

The Working Group on Sterling Risk-Free Reference Rates

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

Tuesday 14th May 2019

Barclays, 1 Churchill Place, London E14 5HP

Agenda

1. Welcome & Introductions
2. General Counsel Introduction
3. Competition Law Principles
4. Minutes of previous meeting
5. Term Rate Developments/ Provider Presentations
6. Headlines from the FSB Roundtable Event
 - a. Official sector
 - b. Letter from Chair to OSSG
7. UK RFR Event on 5th June and Senior Group Mobilisation
8. Headline updates from Sub-groups and Task Forces
9. AOB

Welcome, Introductions and Competition Law Principles

1. The Chair welcomed attendees, and reminded them of competition law responsibilities and the importance of taking independent advice from the legal and/or compliance teams at their respective institutions.
2. The Chair welcomed Greg Olsen (Clifford Chance) as the newly appointed General Counsel for the Sterling Risk Free Reference Rate Working Group.
3. General Counsel outlined his role in assisting the Working Group in meetings, and providing guidance as required. General Counsel reiterated it is for member firms to seek their own independent advice and it is each firm's responsibility to ensure they adhere to competition law.
4. General Counsel highlighted three competition law considerations member firms should always be aware of when engaging with other member firms;
 - i. Appropriate exchange of information permissible under competition law
 - ii. Impact of decisions made by the Working Group on markets
 - iii. Impact of decision made by the Working Group on third parties
5. The Working Group members approved the minutes of the previous meeting (30 March 2019).
6. The Chair noted that the deadline for responses to the Conventions Paper on Referencing SONIA in New Products passed on 30 April, and thanked respondents for their comments. The Secretariat would review these responses and provide an anonymised high level summary of the feedback to the Working Group.

Term rate developments and presentations

7. The Working Group re-iterated its support for development of a term benchmark based on the sterling risk-free rate, known as a Term SONIA Reference Rate.¹
8. The FCA announced three potential providers had expressed an interest in developing a forward-looking term rate – FTSE Russell, ICE Benchmark Administration and Refinitiv – and were invited to present their work to the Working Group. Working Group members were reminded that these presentations were not formal considerations to determine a provider, but simply an opportunity for interested providers to present to an informed audience and seek comments. All three presentations would become publically available on the Working Group's website.²
9. Each of the benchmark providers was reminded of their competition law requirements prior to the meeting and again before their presentations. Prior to the delivery of the presentations, Working Group members were asked to recuse themselves from the room where any potential conflicts may arise with the firms delivering the term-rate presentations.

10. *FTSE Russell, Tradition and TP ICAP*

FTSE Russell's presentation was delivered by Waqas Samad, CEO of FTSE Russell and Group Director of Information Services Division at London Stock Exchange Group, Tradition and TP ICAP. FTSE Russell drew similarities between the discontinuation of LIBOR and that of the gilt pricing index³, noting that the rate submitters in the gilt index withdrew support and FTSE Russell and Tradeweb took responsibility of publishing these prices.

FTSE Russell recognised that a forward-looking term-rate should only be adopted where appropriate, and noted use cases would likely include cash products, treasury and funding operations.

The proposed TSRR benchmark would adopt a waterfall methodology to ensure a daily rate would be available. At present, FTSE Russell noted spot SONIA OIS would form the basis for the forward-term and could be supported by futures for a hybrid-style approach. The robustness of a term SONIA rate based on a deep and liquid market could be enhanced through the use of central limit order book (CLOB). FTSE Russell noted that further development and the use of CLOBs for TSRR would ensure term-rates are transparent and auditable, as prices would be tradable and not quotes-based.

FTSE Russell noted they would mirror their governance structure for TSRR as that for their other IOSCO Compliant benchmarks.

11. *ICE Benchmark Administration (IBA)*

IBA's presentation was delivered by Timothy Bowler, (President). IBA shared intentions to publish a TSRR rate alongside LIBOR, and would be seeking market feedback on the trading window for TSRR settings and when the rate should be published to further facilitate transition.

¹ The Working Group issued a statement on the day following the meeting (15 May 2019) – Progress on the Adoption of Risk-Free Rates in sterling market: <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/statement-on-the-progress-on-adoption-of-risk-free-rates-in-sterling-markets.pdf?la=en&hash=24893EB812640CC61E640BEB98D8E7415439210B>

² <https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>.

³ Now referred to as Tradeweb FTSE Closing Gilt Prices

IBA proposed three potential calculation methodologies to develop a forward-looking term rate; OIS based, futures based or a hybrid model of both OIS and futures which would capture both activity and executable quotes. ICE planned to adopt a three-tiered IOSCO compliant waterfall process to derive the term rate on a daily basis, even in stressed market situations. It was noted that the SONIA market underpinning the preferred level 1 tier may still be in its infancy and/or not be sufficiently liquid at present to derive a TSRR, however whilst this market develops and matures, there is sufficient liquidity in other tiers to derive a rate.

IBA noted it was committed to delivering a Benchmark Regulation-consistent TSRR. In times of extreme stress it may become necessary to move up/down the waterfall methodology, and liaison with its proposed Term SONIA Oversight Committee would be important to ensure stakeholders were protected.

12. *Refinitiv and Tradeweb*

Thomson Reuters Refinitiv's presentation was delivered by Robert Walton, and Stephan Flagel of Refinitiv, and supplemented by a presentation by Bhas Nalabothula of Tradeweb. The Working Group were informed that Refinitiv is currently an administrator for approximately 30 IOSCO and EU BMR compliant benchmarks and is already regulated by the FCA through their subsidiary Refinitiv Benchmark Services (UK) Ltd..

Refinitiv noted that whilst the development of a TSRR would aid transition to SONIA in the near-term, only a small part of the market may benefit from a forward-looking term structure in the long-term, suggesting that term rates would have a limited-use application and would certainly assist transition in the short-term, but may not need to be available permanently

Refinitiv noted that at this time, the best and most robust TSRR would be derived using executable OIS quotes from a CLOB, due to the amount of information in quotes (i.e. market expectation), and the prevalence of a more liquid forwards market. Refinitiv suggested that due to limited liquidity in the spot OIS market at this time, using executable quotes would be suitable to facilitate market familiarity with TSRR and catalyse transition. However, if the OIS market becomes sufficiently liquid, the optimal methodology would capture price data using executed OIS trades. Refinitiv's proposed governance structure leans on their current framework and included an oversight committee, an audit committee and a risk committee.

13. The FCA reiterated the work of the Term Rate Task Force, to identify the limited but appropriate use cases in which TSRR could be applied. The FCA also gave an update on the work it has done regarding OIS streaming. The FCA has called major liquidity providers in the market and set out that a step change is required to help facilitate the creation of a TSRR through streaming executable OIS quotes to multilateral trading facilities. The Secretariat will continue to facilitate the development of TSRR and update the Working Group accordingly.

Headlines from the FSB Roundtable event

14. The Chair noted the Financial Stability Board (FSB) held a Roundtable Event on 10 April 2019, attended by Andrew Bailey (FCA) and Sir David Ramsden (Bank of England), to discuss the progress

on transition to risk-free rates. The Chair reminded firms that this event was recorded and available to view on the FSB's website.⁴

Risk Free Rate Transition event and Senior Group Mobilisation

15. The Bank of England confirmed the date of the Risk Free Rate Transition event titled 'Last Orders: Calling Time on LIBOR' was confirmed as 5 June. This event would provide a public platform for authorities to update on LIBOR transition and will permit for a Q&A session. Invitations had been circulated to a broad set of firms, including those in the Working Group, asset management firms, infrastructure providers, banks and corporates.
16. The Bank outlined the preliminary plan for the panel-based event in which the authorities would discuss LIBOR transition in the UK, and panel members would include Dave Ramsden (Bank of England), Tushar Morzaria (Chair of the Working Group) and Andrew Bailey (FCA). To ensure firms which were not directly invited to the event could still benefit from these discussions, the event would be live-streamed and available to view after the event on the Bank's Youtube channel.⁵
17. On progress with forming of a Senior Advisory Group, the Bank noted that invitations to firms had been sent, and details of the first meeting were still to be finalised.

Headline updates

18. The FCA noted that the FSB's Official Sector Steering Group (OSSG) wrote to ISDA⁶ to encourage ISDA to seek broader market opinion on derivative trigger events, in order to enhance contractual robustness, particularly in recognising a trigger event where an interest rate is no longer considered to be representative.
19. *Accounting Treatments task force:* Working Group members were updated on the Accounting Treatment task force, and the announcement of Frances Hinden (Shell) and Jessica Taurae (PWC) as co-chairs of the task force. Whilst the Accounting Treatment task force had not yet convened its first meeting, it was planned for 3 June 2019. Members were informed co-chairs had drafted a letter to IASB to consider and address accounting dependencies on the LIBOR rate.
20. *Infrastructure sub-group:* The Chair of the Infrastructure sub-group provided an update to Working Group members, noting a loans processing paper, would be circulated to members for comment. This paper focussed on the operational aspects of the loans market.

⁴ <https://www.fsb.org/2019/04/progress-on-the-transition-to-risk-free-rates/>

⁵ <https://www.youtube.com/watch?v=zJ5lk4KyhoQ>

⁶ <https://www.fsb.org/2019/03/fsb-letter-to-isda-about-derivative-contract-robustness-to-risks-of-interest-rate-benchmark-discontinuation/>

Private sector attendees

Tushar Morzaria	Barclays (Chair)
Paul Mansour	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
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

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
Matina Papadopoulou	Bank of England
Edwin Schooling Latter	Financial Conduct Authority
Richard Fox	Financial Conduct Authority
Harriet Hunnable	Financial Conduct Authority
Toby Williams	Financial Conduct Authority
Thorben Heidrich	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority