

## Minutes of LIBOR Trade Association Working Party Meeting held on 24 January 2019

### Present:

AFME  
FIA  
ICMA  
ICMSA  
ISDA  
JBA  
JSLA  
LMA  
LSTA  
SIFMA

### 1. Introduction

The purpose of the meeting was for the trade associations to provide updates on any developments in respect of LIBOR transition since the last meeting.

### 2. AFME update

There has been increased focus on the need to become operationally ready to issue a public SONIA-linked securitisation, following the first SONIA-based securitisation issued by Elland which was wholly retained by Lloyds. This had shown that a backward-looking SONIA can work for securitisations, although the market is still in early stages.

Third-party infrastructure to enable a publicly issued SONIA securitisation is still being developed.

The Working Group on Euro Risk-free Rates (the "**Euro Working Group**") had published its [second public consultation on determining an ESTER-based term structure methodology as a fallback in EURIBOR-linked contracts](#). AFME will remind its members to respond by the closing date of 1 February 2019.

### 3. FIA update

FIA continues to monitor developments in Europe and the US and it continues to participate in subgroups of the Euro Working Group.

### 4. ICMA update

Work is continuing in the Sterling RFR bond sub-group on market conventions for new bonds referencing SONIA compounded in arrears and also on the question of legacy bonds referencing LIBOR.

There had been a strong start to the year in terms of new SONIA-linked floating rate notes ("**FRNs**"), with volumes in 2019 already overtaking the entire volume issued in 2018. SONIA-linked FRNs are now an established market for large public deals.

In terms of fallbacks to RFRs, ICMA and ICMSA had discussed the need for international coordination to ensure consistency in fallbacks to RFRs; this would be helpful in terms of documentation for multi-currency products.

ICMA also noted that the Euro Working Group had published its "[Guiding principles for fallback provisions in new contracts for euro-denominated cash products](#)".

## 5. ICMSA update

ICMSA agreed on the importance of international coordination. The market will also need to consider the issue of diverging fallback provisions across different currencies.

A term rate must be developed as compounded overnight RFRs pose significant challenges to the cash markets. Of course questions on the robustness of any term rates need to be addressed. There still seems to be a commitment and acceptance of the need for a term rate in the sterling market, however the need to increase liquidity in the derivatives market is an issue.

There could be a potential issue around FATCA grandfathering (i.e. could a change of the benchmark rate be seen as a material modification resulting in the loss of FATCA grandfathering). The ARRC is to speak to the IRS on this.

ICMSA recently published a bulletin on the [implications for English law agency roles on the discontinuation of LIBOR/IBORS](#).

## 6. ISDA update

Work continues on amendments to the ISDA definitions and it is hoped this will be completed by the end of the year.

ISDA will shortly be going out to vendors with a request for proposals to publish the term and spread adjustments.

A supplementary consultation on USD LIBOR is expected to be published in Q1 2019 and will also cover HIBOR and CDOR. This consultation will adopt a streamlined approach, giving respondents the opportunity to confirm or disagree with the result of the 2018 consultation in respect of those currencies being consulted on. ISDA is also working with market participants to align fallbacks with those for cash products.

## 7. LMA update

The LMA has been working on fallbacks and the current LMA documentation contains an amendment style approach which is suitable for all currencies. The LMA may start to build hard-wired fallbacks into documentation at a later stage once there is more clarity on term rates and adjustment spreads, and if the syndicated loan market is ready.

The LMA has been working on fallbacks for SONIA-linked transactions (whether term or compounded SONIA-based) and would look to expand this work to other currencies. Fallbacks will not necessarily be identical for all products. It is important to develop fallbacks that are appropriate for each product while seeking consistency to the extent possible.

The LMA is also looking at how to produce template language for amending legacy deals.

The LMA will update its second edition ACT/LMA guide entitled "The future of LIBOR: what you need to know" to reflect latest developments. The LMA will also be responding to the second public consultation on determining an ESTER-based term structure methodology (this was subsequently made available on the LMA website [here](#)).

## 8. LSTA update

The ARRC sub-group on business loans (of which the LSTA is the co-chair) had been working on compiling and thinking through the issues raised in the responses received to its consultation on fallback contract language.

Respondents provided wide support for compounded SOFR in arrears as a second step in the hard-wired approach, however respondents also flagged operational issues. The ARRC is working on delving into these issues to ensure the approach is usable before making any recommendations.

The LSTA is holding an ARRC-sponsored operational workshop which will focus on the operational changes required for compounded SOFR (whether in advance or arrears).

Term SOFR is still the desired fallback in the loan market. There is also interest in the ARRC publishing spread adjustment for cash products. There may be further consultations on this in the future.

The [consultations on fallback contract language for bilateral business loans and securitisations](#) close on 5 February 2019.

#### **9. SIFMA update**

One key focus of the ARRC for the next few months would be on the retail side, in particular mortgages and student loans.

This will include focus on the securitisation workstream fallbacks, looking at whether these will work for consumer products given the potential for complication stemming from consumer protection regulations or other issues.

SIFMA is also working with a number of its smaller members who are not members of the ARRC, to help them get up to speed.

#### **10. JBA update**

The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks held a meeting last week and published a "[Direction of Way Forward – Towards Public Consultation](#)". A public consultation is envisaged to take place around May/June 2019. The Direction outlines the content and scope for this consultation, which includes: (i) alternative benchmark options; (ii) preparation for fallbacks; and (iii) accounting issues.

#### **11. JSLA update**

In February 2019 the JSLA is holding its annual conference where the chairman of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks will cover global developments and the transition away from LIBOR across the five LIBOR currencies. It is expected that between 30-40 banks and other major financial institutions would participate. The focus is on raising awareness.