The Working Group on
Sterling Risk-Free Reference Rates

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

Wednesday 9 December 2020

Virtual meeting

Agenda

1. Standing Items
    a. Welcome & introductions
    b. Competition law reminder
    c. Minutes of 12 November 2020 RFRWG
    d. Readout from the 26 November 2020 Senior Advisory Group

2. Review of Progress
    a. Update on announcements and FCA consultations
    b. Update on ISDA Protocol

3. RFRWG 2021 Workplan
    a. Review of priorities for 2021
    b. Review of LETF roadmap for Q1 2021

4. Loan Market Transition
    a. Update on UK Finance lender readiness survey
    b. Update on LMA documentation
    c. Review of the open letter to loan vendors and TMS providers
    d. Review of the active transition CAS paper

5. Derivative Market Transition
    a. Discussion of operational readiness for non-linear SONIA derivatives
    b. Discussion of Q1 2021 milestone: Cease use of linear LIBOR derivatives

6. SONIA Term Rates
    a. Update on beta tag removal
    b. Update on FMSB code of conduct for term rate use

7. Update from Communications Sub-Group

8. AOB

Standing Items

1. The Chair welcomed attendees and thanked Working Group members for their ongoing support.
2. The Working Group's competition law counsel gave a competition law reminder of the legal obligations of the Working Group. The Chair asked for any comments on the minutes of the previous meeting to be sent to the RFR secretariat.
3. The Chair updated on the Senior Advisory Group (SAG) meeting held on 26 November 2020. Issues discussed included the level of sign-ups to the ISDA Protocol, progress made in 2020 across sterling cash and derivative markets, and the future priorities of the Working Group. SAG members were supportive of the direction of the Working Group and encouraged the industry to persist with its transition efforts.

Review of Progress

Update on announcements and FCA consultations

4. Edwin Schooling-Latter (Director, FCA Wholesale & Markets Policy) provided a summary of announcements by the FCA and ICE Benchmark Administration (IBA, the administrator of LIBOR). He also highlighted a combined accompanying statement from the Federal Reserve System, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (US authorities). Following engagement with panel banks, on 4 December 2020, IBA published its consultation on the future of all 5 LIBOR currencies.[1] The consultation proposes that most LIBOR currency-tenor pairs cease at 31 December 2021, though for some widely-used USD LIBOR tenors[2], cessation would occur at 30 June 2023. However, US supervisory authorities have stated that new business should stop referencing USD LIBOR as soon as is practical and not beyond 31 December 2021 at the latest.
5. The FCA noted that the Financial Services Bill is proceeding through Parliament. Subject to Parliamentary approval, the Bill would grant the FCA powers intended to achieve the orderly wind-down of critical benchmarks like LIBOR. The FCA planned further consultations on the use of these powers, ahead of publishing finalised Statements of Policy in 2021.
6. The FCA summarised its proposed framework for use of powers under Articles 23A and 23D of the Bill. It had published consultation proposals on this framework at the same time as other recent announcements. The consultation would close on 18 January 2021, and the FCA encouraged all Working Group members to respond to these consultations.[3]

Update on ISDA Protocol

7. Edwin Schooling-Latter outlined that over 1700 entities had adhered to the ISDA IBOR

[1] https://www.theice.com/publicdocs/ICE_LIBOR_Consultation_on_Potential_Cessation.pdf

[2] 1 month, 3 month , 6 month and 12 month USD LIBOR.

[3] https://www.fca.org.uk/markets/transition-libor/benchmarks-regulation-our-proposed-new-powers-policy-and-decision-making

Fallbacks Protocol as at 8 December; although some firms would choose to close out existing Libor positions or active transition through bilateral amendments to address their LIBOR exposures. Working Group members did not raise any practical barriers to signing the Protocol. FCA analysis suggested that 50% of the uncleared UK OTC derivatives market would be covered by the current level of Protocol adherence and expect this to increase.

RFRWG 2021 Workplan

Review of Priorities for 2021

8. The Chair's Office outlined 5 proposed priorities for the Working Group in 2021. These priorities built on the 2020 priorities, having added an additional priority for the transition of non-linear derivatives. These priorities would sit behind a general focus on legacy exposures in 2021, which has previously been articulated by the Chair and the Secretariat. The Working Group roadmap had been updated to accurately reflect activity in 2020. Additional updates to the roadmap would be made in future, to reflect further industry and Working Group initiatives during 2021.
9. One member felt that existing Working Group milestones were appropriate for sterling, but that they may not account for interactions with USD LIBOR through multicurrency facilities. The Chair commented that US authorities' plans to end use of USD LIBOR in new contracts as soon as practicable and in any event by 31 December 2021 were consistent with the timeline for the Working Group. Edwin Schooling-Latter emphasised that UK and US authorities would continue to coordinate closely. As Working Group and ARRC milestones for ceasing new use of LIBOR in loan products were reached in the course of 2021, institutions unable to provide RFR products would have to accept that they could not participate in syndicates, rather than trying to hold back others in the syndicate from moving away from Libor.
10. The Chair asked that Working Group members provide comments by 11 December 2020, to facilitate the publication of a new roadmap in January 2021.

Review of LETF Roadmap for Q1 2021

11. The chair of the Loan Enabler Task Force (LETF) outlined the role of the LETF roadmap in enabling market participants to discontinue LIBOR-linked lending that expires beyond the end of 2021, by end-Q1 2021. Key dependencies and considerations ahead of this milestone are outlined, which may be informative for those lenders and borrowers who are yet to fully engage with the transition process.
12. The Chair asked that Working Group members provide comments by 11 December 2020, to enable publication in due course.

Loan Market Transition

Update on UK Finance Lender Readiness Survey

13. UK Finance outlined the findings of its lender readiness survey, which was completed by 49 of its member firms. UK Finance highlighted evidence that the industry was offering alternatives to LIBOR, though often on a tactical basis. For less sophisticated borrowers, there is evidence of lending moving from being linked to Libor to being linked to Bank Rate. A number of small and mid-sized banks were still in the process of preparing to deliver SONIA linked lending by end-2020 or in Q1 2021. International banks based in London were less engaged with the survey and with SONIA timelines, reflecting their greater focus on the USD market.
14. The Secretariat agreed to work with UK finance to see if the survey findings could be shared with Working Group members on an anonymised basis.
15. The Association of Corporate Treasurers indicated that the findings of the survey were consistent with the anecdotal evidence they had from members, particularly with regard to international bank lenders.
16. One Working Group member noted that good progress was being made in the bilateral loans market. However, the syndicated loans market continued to rely heavily on LIBOR, due to a lack of systems readiness for some lenders, as well as a lack of awareness on the part of some law firms and advisors. Many of these deals had long lead times and work on the structure of these facilities would have begun prior to the Q3 milestone to be actively offering alternatives to Libor. Another member agreed with this observation, alongside highlighting the need for the market to further standardise contractual terms and ensure a consistent understanding of SONIA products among lenders.

Update on LMA documentation

17. The Chief Executive of the LMA drew attention to the LMA’s new documentation, including two versions of a new loan agreement, a new terms sheet, and RFR terms to enable the amendment of the screen rate.

Review of the open letter to loan vendors and TMS providers

18. The co-chair of the Infrastructure Sub-Group summarised the aim behind the open letter to TMS providers, which underlines the end-Q1 target to cease LIBOR lending that matures beyond the end of 2021. To assist the market in meeting this deadline, vendors would need to make code available imminently for incorporation into systems.

19. The Chair requested that members provided fatal flaw comments by 11 December 2020, to facilitate publication in due course.

Review of the active transition CAS paper

20. The chair of the Cash Market Legacy Transition Task Force (CLTF) commented that the

paper was intended to provide information to the loan market on approaches to the calculation and use of a Credit Adjustment Spread. The paper is to support active transition for loans, but does not recommend a specific approach.

21. The Chair requested that Working Group members provide fatal flaw comments by 14 December 2020, to enable publication in due course.

Derivative Market Transition

Discussion of operational readiness for non-linear SONIA derivatives

22. LCH provided an update on its plans for the conversion of cleared trades referencing Libor to referencing RFRs. It planned to consult on a proposal to perform a pre-emptive conversion of cleared sterling LIBOR contracts shortly ahead of the effective date, in order to avoid operationalising fallback arrangements. LCH's consultation would build on a previous consultation on the conversion of EONIA contracts to €STR and would propose a compensated conversion.[4]
23. One Working Group member welcomed this approach, as a way to reduce operational risk on the effective date of a cessation or pre-cessation event.
24. The Secretariat summarised the findings of a survey of non-linear derivatives dealers, highlighting that most dealers had processes in place to make markets in derivatives based on overnight SONIA compounded in arrears. However, the majority of dealers were relying on manual solutions for these trades for the time being, with work underway to automate these processes. Major dependencies identified by dealer banks were the ability of the most widely used systems to support SONIA, as well as the publication of SONIA ICE Swap Rate.
25. The chair of the Non-Linear Task Force (NLTF) highlighted that from end-Q1 2021, the publication of LIBOR ICE Swap Rate could be impacted by the transition of the swaps market to SONIA. As such, non-linear derivatives market participants would need to be ready to transact in SONIA by Q2. For legacy products, SONIA ICE Swap Rate was expected be operative from Q1 2021, in time to support the transition of swaptions and constant maturity swaps. Active conversion was likely to take place among counterparties in Q3 2021.

Discussion of Q1 2021 milestone: Cease use of linear LIBOR derivatives

26. The FCA noted the shift in the swaps market to SONIA since the SONIA-first conventions switch, with around 50%-60% of volumes now referencing SONIA. Working Group members were encouraged to persist with this initiative, particularly as the FCA planned to begin engaging in corners of the market that were slower to switch. The Working Group's end-Q1 milestone for linear derivatives transition includes an exemption for "risk management" purposes and it was highlighted that recent announcements by the US authorities included a similar measure supported by a number of examples. The UK authorities planned to consider

[4] https://www.lch.com/membership/ltd-membership/ltd-member-updates/summary-lchs-consultation-its-solution-outstanding

their approach to supervising this exemption, but would look to coordinate with a similar distinction made by the US authorities[5] in December 2020 in terms of what classified as a risk management transaction. Working Group members were also urged to highlight any remaining barriers to transition in linear derivatives, so that action could be taken to resolve these. Firms should cease use of Libor in new products as soon as practicable.

27. One Working Group member noted the significant interconnection between linear and non-linear derivatives markets. This made defining the scope of "risk management" important for maintaining the orderly functioning of non-linear derivatives markets.

SONIA Term Rates

Update on beta tag removal

28. The FCA commented that the 11 January 2021 was the proposed date from which term rate providers may begin to remove beta tags from their rates. The exact timing of these decisions lay with the providers. There had been no comments raised by Working Group members on this approach.
29. In response to a question from a Working Group member relating to controls and potential conflicts of interest, Edwin Schooling-Latter confirmed that where an institution streams OIS quotes to a MTF, which may be used in the formation of term rates, that institution would not be considered a submitter under the terms of the Benchmark Regulation.

Update on FMSB code of conduct for term rate use

Serge Gwynne (Oliver Wyman) and Christopher Rich (FMSB) joined the meeting, representing the FICC Market Standards Board (FMSB) work on a standard for SONIA Term Rate usage

30. The Secretariat introduced the recent work of the FMSB to develop a proposed market standard for limited use of Term SONIA Reference Rates (TSRRs). This work was intended to build upon the existing consensus established in the market for use of these only in certain circumstances, including through the Working Group's use case paper[6]. In order to maintain alignment, the FMSB was seeking feedback from Working Group members on its current draft. Following this, and further broad outreach in January, the FMSB planned to seek the Working Group's support for a finalised 'transparency draft' of the standard at the January Working Group meeting. This would be published to seek comments from all market participants in line with usual FMSB process.
31. FMSB attendees outlined its initial draft standard. The draft presented to the meeting included core principles seeking to limit the use of TSRRs given the financial stability and conduct risk considerations associated with their widespread adoption and noting some areas where the

[5] Joint Statement from the Federal Reserve Board, FDIC, and OCC: https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201130a1.pdf
[6] https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/use-cases-of-benchmark-rates-compounded-in-arrears-term-rate-and-further-alternatives.pdf

use of TSRRs may be appropriate.

32. One Working Group member queried the selection of example uses for TSRRs in the draft paper. The FMSB confirmed that examples were selected on the basis of where TSRRs, rather than other alternative reference rates, were likely to be most suitable. Where market participants planned to use TSRRs, they would be expected to have a suitable rationale and internal governance in place for this.
33. Another Working Group member highlighted the consistency of the FMSB's work with the Working Group's previously published paper 'Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate and Further Alternatives' and supported continuing with that approach, recognising the level of prescription that could be provided by a market-led standard.[7]
34. Edwin Schooling-Latter noted that a general move toward widespread use of overnight RFRs compounded in arrears was a key focus of the global transition effort overseen by the Financial Stability Board (FSB). In particular, basing large derivatives markets on term RFRs could prove unstable. Widespread use of term rates could begin to introduce conflicts of interest for the banks streaming the OIS quotes fundamental to producing TSRR benchmarks. If reliance on TSRRs became widespread, banks could become reluctant to stream these quotes. Edwin Schooling-Latter stated that working groups in multiple jurisdictions, with the presence of the official sector, had made overnight RFRs compounded in arrears the focus of markets going forward. This position had been endorsed by the FSB in 2018, and reiterated in the Working Group's use case paper. The FCA considered that these decisions and the stance taken by the official sector on financial stability grounds was consistent with only limited use of TSRRs.
35. The Chair encouraged Working Group members to submit any further feedback to the RFR Secretariat, or directly to the FMSB.

Update from the Communications Sub-Group

36. The co-chair of the Communications Sub-Group noted that they had assigned a member of the Sub-Group to manage the relationship with each of the other Sub-Groups and Taskforces. Working Group members were encouraged to input into the communications strategy where their work was relevant.

AOB

37. No further comments were raised.

[7] https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/use-cases-of-benchmark-rates-compounded-in-arrears-term-rate-and-further-alternatives.pdf

Private sector attendees

Tushar Morzaria	**Barclays (Chair)**
Paul Mansour	**Barclays (Chair's Office)**
Andreas Giannopoulos	**Barclays (Chair's Office)**
Helen Robinson	**Barclays (Chair's Office)**
Alan Coutts	**Aberdeen Standard Investments**
Sarah Boyce	**Association of Corporate Treasurers**
Alexandre Papadacci	**Axa**
Katherine Ashdown	**Bank of America**
Snigdha Singh	**Bank of America**
Doug Laurie	**Barclays**
Ryan Okeefe	**Blackrock**
Greg Olsen	**Clifford Chance (Competition Law Counsel)**
Zsolt Szollosi	**Credit Suisse**
Michael Barron	**Deutsche Bank**
Simon Goodwin	**Deutsche Bank**
Martial Collet-Billon	**Deutsche Bank**
Axel van Nederveen	**EBRD**
Serge Gwynne	**Oliver Wyman (Chair of FMSB Term Rate Working Group) – Guest (item 6b only)**
Christopher Rich	**FMSB – Guest (item 6b only)**
Chirag Dave	**Goldman Sachs**
Alan Farrell	**Goldman Sachs**
Philippe Henry	**HSBC**
Matthew Horton	**ICE Futures Europe**
Paul Richards	**ICMA**
Robert Gall	**Insight Investment**
Galina Dimitrova	**The Investment Association**
Scott O'Malia	**ISDA**
Rick Sandilands	**ISDA**
Kari Hallgrimsson	**JP Morgan**
Philip Whitehurst	**LCH**

Guy Whitby-Smith	**Legal & General Investment Management**
Ian Fox	**Lloyds Banking Group**
Clare Dawson	**Loan Market Association**
Siobhan Clarke	**M&G**
Kasia Abendan	**M&G**
Bob Goodfellow	**NatWest Markets**
Phil Lloyd	**NatWest Markets**
Jamieson Thrower	**NatWest Markets**
Frances Hinden	**Shell**
Hannah Falth	**UBS**
Daniel Cichocki	**UK Finance**

Official sector attendees

Alastair Hughes	**Bank of England**
Arif Merali	**Bank of England**
Tom Horn	**Bank of England**
Peter Balint	**Bank of England**
Duncan Cromarty	**Bank of England**
Alieda Moore	**Bank of England**
Jugvinder Singh	**Bank of England**
Raza Rehman	**Bank of England**
Edwin Schooling Latter	**Financial Conduct Authority**
Helen Boyd	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**
Toby Williams	**Financial Conduct Authority**
John Wadsworth	**Financial Conduct Authority**