

Working Group on Sterling Risk-Free Reference Rates

Terms of Reference

Background

In response to well documented cases of manipulation and false reporting of interest rate benchmarks, together with the secular decline in liquidity in interbank unsecured funding markets, the G20 asked the Financial Stability Board (FSB) to review critical benchmark rates, including GBP LIBOR, and develop plans for their reform. The FSB published its report on interest rate benchmark reform¹ in July 2014. In order to ensure that benchmarks remain robust and are appropriately used by market participants, the FSB recommended a "multi-rate approach" with two broad objectives:

- Strengthen existing IBORs and other potential reference rates based on unsecured bank funding costs (including GBP LIBOR) by underpinning them to the greatest extent possible with transaction data.
- Develop alternative, nearly risk-free, reference rates (RFRs). Certain financial transactions, including many derivative transactions, are better suited to rates that are closer to risk-free. Developing such alternative reference rates meets the principle of encouraging market choice.

These recommendations were developed by an Official Sector Steering Group (OSSG) and drew on the work of a Market Participants Group (MPG), which was comprised of senior financial executives with a wide range of expertise and market experience. The FSB has mandated the OSSG to monitor and oversee the implementation of benchmark reforms pursuant to these recommendations. In the UK, the Financial Conduct Authority is overseeing the reform of LIBOR (including GBP LIBOR) and the Bank of England is overseeing the development of sterling RFRs. Whilst work on reforming LIBOR is best delivered by working with the existing administrator, the OSSG concluded that work on RFRs would be best pursued by an industry group, coordinated by the UK authorities.

Working Group on Sterling Risk-Free Reference Rates

The Bank of England has initiated the Working Group on Sterling Risk-Free Reference Rates (the "Working Group") in order to meet the second objective of developing alternative RFRs.

The Working Group is a private sector group comprised of senior subject matter experts from major sterling swap dealers. Firms' participation is at the invitation of the Bank of England, with individual Working Group members appointed by member firms.

The International Swaps and Derivatives Association (ISDA) will participate in a non-voting capacity and provide guidance on practices related to robust contract design and reference rate transition.

Representatives from the Bank of England and the FCA will participate as *ex-officio* members.

¹ [Reforming Major Interest Rate Benchmarks](#) – 22 July 2014

Deliverables of the Working Group

The Working Group is expected to provide the following deliverables:

- *Identify best practices for alternative sterling RFRs.* The Working Group will consider the relative merits of the two sterling rates recommended by the FSB OSSG and MPG (and other potential alternatives) and identify an RFR which would represent best practice for use in certain new derivative and other contracts.
- *Identify best practices for contract robustness.* The Working Group will consider the best practices related to robust contract design that ensure that contracts are resilient to the possible cessation or material alteration of an existing or new benchmark.
- *Propose reforms for existing sterling RFRs.* The Working Group will propose any reforms which may be required in order that the chosen RFR conforms to best practice.
- *Develop an adoption plan.* The Working Group will consider the factors that could facilitate adoption of the chosen RFR or the adoption of best practices for contract robustness amongst a broad group of market participants, including end users.
- *Create a transition plan with metrics of success and a timeline.* The Working Group will identify observable metrics that reflect the successful adoption of a best practice RFR as an alternative to LIBOR. It is anticipated that firms participating in the Working Group will sign letters of agreement to support adoption of the chosen RFR, referencing these metrics.

The Working Group is expected to engage in outreach to a wide range of stakeholder groups, including central counterparties, exchanges, benchmark administrators and end-users (e.g. institutional investors, government-linked institutions, and corporate treasurers). The Bank of England will facilitate this outreach process by hosting roundtable meetings at the request of the Working Group.

The Working Group may establish sub-groups to investigate specific issues, and may co-opt other market participants to serve on these groups where relevant and necessary.

Governance

- Individual members of the Working Group are expected to represent their respective firms and draw on their firm's resources where appropriate.
- The Chair of the Working Group will be a private sector member of the Group, and will be elected by its members.
- Representatives of the Bank of England and FCA will serve as *ex-officio* members of the Working Group.
- For voting and decision making, each member firm will have one vote. Neither the Bank of England, the FCA nor ISDA will be eligible to vote. Decisions and recommendations should be reached by consensus, if possible, or otherwise by a two-thirds super majority.
- The Working Group's recommendations will not bind individual firms to specific actions, or to targets relating to the metrics of success the Working Group identifies. Any letters of agreement to support the adoption of the chosen RFR would be entered into bilaterally between the Bank of England and each member firm.
- The Bank of England will disclose these Terms of Reference, the institutional membership of the Working Group, meeting agendas and meeting minutes, once approved, on a public website.

Confidentiality

Any information disclosed or opinions expressed during Working Group meetings will be treated as confidential unless and until the Working Group has authorised their public release. Working Group members may be exposed to sensitive information and, potentially, to material non-public information in the course of their work. It is understood that Working Group members' staff may see some documents relating to the Working Group, but unnecessary involvement of third parties in handling this material is strongly discouraged. In all cases where third parties see Working Group documentation, individual members are expected to accept responsibility for ensuring that those third parties are aware of and respect the confidentiality and sensitivity which attaches to the Working Group and the documents in question.

Competition Law

It is the responsibility of Working Group members to ensure they understand their responsibilities under all applicable competition laws, including UK and EU competition law. To the extent any Working Group member is unclear of these, they should consult the legal and/or compliance teams at their respective institution for further guidance. If, during a Working Group meeting, a member has concerns about the discussion from a competition law compliance perspective, the members should make their concerns known and the discussion giving rise to such concerns should cease.

Indicative timeline

- March 2015: Organisational meeting of the Working Group and election of Chair
- April 2015: Working Group delivers detailed work plan and agrees schedule of future meetings
- June 2015: Working Group recommends sterling RFR
- July 2015: Working Group agrees plan to make contracts more robust
- December 2015: Working Group delivers plan to promote adoption of RFR amongst a broad cross-section of market participants, including end users
- December 2015: Working Group agrees a transition plan to implement the RFR as an alternative to LIBOR
- January 2016: Implementation begins