

The Working Group on Sterling Risk-Free Reference Rates

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

Thursday 5th September 2019

Bank of England, Threadneedle Street, EC2R 8AH

Agenda

1. Standing Items
 - a. Welcome & Introductions
 - b. Competition Law
 - c. Minutes of previous meeting
2. Term Rate Provider Presentation
3. Update on OIS quote streaming discussions
4. Working Group priorities
 - a. Outline of H2 priorities
 - b. Official sector perspective
 - c. Discuss and agree actions/next steps
5. Update on ISDA consultation process
 - a. Pre-cessation triggers
 - b. Parameterisation
6. Updates on progress and recent developments
 - a. Recap of recent Working Group publications
 - i. Conventions Statement & Summary of Responses to Discussion Paper
 - ii. Working Paper on Loans Processing
 - b. Updates from Sub-groups and Task Forces
7. AOB

Standing Items

1. The Chair welcomed attendees. The Working Group's General Counsel (Greg Olsen), reminded firms of their competition law responsibilities in the context of the Sterling Risk Free Reference Rate Working Group (Working Group) meeting.
2. There were no comments on the draft July Working Group minutes, and the Chair asked firms to direct any further comments to the Secretariat.

Term Rate Provider Presentation

3. In May, the Working Group invited three potential term rate providers to present their work.¹ Following this, a further potential provider – IHS Markit – had expressed interest to develop a sterling risk-free rate term benchmark known as a Term SONIA Reference Rate (TSRR). As the Working Group

¹ The Working Group met with three potential TSRR providers in May 2019 - <https://www.bankofengland.co.uk/minutes/2019/rfr-may-2019>

continues to be supportive of the development of a TSRR, the provider was invited to present their work and have their presentation made publically available on the Working Group's website² – consistent with those that presented to the Working Group in May.

4. Working Group members were reminded that the presentation was an opportunity for the interested provider to present to an informed audience and seek comments, but that the Working Group would not be determining a preferred provider. Members were asked to recuse themselves from the room where any potential conflict of interest may arise with the provider. The benchmark provider was reminded of competition law requirements prior to the presentation.
5. *IHS Markit*
6. IHS Markit's presentation was delivered by Marcus Schüller, Head of Benchmark Administration. The provider's term risk-free rate development work for the Australian dollar was being expanded to pound sterling and other currencies. IHS Markit is an FCA authorised Benchmark Administrator and prepares for administration of TSRRs as EU Critical Benchmarks in early-2020. It had a clear preference for using transaction data where possible but recognised sufficient RFR liquidity needed to continue to be developed. As a result, a waterfall approach had been established to support the robustness of term rate calculations.

In its methodology a TSRR curve would be constructed from both spot starting and forward starting OIS transactions as well as futures prices, over a 24 hour period. In most cases a hybrid approach using the OIS and futures data would be used, with OIS transactions as the starting point. OIS data would be sought from cleared transactions across a variety of trade execution methods (on-platform and OTC) meeting a minimum notional amount. The end-of-day base population of data would be validated and tested against the waterfall approach. The term structure would be calculated and published the following day. In the event of insufficient data, it was noted that a waterfall of fallbacks were present and this included previous days' prices at the lower end of the waterfall. A compounded SONIA rate would act as the ultimate fallback.

Update on OIS quote streaming discussions

7. The FCA reminded members that compounded overnight rates were expected to be used for most new business, with the TSRR intended to play a role only in a limited range of cash markets and fallbacks for legacy products. 15 major market makers in SONIA OIS had been engaged on a bilateral basis and collectively in July with broad support for streaming executable OIS quotes. Some had noted concerns that early availability of a TSRR might inhibit adoption of compounded SONIA as the primary market standard, and there was a preference for a testing period for firms to establish sufficient comfort in their ability to stream prices consistently. Both the Bank of England and the FCA were therefore supportive of planning for a period of 'beta testing' beginning from the Working Group's Q1 2020 target³, with the date for full go-live kept under review.

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

³ Found in the Working Group's Roadmap [here](#).

8. One member queried whether market makers would be obliged to stream OIS quotes. The FCA confirmed there was no requirement, but a critical mass of liquidity providers had agreed to take part. The Bank of England noted that this was a business decision for the market makers involved.
9. The Term Rate Use Case Task Force had separately received updates from those providers previously confirmed to be developing TSRRs. Expected build times had varied, but the primary outstanding input required was the availability of pricing data as discussed above.

Working Group priorities

10. The Chair stated that priorities had been identified for the Working Group to progress over the next six months, and views were sought from members on how to take these forward. The priorities involved the encouragement of greater adoption of SONIA in cash markets and a further increase in volumes in SONIA derivatives. They also included the need to continue to support the design and adoption of robust fallbacks in contracts, momentum on TSRR development, and provide market input to identify issues around the expected 'tough legacy' of LIBOR stock where it may not be possible to change benchmark or insert fallbacks retrospectively.⁴ The Bank of England and the FCA also voiced support on the identified priorities.
11. Following discussion among members, a number of new actions were agreed to support the priorities, including: developing an information factsheet for cash market end-users; educating and raising awareness for UK regional centres; more international coordination; and analysing how to develop SONIA liquidity in non-linear derivatives. The Chair and the Secretariat would review and update the Working Group's plans accordingly based on such ideas. The Regulatory Dependencies Task Force would be repurposed to provide market input to help identify issues around the 'tough legacy', responding to a call from Andrew Bailey for more public debate around the potential outcomes for legacy contracts that prove unable to convert or be amended to include fallbacks. The objective would be to establish the expected extent of these issues and likely market outcomes in the event of LIBOR cessation, any particular factors which lead contracts to be less likely to be able to convert, and any potential mitigants suggested by market participants to address the risks identified. The Chair of the Task Force emphasised that most suggestions aired so far had clear limitations on their effectiveness or deliverability, so it would be important for the group to consider the full range of risks as well as benefits to any options identified, and for market participants to continue to make every effort to avoid the uncertainty associated with retaining legacy exposures beyond the end of 2021. Existing members of the task force and of the broader working group were invited to express interest in contributing to this work in order to form a small group with the relevant expertise, to deliver a near-term output.
12. The representative for the Loan Markets Association noted that template documentation for compounded SONIA loan facilities would soon be made available.

Update on ISDA consultation process

13. Rick Sandilands (ISDA) updated members on ISDA's recent consultation on pre-cessation. This had received a good level of response and a high level statement of the results was available, with more

⁴ The FCA's Andrew Bailey described this as 'tough legacy' in a July 2019 speech found [here](#).

detailed results published in September. A further consultation on parameterisation of the credit adjustment spread would be issued soon, with amended ISDA definitions incorporating the consultation results expected to be made available by year-end.

Update on progress and recent developments

14. The Chair noted that the following outputs from the Working Group were published in August: [Statement from the Working Group and Summary of Responses to Discussion Paper on Conventions for referencing SONIA in new contracts](#) and [Working Paper on Loans Processing](#). A [Letter to the European Insurance and Occupational Pensions Authority](#) was published in July.
15. Working Group members were updated on progress of the upcoming paper on TSRR use cases, the consultation paper on the credit adjustment spread, and the production of letters to highlight a range of regulatory, conduct and prudential barriers to LIBOR transition to the relevant authorities.

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

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
Peter Balint	Bank of England
Nadia Glasspool	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
Thorben Heidrich	Financial Conduct Authority
Devid Mazzonetto	Financial Conduct Authority
Sophie Legrand-Green	Financial Conduct Authority