The Working Group on
Sterling Risk-Free Reference Rates

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

Thursday 14th May 2020

Virtual meeting

Agenda

1. Standing items
    a. Welcome & introductions
    b. Competition law reminder
    c. Minutes of previous meeting
2. The impact of COVID-19 on the transition
    a. Reactions to the 29 April further statement to the market
    b. Follow-ups to the 29 April further statement
        i. Update on Loan Enablers Task Force's work on conventions and path for discontinuation of LIBOR-linked lending
3. Cash products
    a. Next steps on credit spread methodologies for fallbacks in cash products referencing GBP LIBOR
        i. Bonds
        ii. Loans
    b. Consideration of the Tough Legacy Task Force paper
4. External engagement
    a. Update on transition reference videos for trade associations
    b. Update on the Working Group's LinkedIn page
    c. Discussion on media coverage and pipeline communication plans
5. Derivatives
    a. Update on term rate and OIS streaming
    b. Update from ISDA
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.

Consideration of the Tough Legacy Task Force paper

2. This item was moved to earlier in the agenda. The Task Force had produced its proposed final output which had been circulated to Working Group members. The paper set out the Task Force's view that there was justification for considering legislation to address products falling within the Task Force's definition of 'tough legacy' whilst emphasising that this potential intervention was in no way a substitute for active transition by market participants.

3. The Working Group did not object to publication of the paper.

4. Richard Fox (FCA, Chair Tough Legacy Task Force) explained that the mandate of the Task Force had been completed and that the FCA was stepping back as chair. He suggested the group may be repurposed in the future. He welcomed the views of Working Group members on possible next steps and invited written feedback to be sent to the RFR Secretariat.

5. Edwin Schooling Latter commented that any potential legislation would not be a 'magic wand' and that the Bank of England and FCA would work with HM Treasury on devising a feasible plan of action.

6. Several participants commented that the likelihood of a successful legislative outcome must not be overplayed.

The impact of COVID-19 on the transition

Reactions to the 29 April further statement to the market

7. The Chair thanked the Working Group for its collective effort in getting the statement out during this turbulent period.

8. Al Hughes gave an update on the Bank's new market notice issued on 8 May in relation to its risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework. The dates from which the Bank would apply the increasing haircuts on LIBOR-linked collateral had moved so that a 10% haircut would now apply from 1 April 2021 (previously 1 October 2020) and a 40% haircut will now apply from 1 September 2021 (previously 1 June 2021). From 1 April 2021 (previously 1 October 2020) any LIBOR-linked collateral issued on or after that date and maturing after 31 December 2021 would be ineligible for use in the Sterling Monetary Framework.

9. The Chair commented that there had been feedback from market participants on the 29 April statement's omission of the RFRWG's Q1 2021 milestone for significantly reducing the stock of LIBOR referencing contracts. He also highlighted requests for further details on expectations around the reference to 'clear contractual arrangements' in the statement on lending milestones. The Chair noted that follow up work was needed in relation to each of these.

Follow-ups to the 29 April further statement

10. The RFR Secretariat was initiating work on what might be sensibly achieved by the end of Q1 2021 looking at the issue on a product by product basis and would be reaching out to members of the Working Group for their views. The Loan Enablers Task Force and representatives of the Loan Market

Association had agreed to lead the work on producing a frequently asked questions document to provide more clarity on aspects of the statement.

Update on Loan Enablers Task Force's work on conventions and path for discontinuation of LIBOR-linked lending

11. The Loan Enablers Task Force was to work on a survey issued by the Loan Market Association to a broad group of UK loan market participants to gauge further preferences on market conventions. Responses to this survey were due by the end of the week beginning 11 May. The survey results were expected to inform ongoing discussions on international alignment of loan market conventions.

Cash products

Next steps on credit spread methodologies for fallbacks in cash products referencing GBP LIBOR

Bonds

12. The Bond Market Sub Group was overwhelmingly supportive of a relevant nominating body recommending the adoption of the historical 5-year median approach for calculating the credit adjustment spread element of fallbacks applicable to relevant legacy bonds. It was understood that recommendation by the RFRWG alone would be sufficient to give effect to existing fallbacks. It was noted that the ARRC acted alone in recommending a spread adjustment methodology for cash products based on its equivalent consultation.

13. It was recognised that there was demand in the bond market for a relevant nominating body to recommend a successor rate. The bond market differed from the loan market where demand focused on a recommendation of a credit adjustment spread methodology rather than a successor rate. Working with the official sector the Bond Market Sub Group would need to address this issue in due course however the current focus was on encouraging transition to overnight SONIA compounded in arrears.

Loans

14. The Loan Market Sub Group agreed that a recommendation by the RFRWG alone would give effect to the fallbacks and that unlike bonds not all loan products would fallback to the same successor rate, making a recommendation of a successor rate (as distinct from a methodology) problematic.

15. Speaking on behalf of the official sector Al Hughes commented that robust fallbacks remained an important part of transition and that the authorities were supportive of taking this work forward. In line with the approach of other national working groups the preference of the Bank of England and FCA was for the RFRWG alone to be designated as the relevant nominating body.

16. Greg Olsen identified that a discrete change to the RFRWG terms of reference would be prudent to support the RFRWG in making a recommendation of a credit spread adjustment methodology and successor rate as robustly and unambiguously as possible.

17. Al Hughes commented that the Bank of England would be content to publish a statement welcoming such a recommendation from the RFRWG.

18. Edwin Schooling Latter added that the FCA would be content that such an approach would align with its expectations on treating customers fairly.

19. There were questions from Working Group members on whether following a recommendation would be a voluntary rather than compulsory measure. Any recommendation from the Working Group was not itself binding, it was however, possible for the recommendation to be hard wired into a contract by third parties.

External engagement

20. The Communications Sub Group was conscious that a large segment of its target audience was focussed on disruption to their businesses amidst the pandemic. For this reason, external engagement initiatives were on hold until September.

21. The RFRWG's LinkedIn page was operational and the chairs of the Communications Sub Group encouraged members of the Working Group to suggest relevant content.

Derivatives

Update on term rate and OIS streaming

22. According to the FCA's latest intelligence, four administrators working on term SONIA reference rates continued to make good progress. The expectation was that a number of these would launch term SONIA reference rates in beta form by the end of June 2020. The providers of these rates had indicated that beta period would continue through the summer and autumn. Discussions around removal were expected towards the year end.

23. Toby Williams updated on streaming OIS pricing to multilateral trading facilities. The period of market disruption had seen breaks in the streaming of prices serving as a reminder that term SONIA reference rates could not be as robust as overnight SONIA compounded in arrears.

24. A member of the Working Group commented that transition to SONIA swaptions had received relatively little attention so far although it was encouraging that ISDA had been carrying out work on fallbacks for swaptions. This member of the Working Group called for there to be greater discussion on other non-linear derivatives, in particular caps and floors. Toby Williams commented that discussions were underway with the ARRC on international coordination in respect of these markets.

Update from ISDA

25. Further to the results of its consultation on the implementation of pre-cessation fallbacks for derivatives referenced to LIBOR, ISDA was moving forward to include both pre-cessation and cessation triggers in the amended 2006 ISDA Definitions for LIBOR and in a single protocol for including the updated definitions in legacy trades.

26. ISDA expected to publish amendments to the 2006 ISDA Definitions to incorporate the fallbacks for new trades in July. A protocol was to be simultaneously launched to allow participants to incorporate the revisions into legacy trades.

27. The amendments to the 2006 ISDA definitions and the related protocol were expected to become effective by the end of the year. This timing could be subject to change pending external dependencies such as the receipt of regulatory comfort from a competition law perspective and live publication by Bloomberg of the fallback rates.

28. ISDA confirmed that it was carrying out work on amendments that may be warranted for fallbacks in respect of non-linear derivatives. ISDA welcomed feedback from the Working Group on products to be included in this category and possible approaches that could be taken.

29. ISDA had made available on its website a single web page summarising all of its benchmark transition initiatives.

Private sector attendees

Tushar Morzaria	**Barclays (Chair)**
Paul Mansour	**Barclays (Chair’s office)**
Andreas Giannopoulos	**Barclays (Chair’s office)**
Alan Coutts	**Aberdeen Standard Investments**
Alexandre Papadacci	**Axa Investment Managers**
Sarah Boyce	**Association of Corporate Treasurers**
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**
Philip Whitehurst	**LCH**
Guy Whitby Smith	**Legal & General Investment Management**
Ian Fox	**Lloyds Banking Group**
Clare Dawson	**Loan Market Association**
Kam Mahil	**Loan Market Association**
Keith Taylor	**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**
Rachael Macpherson	**Shell International Limited**
Stephen Pegge	**UK Finance**

Official sector attendees

Alastair Hughes	**Bank of England**
Wayne Leslie	**Bank of England**
Nadia Glasspool	**Bank of England**
Alieda Moore	**Bank of England**
Jugvinder Singh	**Bank of England**
Leman Menguturk	**Bank of England**
Edwin Schooling Latter	**Financial Conduct Authority**
Richard Fox	**Financial Conduct Authority**
Helen Boyd	**Financial Conduct Authority**
Toby Williams	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**
April Richardson	**Financial Conduct Authority**
Will Davies	**Financial Conduct Authority**