The Working Group on Sterling Risk-Free Reference Rates

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

Wednesday 3rd July 2019

Barclays, 1 Churchill Place, London E14 5HP

Agenda

1. Welcome & Introductions
2. Competition Law Principles
3. Minutes of previous meeting
4. Readout of Risk-Free Rate Transition event on 5th June and the Discussion Paper on LIBOR collateral in the SMF
5. ISDA Consultation on pre-cessation triggers
6. Update on Senior Advisory Group meeting held 1st July
7. Update/follow up on:
    a. Term Rate Provider Presentations
    b. Term Rate Use Case Task Force
8. Update on NatWest SONIA loan facility
9. Market conventions for SONIA contracts
    a. Discussion paper – summary of responses and next steps
    b. Loans market readiness
    c. Working Paper on Loans Processing
10. Headline updates from subgroups and task forces

Welcome, Introductions and Competition Law Principles

1. The Chair welcomed attendees and introduced Alexandre Papadacci (AXA Investment), as the new Buy-side Vice-Chair of the Sterling Risk Free Reference Rate Working Group (Working Group).
2. Alexandre Papadacci noted he felt there was a role for the Working Group in ensuring the potential effects of transitioning from LIBOR, such as value transfer were better understood across the market. He also highlighted broadening communication on transition as another important area of focus. Working Group members noted the continuing importance of firms engaging and updating clients regarding LIBOR transition.
3. The Working Group's General Counsel (Greg Olsen), reminded firms of their competition law responsibilities in the context of the Working Group meeting.

Minutes of the previous meeting

4. There were no verbal comments on the draft May Working Group minutes. The Chair asked firms to direct any further comments to the Secretariat.

Risk Free Rates Transition event and Bank's Discussion Paper on LIBOR collateral in the SMF

5. The Chair recapped the key messages from the jointly-held Bank of England, FCA and Working Group event on 5th June. Good progress has been made in transitioning from LIBOR in sterling

markets, but there was a need to accelerate the pace of transition, including the delivery of supporting infrastructure and tools to facilitate the move to SONIA. The Chair thanked members for their attendance and participation in the Working Group panel event. A recording of the opening session of the event and other supporting material, such as the Dear CEO thematic feedback, had been made available on the [Bank of England's website](#).

6. The Working Group noted a recent speech delivered by Andrew Hauser (Bank of England)[1], which highlighted:
   a. the need for infrastructure improvements to facilitate transition;
   b. the opportunity presented by risk-free rates for market participants to concentrate sterling SONIA liquidity into a single SONIA curve;
   c. the opportunity to unbundle credit and non-credit risk through the use of SONIA; and
   d. steps the Bank of England were taking to transition its own balance sheet away from LIBOR, including release of a discussion paper on the Bank's approach to risk-managing LIBOR-referencing collateral used in the Sterling Monetary Framework.[2]

ISDA Consultations

7. ISDA provided an overview of two open consultations, the first seeking views on the approach to fallback rates for certain IBORs, and the second on the conditions to trigger fallback language.[3]

Pre-cessation triggers

8. The FCA highlighted the importance of the ISDA consultation on pre-cessation triggers and the imminent deadline to submit comments. Participants were reminded of the key messages from a speech by Edwin Schooling Latter in January, which related to this issue.[4]
9. Repeating previous public comments Edwin Schooling-Latter (Financial Conduct Authority) noted it was possible that some but not all submitting banks could leave the LIBOR panel after end-2021. If that diminution were significant, LIBOR may no longer satisfy the 'representativeness' test that its administrator (IBA) and regulator (FCA) would need to apply under the EU Benchmark Regulation (BMR). In this scenario, the rate may still exist in some form but would likely be unsatisfactory for most purposes, so there may be advantages to including a 'pre-cessation' trigger to cause fallbacks to take effect at this point.
10. The FCA noted that the continued use of an 'unrepresentative' rate was likely to pose both regulatory and commercial concerns. The properties of the rate were likely to change at this point, becoming more volatile and potentially subject to shifts in average level as the panel shrunk. Some parts of the BMR provided for a halt to use of an unrepresentative rate in new contracts, and the liquidity of outstanding contracts was also likely to become impaired.
11. The US Alternative Reference Rates Committee (ARRC) had recommended adoption of pre-cessation triggers, and key central counterparties (CCPs) were already able to use the discretion

[1] https://www.bankofengland.co.uk/speech/2019/andrew-hauser-speech-at-risk-live-2019-london
[2] https://www.bankofengland.co.uk/paper/2019/the-boes-risk-management-approach-to-collateral-referencing-libor-for-use-in-the-smf
[3] https://www.isda.org/a/md6ME/FINAL-Pre-cessation-issues-Consultation.pdf
[4] https://www.fca.org.uk/news/speeches/libor-transition-and-contractual-fallbacks

available in their rulebooks to change the reference rate in cleared contracts should LIBOR be deemed unrepresentative or not fit for purpose.

12. Working Group members noted the importance of consistency in approach to pre-cessation across markets, highlighting the potential for difficulties with hedging if different classes of contracts moved to RFRs at different times. Participants also felt it important to ensure that broad adoption of fallbacks for a cessation event remained the key priority, so the eventual approach to pre-cessation should take account of the level of support in the market. Members were strongly encouraged to submit their views to the ISDA consultation process.

Upcoming ISDA work

14. ISDA updated members on the timeline for feedback from its two open consultations. Looking ahead, a future consultation on the parameters for fallback language was planned for August, i.e. an average spread between LIBOR and RFRs based on how many years, and whether a mean or median approach to the spread adjustment should be used. In Q4 2019, ISDA plan to publish new definitions for fallback arrangements and publish a protocol to allow these fallbacks to be included in legacy LIBOR contracts.

Update on Senior Advisory Group

15. The Chair updated members on the formation of a new Senior Advisory Group (SAG), which held its first full meeting on the 1st July. This group would meet less frequently than the full Working Group which would retain its current role. The SAG would compromise of a number of Senior representatives from the largest market participants across relevant segments, providing an additional high-level perspective on potential barriers to transition. The Chair highlighted that members of the SAG from regulated firms held SMR-level responsibilities, or similar, and so would be able to provide a single voice from the largest institutions, mobilise resource and prioritise LIBOR transition within their respective firms.
16. The Terms of Reference for the SAG have been published on the Working Group's website. The group would meet around once a quarter and transparency of its discussions would be provided through updates to the main Working Group for inclusion in the minutes.
17. The Chair summarised the key points of discussion from the group's initial meeting.
    a. Regulatory dependencies: SAG members highlighted potential conduct risks and regulatory dependencies involved in transition. It was noted that plans were in place through the WG's taskforces to address these concerns in writing with relevant authorities.
    b. Cash markets: The comparatively slower rate of progress in cash markets was noted, and the group discussed ways to encourage progress, such as encouraging banks' relationship management teams to move away from LIBOR products and increase engagement with non-financial institutions.
    c. Term rates: Members of the SAG discussed the delivery of a forward-looking term SONIA reference rate (TSRR), noting that broad adoption of compounded SONIA should remain the primary transition objective. The FCA provided an update on its

bilateral conversations with 15 of the largest OIS market-makers on streaming executable quotes to multi-lateral trading facilities. A large majority were supportive and firms would look progress this through their respective internal governances.

Term Rate Update

The availability of a Term SONIA Reference Rate

18. The Bank noted the delivery of an IOSCO compliant TSRR remained a priority and would remain on the agenda. The Working Group agreed to continue to support potential providers of a TSRR, by engaging with market participants to collate feedback, provide technical assistance or raise barriers to delivering TSRR.
19. The FCA and the Chair reminded members that the authorities or the Working Group had no current plans to endorse any one provider of a TSRR.

Term SONIA Use Case Task Force

20. The Chair of the Term SONIA Use Case Task Force updated members on the work of the task force, which would be split into three separate workstreams:
    a. To produce guidance on the usage and suitability of overnight SONIA, and use cases for TSRR within the cash market based on client and operational suitability;
    b. To support the development of published compounded SONIA rates for ease of use; and
    c. To support the development of a TSRR.
21. Whilst vendors should engage with institutions directly, the Taskforce would monitor the emergence of any thematic issues to help seek ways to address them.

Update on NatWest SONIA loan facility

22. It was noted that NatWest had publicised the completion of the first SONIA-referenced loan with a corporate customer (National Express). The conventions of the loan adopted those already commonly used in the sterling bond market, with a daily compounded rate and a five-day lag.

Market Conventions for SONIA contracts

Conventions paper

23. The Bank of England thanked members for responding to the Discussion Paper on market conventions for SONIA and introduced a draft paper summarising the feedback. It was noted that most respondents called for consistency between cash market and derivatives, to reduce hedging risks and also to support infrastructure providers, as greater optionality would take longer for providers to cater for. The FCA noted authorities and the ARRC remain supportive of international alignment where possible. It was agreed that the paper should be published.

Loans market

24. The LMA noted work underway to produce a new SONIA-based loans template, and recognised that the consensus for SONIA conventions may need to evolve as the market for risk-free-rates develops and this template may need to be amended further.

The Working Group's transition plan includes a significant shift from LIBOR based lending to SONIA-linked products next year to ensure these markets are prepared ahead of 2021. Given the timelines for ensuring infrastructure is available to support emerging compounded SONIA linked lending products it was noted this was a key area of focus for both firms and third party infrastructure/system vendors.

Sub-group/taskforce updates

Regulatory Dependencies Task Force:

25. The task force chair updated members on plans to write to relevant authorities to raise regulatory, conduct and prudential barriers to LIBOR transition.

Accounting Treatment Task Force:

26. Members were reminded of the recent letter sent by the task force to the IASB's Exposure Draft proposing amendments to IAS 39 and IFRS 9 to address hedge accounting issues.

Infrastructure sub-group:

27. The Infrastructure sub-group noted work to engage with infrastructure providers, and had updated its priority list to reflect this.
28. It was also noted that developing systems to support risk-free rates were at the top of firms' agendas, and to continue to support progress in delivering this the June Working Group newsletter had sought feedback on infrastructure challenges. The sub-group planned to deliver more targeted work in this area to support loans systems development.

Private sector attendees

Snigdha Singh	**Bank of America Merrill Lynch**
Tushar Morzaria	**Barclays (Chair)**
Paul Mansour	**Barclays (Chair's office)**
Andreas Giannopoulos	**Barclays (Chair's office)**
Joseph Mcquade	**Barclays (Chair's office)**
Robert de Roeck	**Aberdeen Standard**
Shaun Kennedy	**Associated British Ports**
Sarah Boyce	**Association of Corporate Treasurers**
Alexandre Papadacci	**AXA (Vice-Chair of the Working Group)**
Doug Laurie	**Barclays**
Jon Laycock	**Barclays**
Tejonidhi Kashyap	**Barclays**
Rob Mitchelson	**Blackrock**
Greg Olsen	**Clifford Chance (General Counsel)**
Michael Barron	**Deutsche Bank**
Axel van Nederveen	**European Bank for Reconstruction & Development**
Alan Farrell	**Goldman Sachs**
Sander Slotema	**HSBC**
Daniele Forni	**HSBC**
Matthew Horton	**ICE Group**
Paul Richards	**ICMA**
Vanaja Indra	**Insight Investment**
Ross Barratt	**Investment Association**
Michelle Hurd	**ISDA**
Philip Whitehurst	**LCH**
Guy Whitby Smith	**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**
Oliver Cooke	**NatWest Markets**
Kieran Higgins	**Royal Bank of Scotland**
Frances Hinden	**Shell (Vice-Chair of the Working Group)**

Official sector attendees

Andrew Hauser	**Bank of England**
Alastair Hughes	**Bank of England**
Wayne Leslie	**Bank of England**
Tom Horn	**Bank of England**
Jugvinder Singh	**Bank of England**
Stefania Spiga	**Bank of England**
Edwin Schooling Latter	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**
Toby Williams	**Financial Conduct Authority**
Thorben Heidrich	**Financial Conduct Authority**
Devid Mazzonetto	**Financial Conduct Authority**