The Working Group on Sterling Risk-Free Reference Rates

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

Tuesday 25th February 2020

Bank of England, Threadneedle Street, EC2R 8AH

Agenda

1. Standing items
   a. Welcome & Introductions
   b. Competition law
   c. Minutes of previous meeting
2. Discussion of market conventions for compounded SONIA – recent developments
   a. Bonds – shift vs lag approach
   b. Loans – update from joint loan workshops with the ARRC
3. Meeting the end of Q3 headline target for loans
4. Summary of January buy side roundtables
5. Communications workplan
6. ISDA update
7. Swap markets – update on streaming and 2 March convention change
8. Discussion of next steps for transition in futures markets
9. Next steps for non-linear products
10. Other Sub-Group and Task Force updates
    a. Tough Legacy Task Force
    b. Infrastructure Sub-Group
    c. Cash Market Legacy Transition Task Force
    d. Bond Market Sub Group
    e. Loans Sub Group
    f. Accounting Treatment Task Force
11. AOB

Welcome, introductions and competition law principles

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

Discussion of market conventions for compounded SONIA – recent developments

Bonds

2. The chair of the Bond Market Subgroup introduced a submission regarding the differing 'lag' and 'shift' conventions for introducing a gap between publication of the final relevant SONIA setting in an interest period and the interest payment date. This suggested that it would be helpful to inform market participants about the relative advantages of the two approaches and recommended publication of a short statement.

3. The proposed statement also stated the view that daily publication of an authoritative compounded SONIA index which was free to use would be helpful as a 'golden source'.

4. Members agreed with the conclusions drawn and the recommendation to publish a statement in the near future. Some participants also suggested more work may be needed on the accounting implications of the two conventions.

Loans

5. An update was provided from a series of international calls and workshops coordinated by the US ARRC, attended by some members of the Working Group.

6. A key focus of discussions had been the conventions for calculation of interest, including use of the lag or shift approach noted above. Good progress had been made overall, with a shift approach likely to be adopted as standard and the Q3 target to cease new issuance of sterling LIBOR-linked loans maturing beyond end 2021 seen as achievable, though some areas remained to be resolved.

7. Embedding the shift approach was likely to require systems changes, with the requisite technology expected to be available later in 2020.

Meeting the end of Q3 headline target for loans

8. The chair of the Loan Enablers Task Force introduced a draft path to discontinuation of GBP LIBOR lending by end Q3 2020 for publication. The Chair noted that the Senior Advisory Group had also expressed its support for the Q3 target and that views on the draft path would be sought from that group at its meeting later in the week. The Working Group agreed the draft should be taken forward for publication.

Summary of January buy side roundtables

9. Two roundtable events were held with buy side representatives in January. Key items discussed included margin rules, the ISDA fallback protocol and end user engagement. On margin rules, some firms continued to seek further clarity on the guidance provided on amending a benchmark rate in an existing contract and what constituted a 'new contract' subject to the revised margin rules. This primarily related to whether the guidance was narrowly defined as amending the rate in existing contracts or whether it could be more broadly interpreted as allowing the replacement of existing contracts (the current guidance is limited to amending the rate in existing contracts). On the ISDA protocol, there was a sense that more

awareness was needed, especially as regards pre-cessation triggers. End user engagement with retail investors was seen as challenging.

10. The official sector emphasised that no one in the UK should wait for a legislative solution to the transition.

11. As part of next steps the Pensions and Insurance Companies Sub-Group was to be expanded in order to support broader participation amongst the buy side. Kasia Abendan of M&G plc had agreed to take on the role of co-chair alongside Chirag Dave. Expressions of interest to join the expanded sub-group would be welcomed, including those attendees of the January roundtables and members of the existing sub-group. Notice of the expansion and invitations for expressions of interest was to be made on the RFRWG website in due course.

Communications workplan

12. The Chair announced that Phil Lloyd of NatWest Markets had agreed to co-chair the Communications Sub-Group alongside Ryan O'Keeffe.

13. Phil Lloyd explained that as co-chair he would continue the themes of awareness, education and call to action, especially as regards end users. To this end the Sub-Group had organised a 'train the trainer' event that was aimed at encouraging trade associations to engage with their members.

14. Members of the Working Group were encouraged to provide comments on the proposed communications strategy, including any ideas for further means of engagement.

ISDA update

15. ISDA provided an update on the outcome of its December 2019 benchmarks fallbacks supplemental consultation.

16. A new consultation on pre-cessation fallbacks was launched on 5 February seeking a consensus on how to include a pre-cessation trigger. The publication of an updated protocol following the outcomes of the consultation on the implementation of pre-cessation triggers was scheduled to be in the months after the announcement of the consultation results in late April to early May.

17. Official sector requested that members of the Working Group respond to the pre-cessation consultation and encouraged sign up to the final protocol without delay once this was available.

Swap markets – update on streaming and 2 March convention change

18. As of the beginning of February, several liquidity providers had begun streaming executable quotes for 1, 3, 6 and 9 month SONIA OIS in order to support a testing period for construction of forward-looking term rates using these quotes.

19. Members were also reminded of the Bank of England and FCA's public statement encouraging market makers to switch the market convention for sterling interest rate swaps from LIBOR to SONIA on 2 March.

Discussion of next steps for transition in futures markets

20. The representative for ICE Futures Europe was invited to provide an update on transition in the sterling futures market. SONIA futures products were available across a number of providers, and there was evidence of growth in volumes, particularly around meetings of the Monetary Policy Committee. Options on SONIA futures were expected to be made available in Q2 2020.

21. Despite the positive direction of travel, overall uptake remained low relative to trading in LIBOR futures. Some banks were not yet able to trade in this market and there were also gaps in support from key vendors such as Reuters and Bloomberg.

22. Members noted that a significant proportion of volumes in LIBOR futures was related to trading in non-linear markets such as swaptions. If liquidity in those markets moved to SONIA, futures volumes may follow. It was also noted that use of SONIA futures for risk management purposes may in turn drive an increase in volumes, but that prices could not be used for this purpose until underlying liquidity was sufficiently strong.

Next steps for non-linear products

23. Feedback from Working Group members suggested further consideration may be needed of issues in the legacy swaption market. The Secretariat would consider next steps, potentially including a roundtable discussion amongst interested parties to identify the issues that needed to be addressed.

Other Sub-Group and Task Force updates

24. The **Tough Legacy Task Force** was making progress on its asset class by asset class assessment of whether or not market participants would wish to see action to solve the toughest legacy problem and was aiming to circulate findings for the March meeting of the Working Group. It was not in scope for the group to recommend a particular way forward but its output would set out factors the official sector should consider in looking at whether action could or should be taken.

25. The Chair of the **Infrastructure Sub-Group** reiterated the group's support for publication of an authoritative golden source index to help eliminate confusion around existing calculators, as described in the statement proposed by the Bond Market Sub-Group.

26. The **Cash Market Legacy Transition Task Force** was working on a discussion paper on transition of legacy loans, aiming to list several key blockers to the transition and the status of steps taken to resolve these. Examples of key issues that had been identified were the need for a market accepted methodology for calculating the credit adjustment spread between LIBOR and replacement rates for active transition of legacy loans, and for loan and treasury management systems that were able to accommodate the replacement rates.

27. The **Bond Market Sub-Group** had undertaken work to scope the scale of the legacy sterling LIBOR bond problem and on actively transitioning as many of these bonds as possible prior to permanent discontinuation through consent solicitations. It had also fed into the work of the Tough Legacy Task Force with regards to two tough legacy questions on permanent cessation of LIBOR.

28. The current focus of the **Loans Sub-Group** was on compounding conventions and a paper was being drafted. Responses to the consultation on credit adjustment spread methodologies for fallbacks in cash products referencing GBP LIBOR were being assessed by the Secretariat, to be summarised for publication.

29. The **Accounting Treatment Task Force** was meeting in March to discuss IASB Phase 2 proposals in order to be able to address any fatal flaws or other issues in advance of publication of the exposure draft. The group also intended to consider what other issues may need attention beyond hedge accounting, including whether any work may be needed on tax implications.

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**
Snigdha Singh	**Bank of America Merrill Lynch**
Doug Laurie	**Barclays**
Rob Mitchelson	**Blackrock**
Greg Olsen	**Clifford Chance (General Counsel)**
Michael Barron	**Deutsche Bank**
Axel van Nederveen	**European Bank for Reconstruction & Development**
Chirag Dave	**Goldman Sachs**
Sander Slotema	**HSBC**
Matthew Horton	**ICE Group**
Paul Richards	**ICMA**
Robert Gall	**Insight Investment**
Rick Sandilands	**ISDA**
Philip Whitehurst	**LCH**
Guy Whitby Smith	**Legal & General Investment Management**
Ian Fox	**Lloyds Banking Group**
Clare Dawson	**Loan Market Association**
Siobhan Clarke	**M&G Investments**
David Covey	**M&G Investments**
Harriet Warr	**National Grid**
Richard Merrett	**Nationwide Building Society**
Phil Lloyd	**NatWest Markets**
Oliver Cooke	**NatWest Markets**
Kieran Higgins	**Royal Bank of Scotland**
Frances Hinden	**Shell International Limited**
Stephen Pegge	**UK Finance**
Imed Souki	**UBS**

Official sector attendees

Alastair Hughes	**Bank of England**
Wayne Leslie	**Bank of England**
Tom Horn	**Bank of England**
Nicole Stirk	**Bank of England**
Jugvinder Singh	**Bank of England**
Leman Menguturk	**Bank of England**
Edwin Schooling Latter	**Financial Conduct Authority**
Richard Fox	**Financial Conduct Authority**
Christopher Simon	**Financial Conduct Authority**
Toby Williams	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**
Will Davies	**Financial Conduct Authority**