

UK Working Group on Risk-Free Reference Rates - Infrastructure and Systems Work Stream

Preliminary Priority List

Below is a **provisional** priority list with regard to infrastructure developments for the RFR transition in UK markets agreed by the Working Group on Risk-Free Reference Rates 'RFRWG'. This document does not constitute an exhaustive or final list and will be updated on a regular basis with amendments and additional information to reflect ongoing progress on plans for benchmark transition, and further work from the infrastructure sub-group and the RFRWG.

To provide feedback and comments, please contact RFR.Secretariat@bankofengland.gsi.gov.uk

1. Infrastructure Information and analytics

- a. Publication of SONIA compounded over standard interest periods, as an accrual and as a final rate, on a daily basis or a calculator to calculate the rate
- b. Analytics on SONIA bonds, loans, repos, swaps, swaptions, cap/floors, cross-currency swaps, etc.
- c. Broker screen or third-party-provided data source for all SONIA products (e.g. data source could include historical data, trends and comparisons of compounded SONIA vs. base rate vs. LIBOR)

2. Bonds processing

- a. In general updates to systems including payment and clearing systems; treasury management systems; ALM systems; financial reporting systems; and trading platforms. In particular:
- b. Ability for front office 'FO' (trading, syndication, repo, etc.) buy and sell-side systems to perform calculations (including risk analytics) for FRNs linked to SONIA
- c. Ability for back office 'BO' settlement, accounting, reporting and clearing systems for the buy and sell-side to calculate accruals, P/L and settlement values
- d. Ability for bonds trading platforms and exchanges to accommodate SONIA FRNs
- e. Ability for issuers to calculate, accrue and manage SONIA FRNs

3. Loans processing

- a. In general updates to systems including payment systems; treasury management systems; ALM systems; financial reporting systems; and trading platforms. In particular:
- b. Ability for FO trading, syndication and management systems to perform calculations for loans linked to SONIA
- c. Ability for BO settlement, servicing and accounting systems to calculate accruals, P/L and settlement values
- d. Ability for loan trading platforms to accommodate SONIA loans
- e. Ability for issuers to calculate accruals and settlement values for SONIA loans

4. Derivatives processing

- a. Ability for swap execution facilities, clearing house and confirmation utilities to deal with non-standard SONIA swaps (such as par-par asset swaps)
- b. Clearing eligibility for SONIA swaps with various payment frequencies (such as quarterly or semi-annual)
- c. Ability of FO systems to execute, transact OTC derivatives for all derivatives products linked to SONIA (such as IRS, cross-currency swaps, swaptions, cap/floors)
- d. Ability for BO systems to account for, report, settle and manage all SONIA-linked derivatives
- e. Utility to perform multilateral bulk indexation change from LIBOR to SONIA
- f. Utility to perform an indexation repapering for existing derivative contracts

5. Treasury and Asset liability management systems

- a. System and accounting ability to base fund transfer pricing on SONIA
- b. System and accounting ability to manage the interest-rate risk in the Banking books (IRBB) using the SONIA curve and SONIA instruments
- c. System and accounting ability to base intercompany funding and external funding on SONIA
- d. System ability to manage hedge accounting under IAS39 and IFRS9 (There needs to be an economic relationship between the hedged item and hedging instrument to claim hedge accounting)
- e. Ability for systems to forecast cash flows

6. Other

- a. Ability for systems to manage trade finance indexed to SONIA
- b. Ability for systems to manage retail investment products indexed to SONIA
- c. Ability for systems to benchmark fund performance on SONIA
- d. Ability for systems to manage the regulatory impacts related to SONIA on EMIR/MIFID 2 /MIFIR e.g. reporting

7. Risk Management and Valuations

- a. System changes to incorporate the impact on pricing and risk management models including curve construction, discount curves and pricing implications for SONIA-related products such as CCP discounting and valuations
- b. Systems to incorporate accurate historical data sets for risk models (VaR, Counterparty Exposure PFEs, risk-based margining, FRTB)
- c. Systems to incorporate changes to risk calculations impacting regulatory capital