The Working Group on
Sterling Risk-Free Reference Rates

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

Thursday 12 November 2020

Virtual meeting

Agenda

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    b. Competition law reminder
2. Review of progress
    a. Update from ISDA on protocol timelines
    b. Update on 27 October SONIA first convention switch
    c. Update on term rate and FMSB code of conduct
    d. Update from FCA on legislation
3. RFRWG's lending targets (make available non-LIBOR loans by end-Q3 2020; cease LIBOR loans by end-Q1 2021)
    a. Discussion on readiness of lenders, borrowers and vendors of treasury management systems and loan platforms
    b. Update from LMA on loan template exposure drafts
    c. Update on revised discontinuance path/roadmap from LETF
4. Credit adjustment spread for cash markets
    a. Proposed scope of active conversion workstream
    b. Proposed letter to Bloomberg in respect of credit adjustment spread data
5. Derivatives market
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6. Forward planning of the RFRWG agenda for 2021
    a. Discussion of new work/prioritisation from 3 November call with Sub-Group/Task Force chairs
7. AOB

Welcome, introductions and competition law principles

1. The Chair welcomed attendees and introduced new representatives from NatWest, Deutsche Bank, Nationwide and HSBC. The Chair and Edwin Schooling Latter thanked Working Group members and their teams for their continued support and progress made through a challenging year.

2. The Working Group's competition law counsel gave a competition law reminder. The Chair asked for any comments on the minutes of the previous meeting to be sent to the RFR secretariat.

Review of progress and read out of recent meetings

Update from ISDA on protocol timelines

3. The Chair commented on the importance of broad adherence to the ISDA protocol for maximal coverage of robust fallbacks. While adherence levels had been positive, there were some areas of the market which would benefit from increased adherence.

4. Scott O'Malia provided a progress update on the ISDA fallback protocol and supplement, which were launched on 23 October 2020. ISDA had secured US Department of Justice support and had taken steps to mitigate any potential anti-competitive effects and keep market participants informed, including in Europe and Asia. A two week pre-launch and escrow process had seen 257 participants adhere to the protocol, rising to 584 entities by 11 November. The protocol would become operationally effective on 25 January 2021 with an expectation that major CCPs would adopt equivalent fallbacks on this date by means of changes to their rulebooks, where necessary. ISDA would also be making bilateral templates available for firms wishing to adhere on bilateral agreement terms rather than via the protocol.

5. Edwin Schooling Latter commented on the latest list of signatories to the ISDA protocol. Over 100 signatories were from the UK with a little over 300 from the US. Just over 100 adhering entities were asset managers and insurance firms, indicating more focused messaging to this group may be beneficial. The FCA would continue to monitor progress to ensure the right firms were signing up and had plans in place for LIBOR cessation with respect to their derivative portfolios.

6. The Communications Sub-Group voiced its support for efforts from ISDA. It was noted that enhanced messaging may be necessary on areas the protocol does not cover as effectively, including non-linear products, and on what the path would look like after 25 January for entities that had not signed up.

7. One member noted ISDA's bilateral templates were a helpful addition for some corporates and noted the importance of enhanced education from the Communications Sub-Group. Another member noted ongoing work to raise awareness through trade associations.

Update on 27 October SONIA first convention switch

8. The FCA provided an update on the convention switch which saw the default pricing approach in interdealer swap markets move from LIBOR to SONIA. Early indications from market participants suggested that the proportion of interdealer swap trades referencing SONIA were estimated to have increased from one-third to around two-thirds of notional volumes so far.

9. Members noted the successful implementation of the convention switch and its positive effect in shifting derivatives volumes towards referencing SONIA, particularly in maturities greater than two years. One

member observed increased dialogue with customers on pricing in SONIA derivatives since the switch. While there is more work to do for SONIA swaps and futures, there was an expectation that the increasing trend towards instruments referencing SONIA would continue.

Update on term rate and FMSB code of conduct

10. With reference to the latest Term SONIA Reference Rates (TSRR) publication summary[1], the FCA reminded members about the upcoming end of a 6-month voluntary period in which term rates were produced in a beta form and that removing the beta tag will make them available for use in contracts. The indicative timeline for this was seen as around early January. While the RFRWG would not have a formal role in approving the removal of the beta tags, the FCA requested feedback on the broad timeline.

11. Members noted their support for the timeline set out, but highlighted the need to remind market participants of the Term Rate Use Case paper[2] to re-emphasise the restricted and specific use of term rates.

12. The RFR Secretariat agreed efforts should be made to build on the consensus established in the Use Case paper about the appropriate circumstances in which they are used. In support of this, the Secretariat had engaged with the FMSB on a proposal to develop a set of principles on the appropriate use of TSRR, the scope of which was included in the papers for the meeting. The initial stage of this work was planned to be brought to the December RFRWG meeting for comment to ensure consistency of messaging and the FMSB would seek endorsement from the RFRWG for the final product in due course. FMSB member firms were encouraged to coordinate within their firm to engage with the process directly, while the RFR Secretariat would also remain closely involved to represent the views of the group as whole. The Chair encouraged members to show expressions of interest and noted the importance of the RFRWG's voice being heard.

Update from FCA on legislation

13. The Government had put forward proposed legislative changes as part of the Financial Services bill to help address tough legacy contracts. The Bill had been laid before Parliament and had its second reading on 9 November. The proposed legislation would provide the FCA with powers to help manage the wind-down of LIBOR and require the administrator to publish a synthetic LIBOR rate for use in certain circumstances. The FCA would be required to make statements of policy on how it would use its additional powers and planned to run market consultations accordingly.

14. The FCA had invited members of the RFRWG and of equivalent Working Groups in other jurisdictions to a Q&A roundtable on 25 November.

RFRWG's lending targets (make available non-LIBOR loans by end-Q3 2020; cease LIBOR loans by end-Q1 2021)

Discussion on readiness of lenders, borrowers and vendors of treasury management systems and loan platforms

15. The Chair noted that the end-Q3 2020 lending milestone had passed and was by and large successful. It would be important that both lender and borrower sides remained engaged during the period to the end-Q1

[1] https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfrwg-term-sonia-reference-rate-summary.pdf
[2] 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

2021 target to phase out LIBOR-linked lending completely. The Secretariat had issued a questionnaire to members on their readiness and client readiness. A separate survey among Treasury Management System (TMS) providers had been conducted to understand their preparedness.

16. The RFR Secretariat provided a readout on the questionnaire sent to Working Group members. Respondents noted they were offering non-LIBOR linked loans and were aiming to insert switch terms into any continuing LIBOR linked lending. Customer readiness was mixed with responses ranging from ‘all’ to ‘some’ or ‘most’ customers willing to transact on new terms. Customers had been transacting SONIA linked loans but had found it challenging to prioritise LIBOR transition among competing priorities.

17. One member noted that firms were aware and taking action, but this was quicker for those switching to Bank Rate rather than SONIA as their alternative RFR. Another member observed momentum among larger clients who were keen to discuss RFR and switch arrangements, with smaller clients more familiar with Bank Rate rather than SONIA. However, another member received mixed feedback from corporates who noted that their banks were not in a position to offer non-LIBOR debt and indications of internal communication issues which resulted in relationship managers not being updated on non-LIBOR product availability. The Chair encouraged lender members to improve communications to relationship managers.

18. The Secretariat invited views on how the Working Group could build a fuller picture of the market beyond its own members, suggesting Trade Association members may be able to use their outreach to do so. This was to be followed up after the meeting.

19. The Infrastructure Sub-Group provided a read out of the TMS survey results. Among respondents, vendors reported a high understanding of developments and the transition timeline, with all making preparations to release code imminently. Loan system vendors were able to accommodate rounding changes that aligned with Working Group recommendations on the use of market conventions, but there were additional factors which needed to be incorporated including observation shift calculations, base rate flooring and consideration of credit adjustment spreads. Vendors had requested more information and clarity on all market conventions across products.

20. Concerns were raised on the timing of code releases, as full upgrades could potentially take months to complete for some end users. The Infrastructure Sub Group and Loan Enablers Task Force had discussed ways to increase the profile of this issue and drive additional urgency in delivery of these upgrades. Members noted that additional prominence in the RFRWG roadmap supplemented by a direct letter to system providers to emphasise expectations that systems would be compatible with Working Group recommendations would be useful. One member observed some vendors wanting further clarity on all market conventions across products before proceeding, which would not be consistent with the timeline required.

Update on loan template exposure drafts

21. The LMA had produced a revised draft of its rate switch agreement document and intended to publish it shortly, alongside a rate switch with observation shift document. They also had plans to finalise a multicurrency document using RFR from the outset, with plans to update existing SOFR and SONIA single currency exposure drafts to reflect changes made as a result of comments on the rate switch agreement.

22. The RFR Secretariat thanked the LMA for their progress on these documents. In the questionnaire on loan readiness, members had highlighted the prominence existing LMA replacement rate language had for advisory firms, lawyers and clients, which had led to some being reluctant to transact on a rate-switch basis. The LMA had communications plans in place to raise awareness of the revised documents

Update on revised discontinuance path/roadmap from LETF

23. The LETF was revising its roadmap to discontinuance of LIBOR-linked lending, with the intention to release an update in December.

Credit adjustment spread for cash markets

Proposed scope of active conversion workstream

24. Edwin Schooling Latter noted issues members had raised relating to active conversion and conduct requirements to ensure customers are not left worse off than if they had remained on LIBOR, in the context of the spread between LIBOR and SONIA being below its five year historical median at present. Further questions had also arisen over conversion to Bank Rate rather than SONIA.

25. The FCA indicated it would publish additional Q&A documents to provide a reference point as these challenges are approached. The intention is to clarify that while active transition remains desirable to retain control over the economic terms of contracts, choosing a deferred switch (an arrangement that continues to be based on LIBOR until last reset before end-2021 before moving to alternative rates) would meet FCA requirements for actively transitioning in a fair way, given the current context of interest rate markets.

26. The FCA indicated it would also release guidance that conversion to Bank Rate plus a spread would be acceptable from a conduct perspective, noting the small difference between SONIA and Bank Rate would need to be accounted for to ensure customers would not be expected to be worse off at the point of conversion if Bank Rate is chosen instead of SONIA.

27. Members noted that the FCA's plans would be useful for the loan market transition.

28. The chair of the Cash Market Legacy Transition Task Force noted current work on an educational awareness raising paper on credit adjustment spreads, with a focus on different approaches and the factors that would need to be considered in each. The aim of the paper would be to act as a helpful reference point to support the active transition of loans.

Proposed letter to Bloomberg in respect of CAS data

29. The LMA and Infrastructure Sub-Group suggested a public letter from the Working Group to Bloomberg regarding the availability of CAS data and conditions for its use. Comments from members were requested as the letter would require sign-off from the group. Members noted their support for the letter.

Derivatives Market

Proposed agreement on NLTF paper on RFR non-linear derivatives (new flow and legacy)

30. The Non-Linear Task Force (NLTF) had drafted a working paper describing how the non-linear market could be structured going forward, taking into account how existing non-linear LIBOR structures could move to reference compounded in arrears SONIA. The paper covers products such as swaptions, caps and floors and inverse floaters.

31. The Communications Sub-Group was aware of the paper and would engage with the NLTF to help articulate its more nuanced messaging to the broader market.

32. The representative from ICE also noted its intention to launch options on SONIA futures from 7 December.

Verbal update from Tim Bowler on SONIA ICE Swap Rate (guest speaker for this item only)

33. Tim Bowler (President, ICE Benchmark Administration) had been invited to speak about the development of its SONIA ICE swap rate. The Working Group was reminded to avoid discussing the separate TSRRs for competition reasons.

34. ICE had published a beta SONIA ICE Swap Rate on 2 October, with maturities ranging from 1 to 30 years. They had been able to publish consistently for all maturities, with the exception of the 25 year point. ICE plan to produce beta rates until December and engage with the FCA to seek a "non-objection" to go live in mid-December, with a benchmark SONIA-linked ICE swap rate curve produced in parallel to the existing LIBOR equivalent. It was hoped the new rate would facilitate an orderly transition where existing contracts need to be restructured from LIBOR-linked swap rates to SONIA, and facilitate a more active non-linear market linked to SONIA. ICE noted that a broader and deeper universe of firms willing to stream prices would allow more representative data input and increase stakeholder confidence to transition towards the new SONIA linked curve.

Forward planning of the RFRWG agenda for 2021

Discussion of new work/prioritisation from 3 November call with Sub-Group/Task Force chairs

35. Paul Mansour (Chair's office) highlighted key items from the recent chairpersons' call, including a discussion on current priorities, potential obstacles and key dependencies between different Sub-Groups and Task Forces. Additional milestones on non-linear derivatives and further specificity on vendor readiness were noted. New areas of work included guidance on operational considerations when dealing with fallbacks, in particular how they would materialise at the time of cessation.

36. The aim of the exercise was to revise the roadmap and update critical priorities ahead of the December Working Group meeting. Members were encouraged to engage with the Secretariat with any additional thoughts or comments.

37. One member highlighted the consideration of international timelines, which would be relevant particularly for multicurrency products. The Bank of England noted that the official sector were engaging internationally including with ARRC and through forums such as the FSB, G20 and OSSG.

38. Paul Richards noted that the bond market would require a successor rate to make type 2 and 3 fallbacks work. While a credit adjustment spread had been agreed, the Bond Market Sub-Group had discussed a proposal for fallback to compounded SONIA plus a credit adjustment spread. This would need to take the form of a recommendation from the Working Group and would need to go to consultation first given the nature of such a recommendation. The Sub-Group would seek approval for the consultation paper ahead of publication and would seek to revise the roadmap's mention of type 2 and 3 fallbacks from Q4 2020 to Q1 2021, depending on the duration of the consultation process.

39. The Chair noted that, absent any concerns sent to the RFR Secretariat, the Group should move forward with the proposed recommendations.

AOB

40. No comments were raised.

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**
Shaun Kennedy	**Associated British Ports**
Sarah Boyce	**Association of Corporate Treasurers**
Alexandre Papadacci	**Axa Investment Managers**
Katherine Ashdown	**Bank of America Merrill Lynch**
Snigdha Singh	**Bank of America Merrill Lynch**
Doug Laurie	**Barclays**
Jonathan Brown	**Barclays**
Robert Mitchelson	**Blackrock**
Ryan O'Keeffe	**Blackrock**
Greg Olsen	**Clifford Chance (Competition law Counsel)**
Zsolt Szollosi	**Credit Suisse**
Simon Goodwin	**Deutsche Bank**
Martial Collet-Billon	**Deutsche Bank**
Michael Barron	**Deutsche Bank**
Axel van Nederveen	**EBRD**
Philippe Henry	**HSBC**
Tim Bowler	**ICE Benchmark Administration *(Guest – Item 5b only)***
Matthew Horton	**ICE Futures Europe**
Paul Richards	**ICMA**
Robert Gall	**Insight Investment**
Scott O'Malia	**ISDA**
Rich 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**
David Covey	**M&G**
Tom Dyson	**Nationwide Building Society**
Phil Lloyd	**NatWest Markets**
Donal Quaid	**NatWest Markets**
Bob Goodfellow	**NatWest Markets**
Jamieson Thrower	**NatWest Markets**
Frances Hinden	**Shell International Limited**
Galina Dimitrova	**The Investment Association**
Mark Tinworth	**UBS**
Stephen Pegge	**UK Finance**
Daniel Cichocki	**UK Finance**

Official sector attendees

Alastair Hughes	**Bank of England**
Tom Horn	**Bank of England**

Wayne Leslie	**Bank of England**
Arif Merali	**Bank of England**
Duncan Cromarty	**Bank of England**
Peter Balint	**Bank of England**
Alieda Moore	**Bank of England**
Jugvinder Singh	**Bank of England**
Leman Menguturk	**Bank of England**
Raza Rehman	**Bank of England**
Edwin Schooling Latter	**Financial Conduct Authority**
Helen Boyd	**Financial Conduct Authority**
Toby Williams	**Financial Conduct Authority**
Heather Pilley	**Financial Conduct Authority**
John Wadsworth	**Financial Conduct Authority**