

The Working Group on Sterling Risk-Free Reference Rates

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

Tuesday 24th March 2020

Bank of England, Threadneedle Street, EC2R 8AH

Agenda

1. Standing items
 - a. Welcome & Introductions
 - b. Competition law
 - c. Minutes of previous meeting
2. Update on market and wider developments
3. Readout from Senior Advisory Group meeting
4. External engagement
 - a. Update on recent communications
 - i. Letter to trade associations
 - ii. 20th March event
 - b. Approval for social media summaries to be managed by small group on behalf of the Working Group
5. Cash market
 - a. Cash product credit spread adjustment consultation
 - b. Loan conventions update
6. AOB

Welcome, introductions and competition law principles

1. The Chair welcomed attendees and reminded them of their competition law responsibilities. The Chair asked for any comments on the minutes of the previous meeting to be sent to the RFR secretariat.

Update on market and wider developments

2. The Chair gave a verbal statement on the impact of the COVID-19 pandemic. This underlined the central assumption that firms cannot rely on LIBOR continuing to be published beyond end 2021.
3. The Chair had been in close dialogue with the Bank and FCA on the pressures faced by institutions and the market in general and recognised there would be disruption to near term transition plans.
4. The Chair drew attention to the document that had been circulated laying out initial thinking on items the Working Group can continue to progress over Q2 and those that are more likely to be subject to disruption in the near term.
5. The official sector voiced recognition that the path to end 2021 will look different, albeit the destination remains the same.
6. The Chair asked if members approved of the publication of a written statement on the impact of COVID-19 on behalf of the Working Group, the Bank and the FCA. The Working Group supported this publication.
7. Members were made aware that periods of intense work may be a consequence of interim transition targets being back-loaded.

Read out from Senior Advisory Group meeting

8. The Senior Advisory Group meeting occurred prior to the market disruption linked to Covid-19 seen in mid-March. The Group was supportive of the Bank's proposal for a compounded in arrears SONIA index and the change from LIBOR to SONIA as the standard convention in interest rate swap markets.
9. The Senior Advisory Group agreed to publicise landmark loan transactions referencing SONIA.

External engagement

10. The chairs of the Communications Sub Group commented that once published, the written statement on the impact of COVID-19 would need to be followed up with more in depth media engagement.
11. The Working Group was working to launch its LinkedIn page pending work on compliance and governance.
12. On 10 March the Bank and FCA had jointly written to trade associations setting out how LIBOR transition will impact their members and stakeholders, and calling for organisations to raise awareness among their networks. Plans to follow this letter up with a number of events had to be postponed, the official sector was to follow up with next steps in due course.

Cash market

13. Summarised results from the consultation on credit adjustment spread methodologies for fallbacks in cash products referencing GBP LIBOR had been published. There was overwhelming support for cash products to align with the ISDA protocol in derivatives. Next steps were for the Loans Sub Group and Cash Market Legacy Transition Task Force to work with the official sector to determine whether the

Working Group was to endorse the outcome of the consultation. The timeline for this work was to be aligned as far as possible with ISDA's timeline for derivatives.

14. The draft paper on conventions for loans referencing risk-free rates had been circulated to the Loans Sub Group for feedback. There was a desire to engage further with international counterparts on cross currency aspects with a view to furthering international alignment across conventions.
15. Some members commented on a feature of the loan market where many contracts included embedded interest rate floors. This was contrasted with the daily SONIA Compounded Index proposed for publication by the Bank, which did not include an embedded interest rate floor. These members expressed support for the Bank to publish a second index that contained an embedded interest rate floor as such an index would align better with existing loan agreements.

Any other business

16. The Bank gave a reminder that its consultation on supporting risk-free rate transition through the provision of compounded SONIA was closing on 9 April. This deadline was not to be extended unless the Bank took the view that responses failed to provide a sufficiently broad perspective. The Bank acknowledged the call for it to consider publication of a second daily SONIA Compounded Index that included an interest rate floor.
17. International dialogue was ongoing in relation to COVID-19 including at IOSCO and the FSB's Official Sector Steering Group (OSSG).
18. ISDA had extended the deadline for responses on its consultation on how to implement pre-cessation fallbacks for derivatives to 1 April. ISDA emphasised the criticality of responses from the non-dealer community to meeting thresholds and called for non-dealer members of the Working Group to respond.
19. The ISDA protocols for cessation and pre-cessation were expected to be finalised between June and September. It was envisaged that there would then be a period of a few months before the protocols became effective. Bloomberg was expecting to meet its deadline to publish formulae for spread adjustments by March and to have an indicative rate by April. The rate was then to go live in June.
20. ISDA was continuing its existing work on discounting issues in swaptions and on transition from EONIA to ESTR.
21. The latest call of the Tough Legacy Task Force had been postponed due to participants dealing with COVID-19. The output of the group was to be brought to the Working Group via written procedure.
22. A member asked if the Bank had considered how changes to interim milestones interacted with the Bank's policy on LIBOR haircuts that was to be effective from October onwards. The Bank responded that while there was no explicit link between the lending target and its collateral policy it was reviewing the current timeline.
23. The official sector and Chair thanked members for their work and stressed the importance of keeping financial markets open.

Private sector attendees

Tushar Morzaria	Barclays (Chair)
Paul Mansour	Barclays (Chair's office)
Andreas Giannopoulos	Barclays (Chair's office)
Alan Coutts	Aberdeen Standard Investments
James Winterton	Association of Corporate Treasurers
Snigdha Singh	Bank of America Merrill Lynch
Katherine Ashdown	Bank of America Merrill Lynch
Doug Laurie	Barclays
Jonathan Brown	Barclays
Ryan O'Keeffe	Blackrock
Greg Olsen	Clifford Chance (General Counsel)
Michael Barron	Deutsche Bank
Axel van Nederveen	EBRD
Chirag Dave	Goldman Sachs
Sander Slotema	HSBC
Matthew Horton	ICE Group
Paul Richards	ICMA
Robert Gall	Insight Investment
Rick Sandilands	ISDA
Scott O'Malia	ISDA
Philip Whitehurst	LCH
Guy Whitby Smith	Legal & General Investment Management
Ian Fox	Lloyds Banking Group
Clare Dawson	Loan Market Association
Kasia Abendan	M&G
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

Official sector attendees

Andrew Hauser	Bank of England
Alastair Hughes	Bank of England
Wayne Leslie	Bank of England
Tom Horn	Bank of England
Nadia Glasspool	Bank of England
Alieda Moore	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
Rachel Ward	Financial Conduct Authority
Will Davies	Financial Conduct Authority