

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

Thursday 7th February 2019

Barclays, 1 Churchill Place, Canary Wharf, London E14 5HP

Agenda

1. Welcome & introductions
2. Competition law reminder
3. Minutes of previous meeting
4. Working Group strategy and sub-group structure
5. Infrastructure Forum
6. Task Force on Conventions
7. Letter to IASB
8. Proposal for consultation on adjustment spread for cash products
9. Update from sub-groups
10. AOB

Welcome, Competition Law Reminder and Previous Meeting's Minutes

1. The Chair welcomed attendees to the first meeting of the RFRWG in 2019, 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.
2. The minutes of the previous meeting were discussed and approved by the RFRWG members.

Working Group strategy and sub-group structure

3. The Chair emphasised the importance of 2019 as a key year for meaningful transition from LIBOR to SONIA reference rates, and introduced a draft project plan for the RFRWG to consider. The plan had a proposed set of priority task forces, proposals on governance, and a high level roadmap.
4. The identified priorities were as follows:
 - a. *Term SONIA reference rates (TSRR)*: It was acknowledged that much progress had been made to date on TSRR. As a priority the RFRWG should now finalise work by taking actions to help determine the applicability of TSRR for specific market segments and end-users.
 - b. *Critical infrastructure*: Whilst some aspects of infrastructure are internal considerations for market participants, it is important that the RFRWG now takes actions to provide appropriate clarity for external infrastructure providers, to aid them in defining and beginning critical build activity. This would establish a suitable position to support further migration into 2020.
 - c. *Key enabling building blocks*: A non-exhaustive list had been identified including fallbacks, regulatory and accounting treatments, and routes for existing contract conversion.
 - d. *Communication and awareness*: It was necessary for the RFRWG to more extensively reach out to the broader community of market participants who, in turn, could then make use of broader channels to propagate effective client outreach.

- e. *Cross-jurisdiction co-ordination:* The RFRWG needed to proactively engage with working groups and official sector bodies in other jurisdictions on transition work to enhance co-ordination and consistency.
5. The Chair then explained he was keen that the RFRWG governance structure should evolve to reflect that transition work has entered into an implementation stage:
- a. *Task Forces:* The Task Forces are intended to be created for specific deliverables and then disbanded once the action is complete. Three had been identified so far but more were likely to be required going forward: (i) Term Rate; (ii) Regulatory Dependencies; and (iii) Accounting Treatment.
 - b. *Senior sponsorship group:* This would be a new group of senior level sponsors to support the successful delivery of the transition. Further work would take place during Q2 2019 to establish this group.
6. Lastly, the Chair introduced a draft high level roadmap summarising the upcoming goals for the RFRWG. This linked to the task forces and would be used to manage expectations and generate momentum for the RFRWG. As a live document it would be subject to change and updates.
7. Some members asked about the relationship between task forces and the existing sub-groups. It was explained that the task forces would not be replacing sub-groups. They would co-exist but a sub-group could have a longer duration. Taking forward TSRR work in particular with a task force would be an immediate step. One member commented that the RFR Secretariat should perhaps revise the organisational charts for the RFRWG.
8. Members also discussed the international linkages that could be made to achieve global co-ordination. Some aspects of transition like accounting and infrastructure would naturally benefit from taking an international approach, whilst others like communication and outreach would be complex to implement. The RFRWG agreed to focus on setting up the new groups first, and broker global co-ordination as a next step, The FCA was supportive of the RFRWG considering an international approach.
9. In relation to the draft high level roadmap, one member commented on the need for an ecosystem for delta one products, and that this reference should be made around Q3/4 of the roadmap in order to facilitate their migration. Another member asked if the roadmap would be eventually publicised. It was confirmed that this would be the case after an agreed version was established by the RFRWG.
10. One member commented that there appeared to be a shift in approach for the RFRWG to take a more directive role. The Chair explained that the RFRWG should work to generate momentum and delivery of the 2019 outcomes, but it would respect what could and could not be achieved with the market.
11. RFRWG members agreed to provide any detailed comments on the overall project plan to the RFR Secretariat.

Infrastructure Forum

12. The co-chair of the infrastructure sub-group provided an update on the Infrastructure Forum that took place on 31st January. The event had been a success, with good attendance and an engaged debate. Knowledge on transition was high and whilst some infrastructure providers had already started their

- build, all sought additional clarity in order to progress. Notably, they asked for clarity on conventions for SONIA and the overall transition timelines to identify the next steps.
13. The Chair asked what lead-in times were mentioned. It was stated that build times varied across providers from 6 months to 18 months but frequency of software adoption varied considerably depending on the size and complexity of market participants.
 14. Infrastructure for the loan market was an area of focussed discussion at the event. Options and swaptions were also mentioned. A summary note for the event would be made available in due course to the public¹. Updates would also be made to the infrastructure and systems preliminary priority list.

Task Force on Conventions

15. The Bank of England introduced a paper developed jointly by the Bank, the FCA and members of the RFRWG. The paper was designed to raise awareness on conventions for referencing new SONIA contracts. TSRR is not included. The bonds sub-group chair added that it could generate international discussion on the use of overnight compounded SONIA given there are small differences with the US in respect of SOFR-linked FRNs.
16. One member suggested adding questions to structure the public feedback. Other members queried whether naming the paper as a ‘consultation’ was a better way to garner feedback. It was noted that Task Force preferred the title ‘discussion paper’. The RFRWG members agreed with these points and that an updated version of the paper should be made public.

Letter to IASB

17. As discussed by the RFRWG at its December 2018 meeting², accounting firms had recommended reaching out to the IASB by way of a letter to discuss accounting issues around the transition. A draft version of the letter was discussed by RFRWG members. It was agreed that the letter could be sent subject to some changes on behalf of the RFRWG.

Proposal for consultation on adjustment spread for cash products

18. The chair of the loans sub-group outlined that the lack of an adjustment spread from LIBOR to SONIA was a key issue impacting the transition of legacy LIBOR positions and work on LIBOR fallbacks, for which the market was still using an amendment based approach. The ISDA consultation paper was considered successful in obtaining a clear and preferred view for the derivatives market, so the respective chairs of the loans sub-group and the bonds sub-group proposed that a similar consultation take place for the cash market.
19. The consultation paper would set out different options and be widely disseminated. The LMA, ACT and ICMA would also widely publicise the consultation. Informal discussions with the US ARRC group had also been positive. The chair of the bonds sub-group was supportive given it may have the

¹ Now available at: <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/infrastructure-forum-summary-note.pdf>.

² <https://www.bankofengland.co.uk/-/media/boe/files/minutes/2018/rfr-december-2018.pdf>.

- potential to assist on legacy issues. RFRWG members were therefore asked to sponsor the proposal, and provide support for co-ordination with different currencies and the provision of technical expertise.
20. A member flagged that ISDA's consultation and subsequent IBOR fallback methodologies in the derivatives market should not be assumed to apply in respect of fallbacks for the cash market. The market would need to assess for itself through this consultation what would be appropriate.
 21. One member highlighted that taking a multi-currency approach could be problematic when term rates are not established in all jurisdictions. RFRWG members then discussed the issues surrounding a term reference rate and that there was a need for clarity. The FCA reminded the RFRWG that authorities have previously stated that overnight rates should be used where practicable.
 22. Some members asked whether the consultation was possible given it would focus on an adjustment spread without articulating what it would adjust to. The chair of the loans sub-group recognised there were still outstanding questions but it would be prudent to begin this work sooner rather than later. The options could be presented, two of which so far are overnight compounded and term.
 23. The Bank of England asked the RFRWG whether it was possible to isolate this question in a consultation without impact to other work on the roadmap. RFRWG members then discussed alternative approaches, including what options could run parallel.
 24. It was agreed that the consultation be progressed and that international coordination would be beneficial.
- Updates from sub-groups**
- Communications & Outreach sub-group*
25. The sub-group chair stated that governance and oversight of the RFRWG newsletter had been going well. Maintaining a monthly frequency for the newsletter was thought appropriate. The number of subscribers was increasing. The sub-group will meet to identify clear milestones and deliverables from the roadmap and how it can plan for them. A smaller media group was in the process of being set up to support communication and outreach. The sub-group will be considering development of webinars similar to those used by the ARRC to explain key issues. Further discussion will take place on how to identify and outreach end-users more effectively.
- Pension Funds & Insurance Company sub-group*
26. The sub-group co-chair said that transition for pension funds seemed to be progressing fairly smoothly. Insurance transition was the sub-group's main focus. Transition work could be divided between general insurers and with-profit funds that rely on EIOPA discounting curves, and bulk purchase annuity funds that have stocks of LIBOR referencing derivatives. The sub-group co-chair thought it might be constructive to have a pan-European task force to combine discussions on EONIA, ESTER, and SONIA.
 27. The sub-group has also received lots of questions from insurers since the circulation of the Dear CEO letter.

Loan market sub-group

28. The sub-group chair said that in addition to the work for the adjustment spread consultation, the sub-group would consider adding representation from more CLO managers and bilateral loan negotiators.

Bond market sub-group

29. The sub-group chair stated that around £7bn of SONIA-linked FRN issuance had taken place in H2 2018 and this had already been superseded in 2019 with around £8bn of issuance to date. Issuers included SSAs, banks and building societies. Progress has been seen in SONIA-linked securitisation too. Issuers had been using the same conventions across these bonds. The sub-group will be part of the adjustment spread consultation and later in 2019 the sub-group will focus on the whether a TSRR is required for the bond market. It will also consider what is and is not practical for legacy sterling bonds, and provide feedback to the RFR project plan.

AOB

30. The Chair explained that there were plans for the RFRWG to appoint independent legal representation. RFRWG members were asked to nominate to the RFR Secretariat from their firm to join a small group to select the independent legal counsel.

Private sector attendees

Tushar Morzaria	Barclays (Chair)
Andreas Giannopoulos	Barclays (Chair's office)
Paul Mansour	Barclays (Chair's office)
Frances Hinden	Shell (Vice Chair)
Robert de Roeck	Aberdeen Standard
Shaun Kennedy	Associated British Ports
Sarah Boyce	Association of Corporate Treasurers
Nick Saggers	Bank of America Merrill Lynch
Jonathan Brown	Barclays
Rob Mitchelson	Blackrock
Timothy Tomalin-Reeves	Citadel
Michael Barron	Deutsche Bank
Axel van Nederveen	European Bank for Reconstruction & Development
Chirag Dave	Goldman Sachs
Sander Slotema	HSBC
Daniele Forni	HSBC
Matthew Horton	ICE Group
Paul Richards	ICMA
David Jamieson	Insight Investment
Ross Barrett	Investment Association
Galina Dimitrova	Investment Association
Rick Sandilands	ISDA
Philip Whitehurst	LCH
Guy Whitby Smith	Legal & General Investment Management
Ian Fox	Lloyds Banking Group
Clare Dawson	Loan Market Association
Siobhan Clarke	M&G
David Covey	M&G Investments
Richard Merrett	Nationwide Building Society
Oliver Cooke	Natwest Markets
Kieran Higgins	Royal Bank of Scotland

Official sector attendees

Andrew Hauser	Bank of England
Alastair Hughes	Bank of England
Hannah Reynolds	Bank of England
Jugvinder Singh	Bank of England
Joshua Jones	Bank of England
Nadia Glasspool	Bank of England
Edwin Schooling Latter	Financial Conduct Authority
Richard Fox	Financial Conduct Authority
Harriet Hunnable	Financial Conduct Authority
Toby Williams	Financial Conduct Authority