations with swap dealers to ensure there was good awareness of the proposed change that was being encouraged, to avoid any unintended consequences, with a view to proposing a firm date in the near future.
9. The Chair asked members to send any final comments to the RFR Secretariat. The finalised Roadmap and Priorities for 2020 were due for publication in January and would be accompanied by a joint Bank of England, Financial Conduct Authority and Working Group statement.

Loan Enablers Task Force

10. The Chair of the Loan Enablers Task Force introduced the planned work of the Task Force. The aim of the Task Force was to support the sterling loan market in the run-up to the Q3 2020 target for ceasing issuance of sterling LIBOR-based cash products maturing after 2021. The first deliverable would be a granular timeline leading to the end Q3 target date, for publication in Q1 2020, aiming to provide clarity on dependencies and enablers to the market.
11. Membership from those with expertise in front office trading, infrastructure, origination functions and understanding of cash markets was called for.

12. The Bank of England said that it had held a Debt Capital Market Roundtable discussing SONIA implementation with major sterling lenders. FTSE 100 companies were seen to be more aware of LIBOR transition than at a similar meeting last year, smaller borrowers were behind but starting to act. The granular timeline for the end Q3 2020 target would therefore be useful.

Cash Legacy Task Force

13. The Bank of England spoke on behalf of the Cash Legacy Task Force giving a summary of the terms of reference for the Task Force.

14. The Task Force will produce outputs on supporting LIBOR transition in cash markets. It will also raise awareness of fallback language albeit active conversion is the primary focus.

15. The Task Force's first meeting will be in January and it has representation from buy-side and corporate members in addition to the sell-side, professional services and trade associations.

Tough Legacy Task Force

16. The Financial Conduct Authority provided an update on the work of the Tough legacy Task Force. The first in person meeting of the Task Force will happen in December. It intends to determine what is likely to fall into a working definition of Tough Legacy and what feasible remedies could be. The Chair of the Task Force reiterated that despite this work there should be no expectation of a 'silver bullet' to solve the problem and that firms needed to continue to engage in transitioning away from Libor wherever feasible.

17. The official sector summarised the roles that the three new Task Forces will occupy. The Loan Enablers Task Force deals with new products, Cash Market Legacy with products that can be transitioned and the Tough Legacy Task Force with products that cannot be transitioned.

Loan Sub-Group

18. The Chair of the Sub-Group said that it had been focussing on the methodology of SONIA compounded in arrears, with feedback being sought on the approaches of 'compounded rate' and 'compound balance'. The Sub-Group also continued to work with the Infrastructure Sub-Group looking at tools such as screen rates and calculators to support SONIA usage.

Infrastructure Sub-Group

19. The Chair of the Sub-Group said that a workshop with Treasury Management System providers is being organised to take place on 23 January 2020. The Sub-Group has also been looking into flexible compounding calculators as it had observed that calculation methods in the market lacked consistency.

Communications Sub-Group

20. Communications strategy for the coming months was outlined. There will be some December publications followed by a larger release of Working Group publications in January. The group was also making plans for an event in Q1 2020 focused on education for end users of LIBOR.

Pension Funds and Insurance Companies Sub-Group

21. The Chair of the Sub-Group said that the current focus of the Sub-Group remains insurance transition, especially in terms of engagement with EIOPA.

Term Rate Use Case Task Force

22. A paper summarising the conclusions from the work of the Task Force was due for publication in January 2020. The paper was currently with Task Force members for comment and would be distributed to Working Group members for feedback in December.

Bond Market

23. The Chair of the Bond Market Sub-Group said the Sub-Group had produced a statement of considerations based on consent solicitations that have occurred in the market to transition bonds from LIBOR to SONIA to date. This is due for publication in January.

24. The Chair of the Sub-Group noted that not all bonds were likely to be able to transition away from SONIA via consent solicitation and as such The Sub-Group would also be supporting the Tough Legacy Task Force in its work.

Conventions on swaptions and non-linear products

25. The Financial Conduct Authority and Bank of England were due to send a questionnaire to swap dealers next week, with aggregated and anonymised feedback to be reported back to the Working Group.

26. The Financial Conduct Authority suggested an open discussion concerning dependencies across linear and non-linear products.

ISDA consultation summary and next steps

27. ISDA had published a report that summarised responses to its consultation on the final parameters of adjustments that will apply to derivatives fallbacks for certain IBORs. The majority of participants preferred a historical median approach over a five-year lookback period.

28. The Financial Conduct Authority said it will respond to queries from ISDA on how long an unrepresentative LIBOR would continue. The Financial Conduct Authority reiterated that it had no plans to compel panel banks to contribute to LIBOR past 2021.

29. There were comments that cessation and pre-cessation are amongst the least understood issues on LIBOR transition. Members suggested that a statement clarifying what an unrepresentative LIBOR can be used for would be helpful.

Update on OIS streaming progress

30. The Financial Conduct Authority had spoken to 9 of the 16 potential streamers of OIS quotes in order to check progress. 7 of the 9 were on track for the intended February 2020 start date, which was sufficient for the target to be reached.

Private sector attendees

Tushar Morzaria	Barclays (Chair)
Paul Mansour	Barclays (Chair's office)
Andreas Giannopoulos	Barclays (Chair's office)
Robert de Roeck	Aberdeen Standard
Shaun Kennedy	Associated British Ports
Sarah Boyce	Association of Corporate Treasurers
Alexandre Pappadacci	AXA (Vice-Chair)
Snigdha Singh	Bank of America Merrill Lynch
Doug Laurie	Barclays
Tejonidhi Kashyap	Barclays
Rob Mitchelson	Blackrock
Greg Olsen	Clifford Chance (General Counsel)
Sebastien Angles-Dauriac	Deutsche Bank
Jasper Lillingston	European Bank for Reconstruction & Development
Chirag Dave	Goldman Sachs
Sander Slotema	HSBC
Chris Rhodes	ICE Group
Paul Richards	ICMA
David Jamieson	Insight Investment
Rick Sandilands	ISDA
Philip Whitehurst	LCH
Chi-Kit Pang	Legal & General Investment Management
Ian Fox	Lloyds Banking Group
Kam Mahil	Loan Market Association
Siobhan Clarke	M&G
David Covey	M&G Investments
Kwok Liu	National Grid
Richard Merrett	Nationwide Building Society
Phil Lloyd	NatWest Markets
Kieran Higgins	Royal Bank of Scotland
Ronald Kent	UK Finance

Official sector attendees

Alastair Hughes	Bank of England
Wayne Leslie	Bank of England
Tom Horn	Bank of England
Jugvinder Singh	Bank of England
Leman Menguturk	Bank of England
Edwin Schooling Latter	Financial Conduct Authority
Richard Fox	Financial Conduct Authority
Anne-Laure Condat	Financial Conduct Authority
Toby Williams	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority
Devid Mazzone	Financial Conduct Authority
Sophie Legrand-Green	Financial Conduct Authority
Will Davies	Financial Conduct Authority