

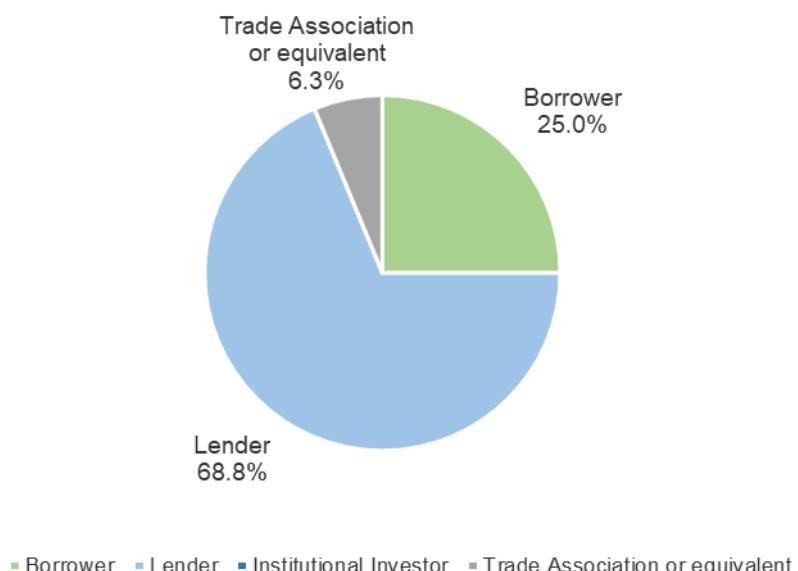
Survey on RFR Compounding Conventions for the Sterling Loan Market – Aggregated and anonymised summary of results¹

The Working Group on Sterling Risk-Free Reference Rates (the "Working Group") issued a survey (see Annex) seeking the views of its members and the members of its associated sub-groups and task forces on Compounded RFR Conventions in the Loan Market for Sterling Syndicated Facilities; Multicurrency Syndicated Facilities where there is a sterling currency leg; and Bilateral Loans.

The survey was open from 16th June 2020 until 24th June 2020 and attracted 32 responses from a range of market participants found within the Working Group and its sub-groups and task forces (see Chart 1). Respondents included banks, corporates, trade associations, and other financial firms.

This paper summarises the responses received in an aggregated and anonymised manner. All questions in the survey were answered by all 32 respondents, except for question 3(b) found in section 2 which has a subset of 4 respondents (who answered 3(a)(ii) in section 2 prior to this). The Working Group will discuss these results at its forthcoming meetings, including consideration of how these results can help inform the Working Group on its potential next steps to catalyse further transition in sterling loan markets.

Chart 1: Distribution of respondents

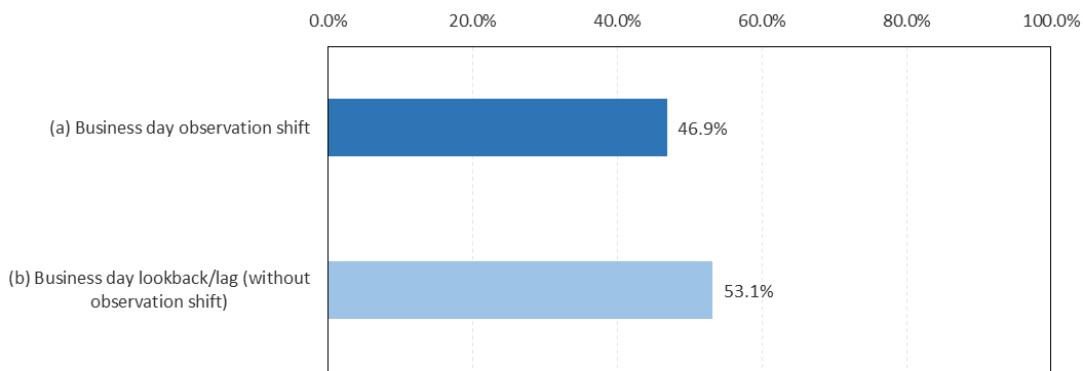


¹ This aggregated and anonymised summary of results is prepared by the Bank of England and the Financial Conduct Authority ("FCA") as the Secretariat of the Working Group on Sterling Risk-Free Reference Rates (the "Working Group"). The Bank of England and the Financial Conduct Authority ("FCA") are each ex-officio members of the Working Group. The views and outputs set out in this survey do not constitute guidance or legal advice from the Bank of England (including the Prudential Regulation Authority ("PRA")) or the FCA and are not necessarily endorsed by the Bank of England (including the PRA) or the FCA.

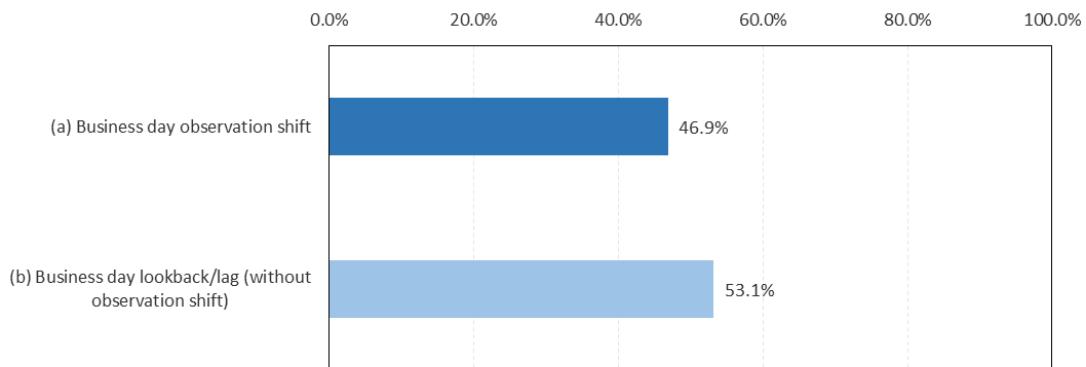
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Section 1: Overview – Identifying Critical Requirements

1. What is your preferred Compounded RFR Convention for use in the Syndicated Loan Market for sterling Syndicated Facilities and the sterling leg of Multicurrency Facilities:



2. What is your preferred Compounded RFR Convention for use in the sterling Bilateral Loan Market:

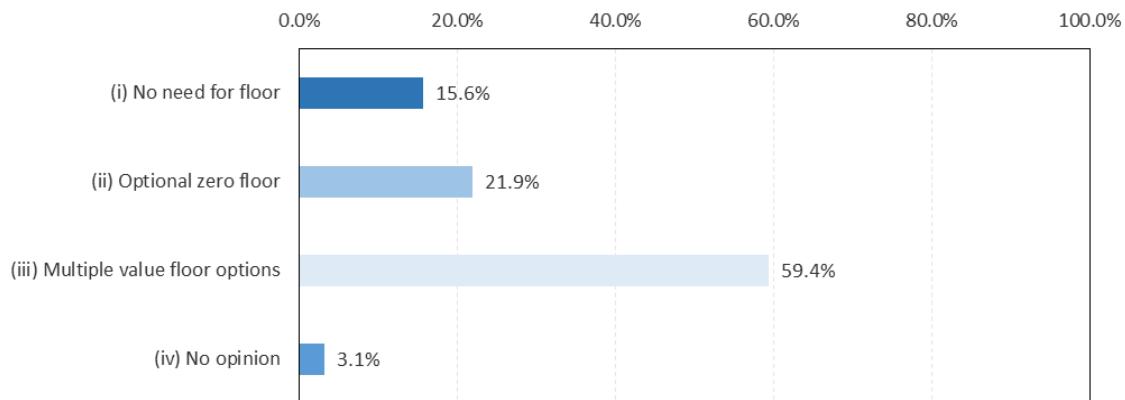


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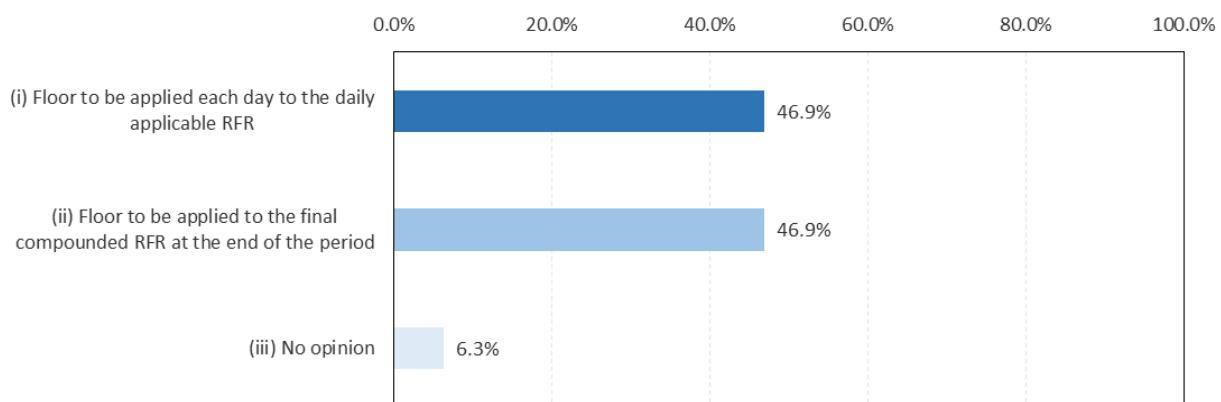
Section 2: Build Options and Secondary Trading

1. Floors – to the extent a floor is only ever an option, please indicate which of the below you believe loan systems should be capable of accommodating considering a loan offering using compounded rate

(a) Floor value



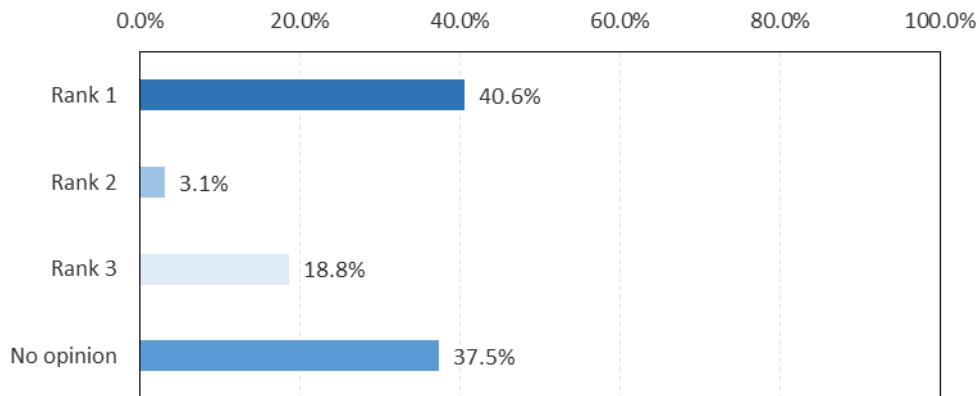
(b) Floor frequency



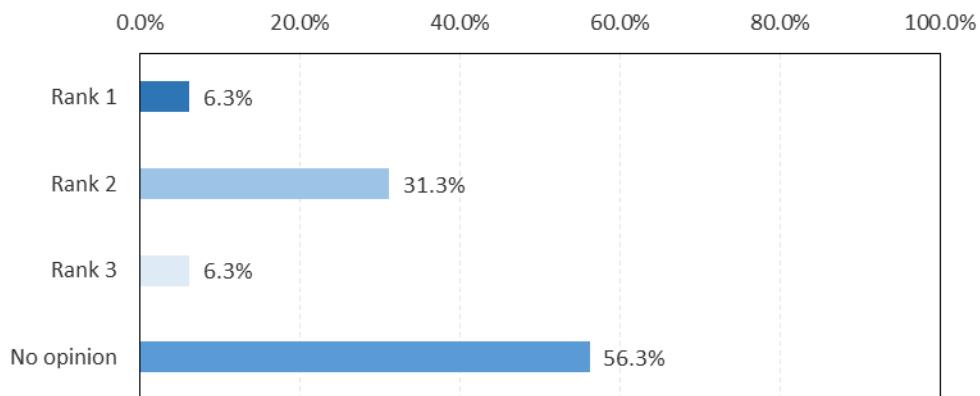
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2. Floor approach for legacy contracts – the floor for legacy contracts could be set as a sum of both SONIA + Credit Adjustment Spread (CAS), please rank the options available below in order of what you believe is most appropriate in a loan offering (1 being most preferred and 3 being least preferred). Please refer to the SONIA Loan Conventions Paper for more details.

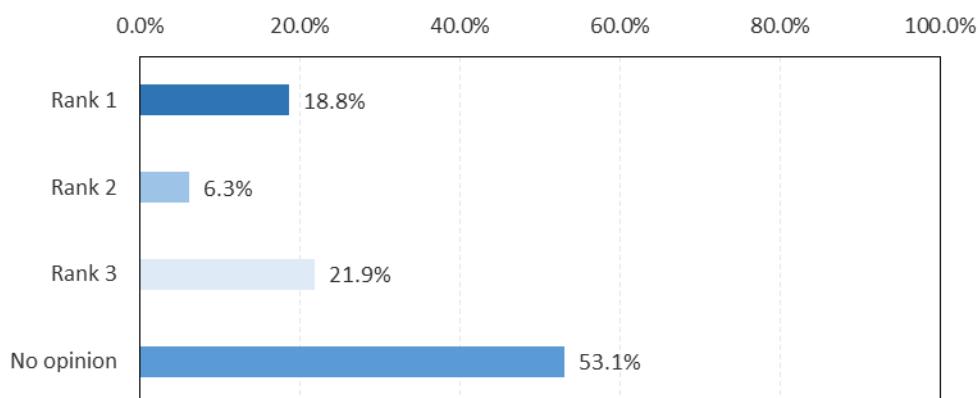
Option 1 (RFR Approach)



Option 2 (CAS Approach)



Option 3 (Hybrid Approach)



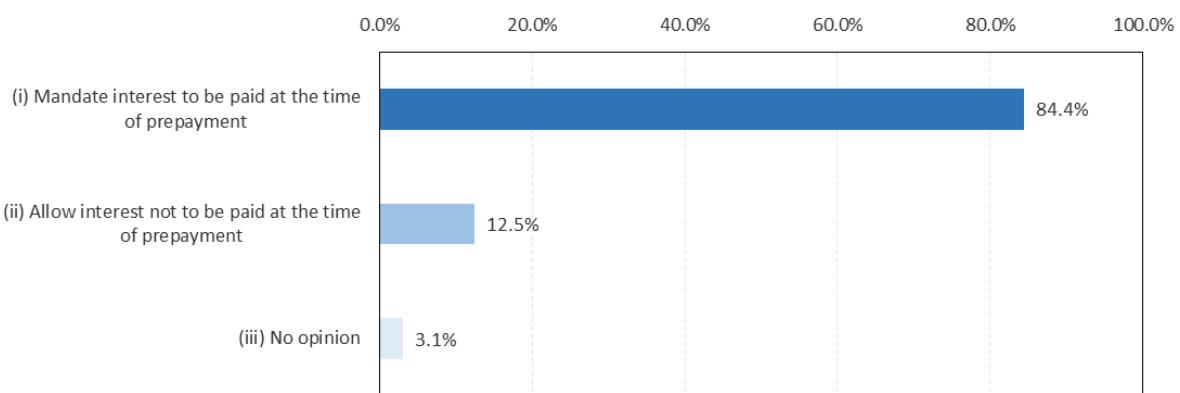
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Table 1: Summary of results determined by identifying the cumulative majority

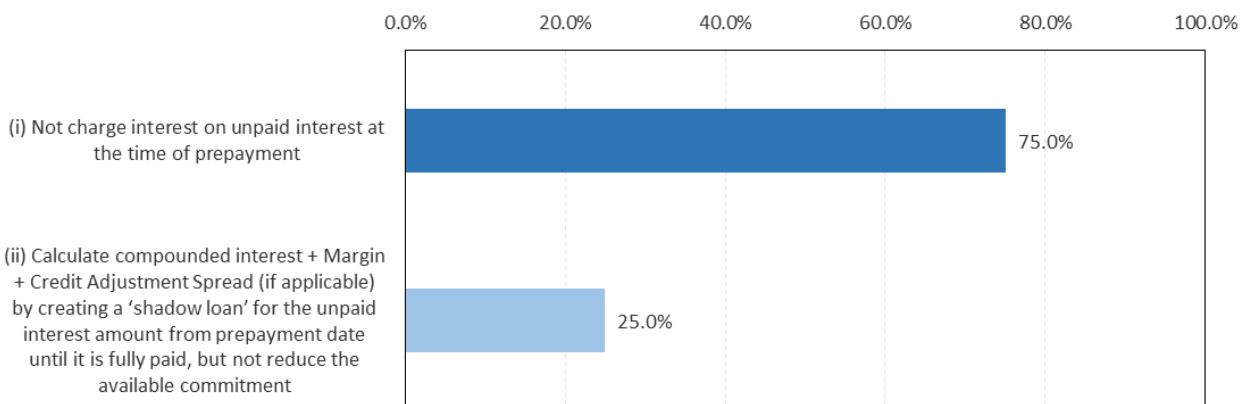
Category	Result
Rank 1	Option 1 (RFR Approach)
Rank 2	Option 2 (CAS Approach)
Rank 3	Option 3 (Hybrid Approach)

3. Prepayments – please indicate what you believe is most appropriate considering a loan offering using compounded rate

(a) Interest Payment



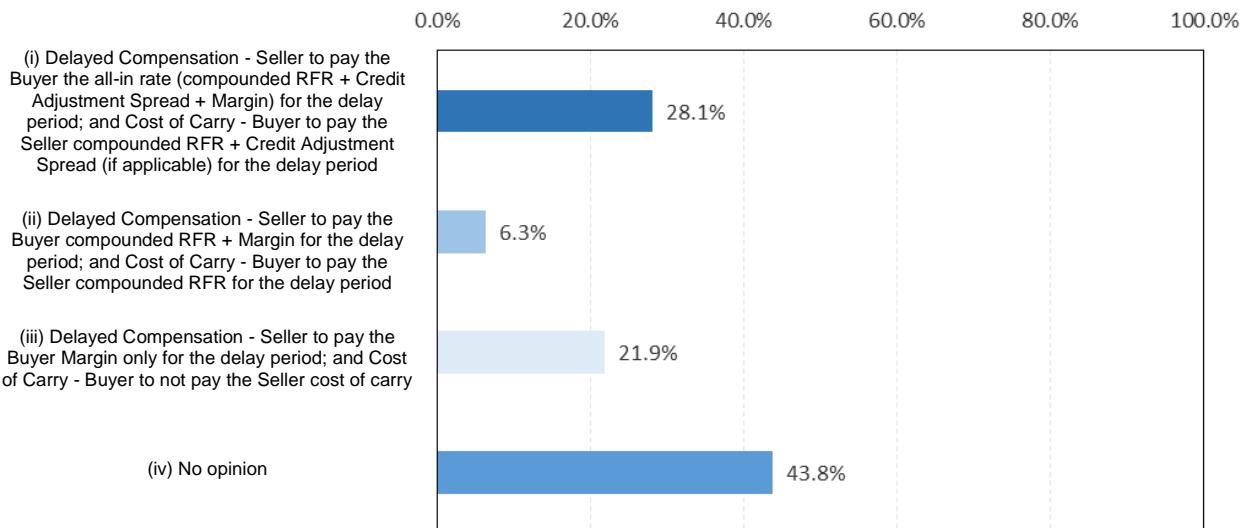
(b) If you believe the most appropriate option is 3(a)(ii), please indicate your preference on charging interest on unpaid interest at the time of prepayment*



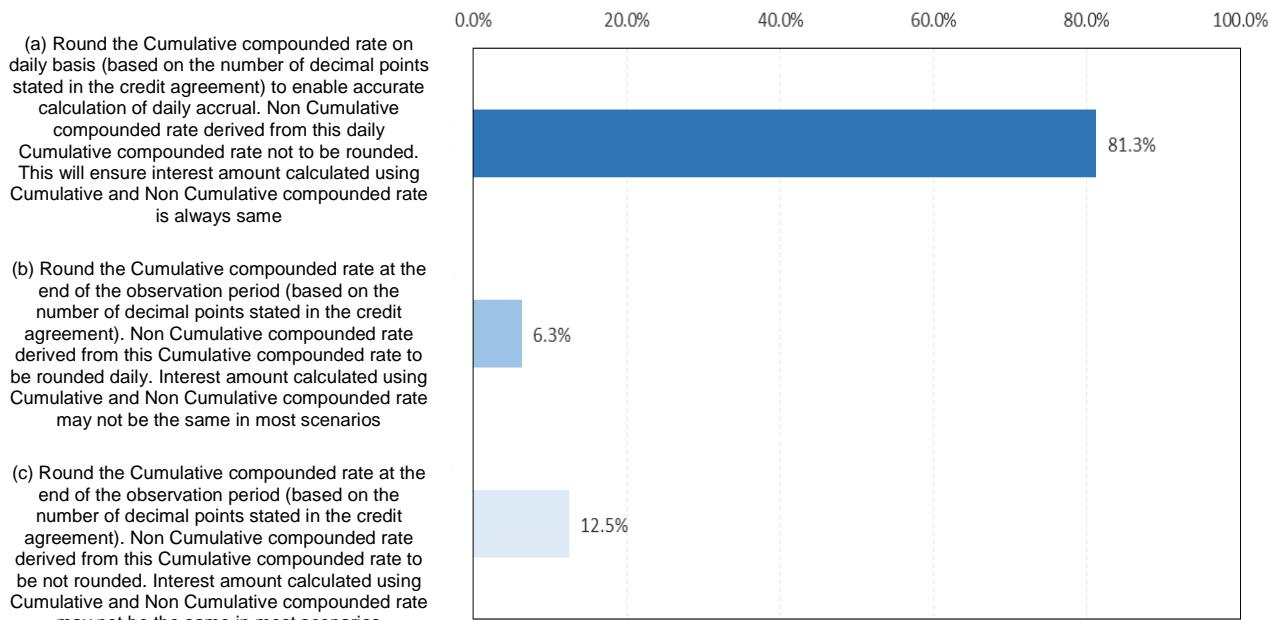
*Data based on four respondents that answered option 3(a)(ii).

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4. Loan Trading – please indicate what you believe is most appropriate considering a loan offering using compounded rate



5. Rounding convention – please indicate what you believe is most appropriate for a loan offering using compounded rate



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ANNEX

Survey on RFR Compounding Conventions for the Sterling Loan Market

Foreword

The overall objective of the Working Group on Sterling Risk-Free Reference Rates (the "Working Group") is to enable a broad-based transition to SONIA by the end of 2021 across the sterling bond, loan and derivative markets. This will reduce the financial stability risks arising from widespread reliance on GBP LIBOR.

The Bank of England and the Financial Conduct Authority ("FCA") are each ex-officio members of the Working Group. The views and outputs set out in this survey do not constitute guidance or legal advice from the Bank of England (including the Prudential Regulation Authority ("PRA")) or the FCA and are not necessarily endorsed by the Bank of England (including the PRA) or the FCA.

Purpose of this survey

This survey is focused on Compounded RFR Conventions in the Loan Market for:

1. *Sterling Syndicated Facilities;*
2. *Multicurrency Syndicated Facilities where there is a sterling currency leg; and*
3. *Bilateral Loans.*

It also covers the Compounded RFR Conventions for a floored legacy loan offering that is actively converted to a Compounded RFR.

Consistency across compounding conventions (where possible) is understood to be of significant benefit for many financial institutions (and loan system providers) to the development and build of loan systems required to support compounded RFRs. The focus of this survey on Compounded RFR Conventions does not in any way preclude the use of alternative rate options. Please note this survey should be read in conjunction with the SONIA Loans Conventions Paper (as attached) which explains the RFR context, provides background information including the time value of money through compounding and also provides colour on current market practice and worked examples.

Progress has been made on many aspects of compounding in relation to the Syndicated Loan Market (including compounding the rate, need for daily interest accrual, compounding RFR only and not the margin, pro rata distribution of interest, day count and business day conventions) and is expected to be applicable to the Bilateral Loan Market as well.

The feedback to this survey is expected to inform analysis of the Working Group and more generally to assist markets in identifying the conventions/ requirements that can support the majority of the sterling loan market in the following areas:

- *Choice of Observation Shift*
- *Floors*
- *Prepayments*
- *Loan Trading*
- *Rounding convention*

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In conducting this survey, the Working Group intends to complement the development of conventions in the market. The survey does not present an exhaustive list of all possible conventions.

This survey comprises two distinct sections of questions in a multiple choice format. Section 1 seeks to identify respondents' preference in compounding conventions for syndicated loans and bilateral loans. Section 2 sets out specific questions related to product design and secondary trading.

Survey process

To preserve the anonymity of respondents this survey is administered by the Bank of England and the FCA as the RFR Secretariat. Responses to this survey should be sent to the RFR Secretariat (RFR.Secretariat@bankofengland.gsi.gov.uk) by Wednesday 24 June.

Information provided in response to this survey, including personal information, may be subject to publication or release to other parties or disclosure in accordance with access to information regimes including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of statutory functions. Respondents should indicate if they regard all, or some of, the information provided in response to this survey as confidential. If a request for disclosure of this information is received, respondents' indications will be taken into account, but no assurance can be given that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by a respondent's IT system on emails will not, of itself, be treated as constituting notice that such respondent regards any information supplied as confidential.

By responding to this survey, respondents provide personal data to the Bank of England or FCA as the RFR Secretariat. This may include a respondent's name, contact details (including, if provided, details of the organisations respondents work for), and opinions or details offered in the response itself. For details on how the Bank of England or FCA deal with personal data, rights of respondents in this connection or to get in touch, please visit <https://www.bankofengland.co.uk/legal/privacy> or <http://www.fca.org.uk/privacy>, respectively.

The RFR Secretariat will publish an aggregated and anonymised summary of responses received. The summary published will be used for discussion by the Working Group, it will not contain any information that could be used to attribute a particular response or position to an individual respondent. If the responses received are not conclusive, the Working Group retains the right to issue a follow-up survey.

Competition notice

By participating in this survey, you agree to act in full compliance with applicable competition law requirements. The Working Group has taken and will continue to take appropriate safeguards to ensure that the conduct of this survey complies with applicable competition laws.

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Section 1: Overview – Identifying Critical Requirements

The compounding options that have been considered to date are a business day shift, calendar day shift and a lookback/lag, however, loan system vendors have indicated that offering a calendar day shift would require a material rebuild and to begin development at this stage could significantly delay releases. Given the knock-on impacts of further delays, the risk that banks will be unable to offer a fully scalable loan solution to clients within the transition timelines set means a calendar day shift is not seen at this stage as a viable option. Therefore, from a practical and system operations perspective, two possible options are emerging that need to be considered for bilateral and for syndicated transactions: (i) business day observation shift; and (ii) business day lookback/lag.

- 1. What is your preferred Compounded RFR Convention for use in the Syndicated Loan Market for sterling Syndicated Facilities and the sterling leg of Multicurrency Facilities:**
 - a. Business day observation shift
 - b. Business day lookback/lag (without observation shift)

- 2. What is your preferred Compounded RFR Convention for use in the sterling Bilateral Loan Market:**
 - a. Business day observation shift
 - b. Business day lookback/lag (without observation shift)

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Section 2: Build Options and Secondary Trading

1. Floors – to the extent a floor is only ever an option, please indicate which of the below you believe loan systems should be capable of accommodating considering a loan offering using compounded rate

a. Floor value

- i. No need for floor; or
- ii. Optional zero floor; or
- iii. Multiple value floor options

b. Floor frequency

- i. Floor to be applied each day to the daily applicable RFR; or
- ii. Floor to be applied to the final compounded RFR at the end of the period

2. Floor approach for legacy contracts – the floor for legacy contracts could be set as a sum of both SONIA + Credit Adjustment Spread (CAS), please rank the options available below in order of what you believe is most appropriate in a loan offering (1 being most preferred and 3 being least preferred). Please refer to the SONIA Loan Conventions Paper for more details.

Option 1 (RFR Approach) [1, 2, 3]

- If SONIA + CAS is less than floor value, CAS will remain unchanged; SONIA will be adjusted to ensure SONIA + CAS is equal to Floor

Option 2 (CAS Approach) [1, 2, 3]

- If SONIA + CAS is less than floor value, SONIA will remain unchanged; CAS will be adjusted to ensure SONIA + CAS is equal to Floor

Option 3 (Hybrid Approach) [1, 2, 3]

- If SONIA is negative, it will be deemed zero irrespective of the floor value
 - If SONIA + CAS is less than floor value and SONIA is negative – SONIA will be deemed zero. CAS will be adjusted to ensure SONIA + CAS is equal to Floor
 - If SONIA + CAS is less than floor value and SONIA is positive – SONIA will remain unchanged; CAS will be adjusted to ensure SONIA + CAS is equal to Floor
 - If SONIA + CAS is more than floor value but SONIA is negative – SONIA will be deemed zero. CAS will be adjusted by the same negative value.

Option 4

- No opinion.

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3. *Prepayments – please indicate what you believe is most appropriate considering a loan offering using compounded rate*

a. Interest Payment

i. *Mandate interest to be paid at the time of prepayment.*

ii. *Allow interest not to be paid at the time of prepayment.*

b. *If you believe the most appropriate option is 3(a)(ii), please indicate your preference on charging interest on unpaid interest at the time of prepayment*

iii. *Not charge interest on unpaid interest at the time of prepayment.*

iv. *Calculate compounded interest + Margin + Credit Adjustment Spread (if applicable) by creating a ‘shadow loan’ for the unpaid interest amount from prepayment date until it is fully paid, but not reduce the available commitment.*

4. *Loan Trading – please indicate what you believe is most appropriate considering a loan offering using compounded rate*

Option 1

- Delayed Compensation - Seller to pay the Buyer the all-in rate (compounded RFR + Credit Adjustment Spread + Margin) for the delay period; and
- Cost of Carry - Buyer to pay the Seller compounded RFR + Credit Adjustment Spread for the delay period.

Option 2

- Delayed Compensation - Seller to pay the Buyer compounded RFR + Margin for the delay period; and
- Cost of Carry - Buyer to pay the Seller compounded RFR for the delay period.

Option 3

- Delayed Compensation - Seller to pay the Buyer Margin only for the delay period; and
- Cost of Carry - Buyer to not pay the Seller cost of carry.

Option 4

- No opinion.

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5. *Rounding convention – please indicate what you believe is most appropriate for a loan offering using compounded rate*
 - a. *Round the Cumulative compounded rate on daily basis (based on the number of decimal points stated in the credit agreement) to enable accurate calculation of daily accrual. Non Cumulative compounded rate derived from this daily Cumulative compounded rate not to be rounded. This will ensure interest amount calculated using Cumulative and Non Cumulative compounded rate is always same; or*
 - b. *Round the Cumulative compounded rate at the end of the observation period (based on the number of decimal points stated in the credit agreement). Non Cumulative compounded rate derived from this Cumulative compounded rate to be rounded daily. Interest amount calculated using Cumulative and Non Cumulative compounded rate may not be the same in most scenarios; or*
 - c. *Round the Cumulative compounded rate at the end of the observation period (based on the number of decimal points stated in the credit agreement). Non Cumulative compounded rate derived from this Cumulative compounded rate to be not rounded. Interest amount calculated using Cumulative and Non Cumulative compounded rate may not be the same in most scenarios.*