The Working Group on Sterling Risk-Free Reference Rates

Minutes of the Working Group on Sterling Risk-Free Reference Rates
Thursday 7th November 2019
Barclays, 1 Churchill Place, Canary Wharf, London E14 5HP

Agenda

1. Standing Items
    a. Welcome & Introductions
    b. Competition Law
    c. Minutes of previous meeting
2. Update on recent developments
    a. New SONIA issuance and active conversions in the market
    b. OIS streaming for a Term SONIA Reference Rate
3. Presentations from loan system vendors
    a. ACBS
    b. Finastra/LoanIQ
4. Term Rate Use Case Task Force
    a. Key findings from assessment of use cases
    b. Update on benchmark provider progress
5. Credit adjustment spread consultation paper for cash products
6. Catalysing transition in cash markets
    a. Active transition of legacy stock – Cash Market Legacy Task Force
    b. Identifying issues around the tough legacy – Tough legacy Task Force
    c. Delivering the WG target for no new business on GBP LIBOR by Q3 2020
7. Communications & Outreach Sub-Group
    a. Client factsheet on transition
    b. Discussion on forward strategy
    c. Proposal for media campaign budget
8. Updates from Sub-Groups
    a. Regulatory Dependencies Task Force
        i. Feedback from RFRWG members on draft FCA document on the supervision of conduct risks during the LIBOR transition.
    b. Infrastructure Sub-Group
    c. Others
9. AOB

Welcome, Introductions and Competition Law Principles

1. The Chair welcomed attendees and the Working Group's General Counsel (Greg Olsen) reminded members of their competition law responsibilities in the context of the Working Group meeting.

2. The minutes of the previous meeting were approved.

Update on recent developments

3. Following the successful conversion of a floating rate bond from LIBOR to SONIA by Associated British Ports in June via consent solicitation, the FCA had supported market participants in

identifying candidates for further conversions. The results have been encouraging, with over £4 billion of sterling securities now converted to SONIA. Lessons learned in this process will be shared with the Bond Market Sub-Group and included in the Working Group's planned paper on legacy sterling cash products.

4. Since the last Working Group meeting, the first conversion of a loan from LIBOR to SONIA had also been achieved, between NatWest and South West Water.

5. In relation to production of term rates, the Bank and the FCA had jointly sent letters to large liquidity providers to confirm commitments to streaming executable prices in OIS markets. From February 2020, market making firms had committed to stream executable quotes for 1, 3 and 6 month SONIA OIS, supporting the beginning of a testing period for forward-looking term rates using these quotes. The timing for live production of these rates would be kept under review and was initially expected to commence around Q3 2020. The potential administrators and the platforms had been informed of these developments and the letter would be made available publically.

Presentations from loan system vendors

6. The Working Group invited representatives from loan system vendors, FIS (ACBS) and Finastra (LoanIQ), to present their timetable for developing systems to lend using compounded rates. Shanin Clark presented on behalf of FIS and Robert Downs for Finastra.

7. FIS stressed that LIBOR cessation is a top priority when developing systems. The product would provide functionality for compounding in arrears with a lookback, focused on bilateral loans, and is currently in a testing phase with initial availability scheduled for March 2020. Implementation was expected to take between 3 and 12 months. Two further phases of development would consider more variables in calculation methodologies. A lack of consensus in market conventions was cited as a key impediment to development, particularly in terms of syndicated loans.

8. Finastra was implementing a range of features based on observed conventions in RFRs and their expectations for where the market would converge from client engagement. As further standards emerge, further functionality or changes may be needed, or even optionality could be scaled back to reduce operational risk. But Finastra found the upcoming update would provide a flexible starting point. A new version was expected to be delivered by end-November, with implementation taking 6-18 months. The two main methodologies used were continuous compounding and compounding with a daily fixing. Conventions and pricing options could be configured by loan rather than the region or currency in which it is logged in, and syndicated loans were designed on a similar model to bilateral loans.

Infrastructure Update

9. The Infrastructure sub-group issued a joint survey with the Association of Treasurers (ACT) to Treasury Management System (TMS) providers, to gauge their preparedness in supporting LIBOR transition, such as raising awareness with clients and undertaking the necessary infrastructure changes to support compounded rates.

10. Positively, the majority of TMS respondents indicated they had identified the necessary infrastructure changes to be made and had established appropriate governance and project plans.

11. The Working Group have invited TMS providers to speak at the Infrastructure Sub-group, with a key emphasis on gaining insight on any barriers they face.

Term Rate Use Case Task Force

12. The Task Force presented initial findings from its work on appropriate use cases for term rates in sterling markets. This estimates that 90% of LIBOR lending in sterling by value could be moved to compounded in arrears. This portion would include all lending to mid-to-large corporates and public-sector institutions. The remaining 10% by value, consisting of smaller corporates and retail clients, could use a range of other options. These included Bank Rate, a fixed rate or a SONIA term rate. A term rate was also thought to be a cost-efficient solution for legacy LIBOR loans with a term that extends shortly past end 2021.

13. To support the Working Group's target to cease new issuance of GBP LIBOR-linked cash products by Q3 2020, a Loans Enabler Task Force would be set up to bring together communications, infrastructure and documentation expertise. It was noted that awareness of LIBOR transition remained low outside of large corporations. Significant effort would be needed to educate these users due to the large numbers of smaller borrowers.

14. Participants also noted a desire for clear, free-to-use calculators to support end-user understanding of compounded interest. Consistency of methodologies was important for clarity here.

Credit adjustment spread consultation paper for cash products

15. Members were updated on progress in developing the Working Group's planned consultation on credit spread adjustments for use in fallbacks for GBP cash products. The scope of the paper would cover both cessation and pre-cessation triggers, and would explore whether the methodology agreed by ISDA for derivatives markets would be suitable for cash markets, or if alternatives were necessary. The paper remained on schedule for release by the end of the year.

16. It was noted that the timeline for similar work from the Euro Working Group was longer, but it may later be able to build on the UK's approach.

Active transition of legacy stock - Cash Market Legacy Task Force

17. A key priority for the Working Group was to provide frameworks and information to help enable the transition of legacy cash products, including through a planned working paper in this area. A new taskforce would be formed to undertake this work, to be chaired by Alexandre Papadacci (AXA Insurance). The Terms of Reference and membership for this Task Force would be developed in the coming weeks. Expressions of interest to join the group were invited, seeking expertise across a range of markets including both bonds and loans.

Identifying issues around the tough legacy - Tough Legacy Task Force

18. The Task Force Chair, Richard Fox (FCA), reminded members who wished to join the new Task Force to inform the RFR Secretariat. This Task Force will evolve from the Regulatory Dependencies Task Force to focus on identifying issues around those contracts that cannot transition via market based solutions. A call with members and a meeting will go ahead by January to scope objectives. Observations from existing Task Force participants would be collated to form the initial basis of a report.

19. The FCA emphasised that the intention of this group was to provide a venue for input from market participants, responding to a call from Andrew Bailey for increased public debate in this area, but that market participants should not rely on the availability of an official sector safety net.

Communications & Outreach Sub-Group

20. The Communications and Outreach Sub-Group proposed a list of objectives to support the RFR Working Group, and a steering group made up of communications experts. A draft factsheet had been produced for publication by the Working Group to raise awareness on LIBOR transition, aiming to reach a broad audience with information on what LIBOR transition means for them.

21. Further means for outreach to smaller end users were discussed, including hosting an event with trade associations of lawyers, banks, accountants and independent financial advisors. A budget for a targeted communications campaign for end-users and small-to-medium firms (SMEs) was also proposed, including use of social media. Members shared initial views on funding models for such an approach.

Regulatory Dependencies Task Force Update

22. Members' views were sought on a draft questions and answers document from the FCA addressing some of the core concerns that businesses may have in respect of conduct risk, for publication on the FCA website.

Any Other Business

23. The FCA reminded members of its position on margin requirements. As discussed in the February 2018 meeting, the FCA's view was that amending a reference rate or adding a fall-back rate would not trigger the application of margin requirements, where this amend relates to the treatment of legacy LIBOR trades. This position was extended to the EMIR clearing requirements. This view did not extend where a new transaction occurs; for example, due to compression activity. As other regulatory bodies may take a different view, firms seeking to make these amends should approach their relevant supervisor for further assurance if necessary.

24. The Bank of England took this opportunity to say work is underway for international consensus on BASEL rules and will look to provide a public update for the market.

Private sector attendees

Tushar Morzaria	**Barclays (Chair)**
Paul Mansour	**Barclays (Chair's office)**
Andreas Giannopoulos	**Barclays (Chair's office)**
Alexandre Pappadacci	**AXA (Vice-Chair)**
Frances Hinden	**Shell (Vice-Chair)**
Greg Olsen	**Clifford Chance (Legal Counsel)**
Simon Bowmer	**Bank of America**
Doug Laurie	**Barclays**
Tejonidhi Kashyap	**Barclays**
Ryan O Keeffe	**BlackRock**
Timothy Tomlin Reeves	**Citadel**
Michael Barron	**Deutsche Bank**
Axel van Nederveen	**European Bank for Reconstruction and Development**
Sarah Jane Hall	**GlaxoSmithKline**
Chirag Dave	**Goldman Sachs**
Sander Slotema	**HSBC**
Chris Rhodes	**ICE Group**
Paul Richards	**ICMA**
Robert Gall	**Insight Investment**
Galina Dmitrova	**Investment Association**
Rick Sandilands	**ISDA**
Phil Whitehurst	**LCH**
Guy Whitby Smith	**Legal and General**
Clare Dawson	**Loan Market Association**
Siobhan Clarke	**M&G**
David Covey	**M&G Investments**
Richard Merret	**Nationwide Building Society**
Oliver Cooke	**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**
Jugvinder Singh	**Bank of England**
Stefania Spiga	**Bank of England**
Peter Balint	**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**
Devid Mazzonetto	**Financial Conduct Authority**
David Kempthorne	**Financial Conduct Authority**
Will Davies	**Financial Conduct Authority**