

The Working Group on Sterling Risk-Free Reference Rates

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

Tuesday 28th January 2020

Bank of England, Threadneedle Street, EC2R 8AH

Agenda

1. Standing items
 - a. Welcome & Introductions
 - b. Competition law
 - c. Minutes of previous meeting
2. Start of 2020 update
 - a. OSSG summary
 - b. Update and developments from recent publications
3. Meeting the end of Q3 headline target
 - a. Communications and Outreach Sub-Group
 - b. Loan Flow Enablers Task Force
4. ISDA update
5. International - Progress by the ARRC (Tom Wipf)
6. Non-Linear Products Work Stream
 - a. Summary of results from dealer questionnaire on conventions for sterling swaptions and non-linear products
 - b. Further work required in the non-linear market?
7. Loan conventions – update from international workshops
8. Sub-Group and Task Force Updates
 - a. Pensions and Insurers
 - b. Infrastructure
 - c. Legacy Cash Market
 - d. Tough Legacy
 - e. Bond Market Sub-Group
 - f. Loans Sub-Group
 - g. Term Rate Use Case Task Force
9. OIS streaming update
10. AOB

Welcome, introductions and competition law principles

1. The Chair welcomed attendees and requested comments on the minutes from the previous meeting to be sent to the RFR Secretariat. The Working Group's General Counsel gave a competition law reminder.

Summary of the Financial Stability Board's Official Sector Steering Group meeting (OSSG)

2. The January OSSG meeting had been hosted by the UK at the FCA offices. The first part of the meeting was attended by the private sector chairs of the various national working groups, including the RFRWG Chair. A brief update on the meeting was provided including on various initiatives supporting continuing international co-operation on transition. Attendees noted particular progress in Sterling and the impact of the RFRWG January publications. There was general acknowledgement that loan markets were lagging behind globally.
3. A joint FSB/BCBS survey was sent out to c.90 jurisdictions that were members of the FSB and its Regional Consultative Groups. This two part survey covered qualitative exposures data and qualitative supervisory measures to address benchmark transition issues. The purpose of the survey was to improve collective understanding of progress on LIBOR transition globally and increase awareness of the need to accelerate transition efforts.
4. Progress on the development of the ISDA protocol was also covered during the OSSG meeting including the importance of wide market adoption once it was finalised.

January 16th publications

5. A substantial package of Working Group documents was released on January 16th. The parallel letter from the Bank and FCA to senior managers added further weight to these releases helping to generate substantial press coverage, including from the mainstream press in addition to industry/trade publications.

Communications and Outreach Sub-Group

6. In response to questions from RFRWG members the official sector set out that press queries could be redirected to the FCA or Bank of England.
7. Planning for an event with relevant trade associations had begun. This was expected to provide background information on transition with the intention that those who attend would then pass on the information to members of their respective associations.

Loan Flow Enablers Task Force

8. The Task Force was focussing on how to overcome any potential barriers to developing liquidity in SONIA loans.
9. The Chair of the Task Force felt that further representation from borrowers was needed on the Group to make sure end-users were represented and said that this would be addressed.
10. The Task Force was working on a granular plan for transitioning to SONIA linked lending aligned to the Working Group's headline target to cease issuance of sterling LIBOR based cash products maturing after 2021 by the end of Q3 2020. Conventions were another key focus and the group was working closely with the Infrastructure and Loans sub-groups.

11. The Task Force was initially focussing on bilateral sterling loans with a view to building confidence in these simpler products that could then translate into club and syndicated deals.

ISDA update

12. It was noted that the FCA and ICE Benchmark Administration had both sent letters to ISDA regarding the potential for continued production of non-representative Libor. The FCA letter provided greater clarity on the potential length of production of a non-representative rate (a period of months not years).

13. LCH had released a consultation on a rulebook change to align automatic fallback triggers with a declaration from the relevant authority that a relevant benchmark is no longer representative. These two clarifications were viewed as important by members who felt this moved the debate about pre-cessation on from where it had been during the previous ISDA consultation.

Alternative Reference Rates Committee (ARRC) update

11. The Chair of the ARRC (attending as an observer at the invitation of the RFRWG Chair) provided an update on its work in the US.

12. There was positive progress regarding tax and accounting issues; building liquidity in floating rate notes and; volumes in SOFR futures. Freddie Mac and Fannie Mae had announced that they will stop purchasing mortgages tied to the Libor after 2020 and indicated that they soon will start accepting mortgages linked to the SOFR.

13. The ARRC was pursuing a potential New York State legislative solution that ARRC members believed would have very positive policy benefits for those holding or having issued legacy contracts referencing LIBOR, but the outcome would depend on the views and actions of lawmakers and could not be guaranteed. The ARRC therefore urged market participants to not rely solely on this workstream.

14. The Chair of the ARRC noted the intermediate milestones released by RFRWG in early January and thought they were a positive development. He set out an intention to look at whether the development of similar milestones could have a role in the US.

15. Working Group members raised that some banks in the United States were advocating use of a credit sensitive benchmark in addition to SOFR as the US alternative risk-free rate. The use of such rates was viewed negatively with one corporate attendee highlighting such benchmarks passed generic bank credit risk onto end users who were ill-suited to managing those risks.

Non-linear product questionnaire summary

14. There was consensus on most questions asked by the official sector regarding conventions in the SONIA inter-dealer non-linear product markets. It was stated that an aggregated and anonymised summary of responses would be published on the Working Group's webpage.

15. The Chair asked for feedback to the RFR Secretariat from members regarding further work that was needed to support development of RFR linked non-linear products.

Loan Conventions

16. Work on a paper was underway and there was communication with other currency jurisdictions e.g. US.

Overnight indexed swap (OIS) streaming:

17. February 3rd was the target date for OIS dealers to begin streaming SONIA quotes to multi-lateral trading facilities. The FCA said that dealers should expect communication from the FCA on this in the near future.
18. With regard to ongoing work to look at the development of a forward looking term SONIA reference rate the plan was for beta testing to take place in the spring. Depending on progress this could mean a forward term rate being available in Q3.

Pensions and Insurance Sub-Group

19. The first buy-side roundtable had recently been held. This was attended by asset managers, with a second session planned that would have wider buy-side attendance.
20. The first event saw discussion of the importance of pre-cessation triggers, with the official sector encouraging firms to take-up the eventual ISDA protocol. Barriers and dependencies around transition were also discussed and problems regarding communication with end-users raised by some attendees.
21. The Working Group would receive a further update after the second roundtable.

Infrastructure Sub-Group

22. An event for treasury management system providers had been held. This included presentations and a Q&A session. There were concerns about conventions from the providers who nonetheless noted that they appreciated the clarity on timeframes that had been provided by the Working Group so far through the publication of its targets and milestones.

Cash Market Legacy Task Force

23. The priority of the group was a discussion paper on transition of legacy loans.

Tough Legacy Task Force

24. The target of the group was to bring an update to the next Working Group meeting. This was to include an asset class by asset class breakdown as to whether a tough legacy problem exists.

Bond Market Sub-Group

25. The group was working on sizing the legacy bonds challenge.
26. The group had also provided input to the Cash Market Legacy and Tough Legacy Task Forces.

Loans Sub-Group

27. The cash spread adjustment paper had been published. The RFR Secretariat had requested responses by 6 February.

AOB

28. The Chair asked again for RFRWG members to provide feedback to the RFR Secretariat on the credit spread adjustment paper.

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
Imed Souki	UBS

Official sector attendees

Alastair Hughes	Bank of England
Wayne Leslie	Bank of England
Norah Ali	Bank of England
Leman Menguturk	Bank of England
Edwin Schooling Latter	Financial Conduct Authority
Richard Fox	Financial Conduct Authority
Rachel Ward	Financial Conduct Authority
Toby Williams	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority
Will Davies	Financial Conduct Authority