

Minutes of LIBOR Trade Association Working Party Meeting held on 28 February 2019

Present:

AFME
APLMA
GFMA
ICMA
ICMSA
ISDA
LMA
LSTA
UK Finance

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

AFME noted that progress has been made in terms of developing the infrastructure that will support the issuance of a public SONIA-linked securitisation.

In light of rapid progress made over the last 12 months, AFME is also working on revising its negative consent language that can be incorporated into the terms and conditions of IBOR-based bonds. The amended language is intended to enable IBOR-linked bonds to more easily transition to risk-free rates ("RFR") by doing so without requiring a bond-holders' meeting.

3. APLMA update

The Hong Kong Monetary Authority is in the [processes of setting up an RFR working group](#) that will operate under the Hong Kong Treasury Markets Association (the current administrator of HIBOR). The RFR working group will focus on the transition of HIBOR and HONIA (the latter being a historic overnight swap rate). The two rates may co-exist. Emphasis continues to be placed on monitoring developments in respect of LIBOR, and the US dollar in particular, and there are concerns with the absence of term rates and credit spread adjustments.

On 2 April 2019, the APLMA is holding a [workshop](#) with Clifford Chance which will update loan market participants with the recent developments related to the transition away from LIBOR to RFRs and the outstanding issues (including those related to: legacy transactions, fallbacks, operational issues).

4. ICMA update

ICMA continues to be involved in the Euro RFR Working Group, the Sterling RFR Working Group and the Swiss National Working Group on RFRs.

In the euro area, the current key focus is on EONIA transition. EONIA is not typically referenced in bonds but may be referenced in repo, ECP and CD. However, ICMA's standard documentation for ECP and the GMRA do not contain any references to EONIA.

In terms of sterling transition, there continues to be good progress on SONIA adoption in the FRN market.

The issue of handling legacy bonds referencing LIBOR is challenging and continues to be discussed.

There is likely to be a panel on RFR transition at the [ICMA AGM & Conference](#) in Stockholm in May.

5. ICMSA update

The primary focus for ICMSA is working with AFME on the benchmark rate modification language (particularly concerning the position of trustees and mechanism for approving changes).

The ICE Benchmark Administration ("IBA") is [consulting](#) on a potential new U.S. Dollar ICE Bank Yield Index. This is intended to be fully transaction-based and designated to measure the yields at which investors are willing to invest U.S. dollar funds in large, internationally active banks on a wholesale, unsecured basis over one, three and six month periods. This could be an important development, particularly if IBA develops this for other currencies.

There had recently been a spike in SOFR due to the demand for government-backed bond repos. This had raised concerns related to overnight rates given that RFRs should reflect the overall market conditions and should therefore not be spiked by virtue of demand for any one particular product.

The tax basis for the interest on Italian bonds is accrued daily and depends on the rate being set at the beginning of the period. Where the rate is set at the end of a given period, this could make it difficult to issue Italian FRNs in the future. Efforts to develop term rates should therefore be continued.

In her recent [speech](#), Megan Butler of the FCA emphasised the need for firms to start transitional arrangements and not wait for the publication of a term rate. There continues to be a real need to develop robust solutions for legacy transactions.

6. LMA update

The Sterling RFR Working Group had supported the Sterling loans sub-group's proposal to conduct a survey on the possible methodologies for adjustment spreads for cash products. The survey is intended to cover loans and FRNs and assist the transition of legacy deals and facilitate better economic certainty for fallbacks.

Other currency groups had been invited to engage in the survey in conjunction with the Sterling RFR loans sub-group. The survey will take the ISDA Consultation on IBOR fallbacks as a basis, whilst adjusting it to ensure that it fits the context of cash products.

The LMA continues to work on documentation in respect of transition.

The LMA is hosting and delivering presentations at several key events to enhance awareness and education. The LMA is also updating the ACT/LMA guide. The lack of awareness in developing market jurisdictions is still a key concern and the LMA has expanded its work on education this year to address these issues. Feedback from members indicates that it is difficult to keep track of recent developments given the volume of information and disparity between progress across jurisdictions. The LMA continues to distil and centralise information on its LIBOR microsite to enhance awareness.

7. ISDA update

ISDA continues to work on amending the 2006 Definitions to implement fallbacks for LIBOR and other key IBORs. Amended definitions will apply automatically in new transactions that incorporate the 2006 Definitions, whereas market participants will need to adhere to a protocol or otherwise agree to include the amended definitions in existing transactions.

ISDA is currently in a request-for-proposal process in order to select the vendor that will publish the spread adjustment for use in fallbacks for derivatives.

ISDA is also working on some technical issues related to fallbacks when transitioning from a forward-looking rate to a compounded in arrears rate (which over 90% of respondents to ISDA's consultation on fallbacks for certain IBORs had selected as their preferred option for the derivatives market). ISDA also continues to work on final parameters for spread adjustments in advance of a market consultation on these points during the summer.

The ISDA Consultation on fallbacks did not cover all rates and ISDA is expecting to consult on USD LIBOR, HIBOR, CDOR in due course.

ISDA is participating on all RFR Working Groups, including the newly established RFR working group in Hong Kong. On the euro side, ISDA will use €STR as a fallback for EURIBOR and Euro LIBOR, but this work will be on a different timetable given that €STR is not yet being published.

ISDA is expecting to produce a consultation to determine the preferences of the derivatives market in respect of pre-cessation issues.

8. LSTA update

The LSTA is continuing to work on the syndicated loans LIBOR fallback language and its recommendations for the ARRC.

The LSTA is also working on ensuring that any fallback language it recommends to the ARRC is capable of working operationally. The ARRC-sponsored operational workshop was held in late January. During the workshop, the need to consider how different types of SOFR could be operationalised was raised, and that the timeline for each type of SOFR could be different (e.g. forward-looking SOFR would take less time to operationalise than SOFR compounded in arrears). As a result of the workshop, the LSTA established a new working group which is currently discussing: (i) which rates can be operationalised and by which date; (ii) the conventions that need to be identified for each type of SOFR; and (iii) ensuring that any solution can be used for multicurrency and not only USD, given the multicurrency nature of syndicated loans.

It was noted that a similar event – the Infrastructure Forum – took place in the UK at the same time as in the US, which raises an important argument for international cooperation.

The LSTA is continuing to work on education and communication with market participants.

It was noted that the Sterling RFR loans sub-group had re-visited the question of whether it would be appropriate to incorporate the hard-wired approach into LMA documentation in relation to fallbacks, however the group decided that it was not yet appropriate given the continued uncertainties.

It was noted that in the UK there is a lot of focus on operations because of the regulator's focus on transition in advance of term rates becoming available. However, it is difficult to transition and build the necessary systems if the market does not know what it is moving to. It was noted that the market conventions paper will be very useful in this respect, as it will set out what the options are and allow people to discuss these with service providers (the conventions discussion paper was subsequently published [here](#)).

9. GFMA update

There are a lot of challenges arising from each jurisdiction potentially adopting a different methodology in their respective RFRs, including those arising from a timing and implementation perspective. As a result, GFMA is looking to produce for its members tracking timelines and milestones across the different currency working groups.

10. UK Finance update

UK Finance is continuing to lead the transition for mortgages, as part of which it had surveyed its members with outstanding books. UK Finance will focus on working out how to provide a solution for its members, however any work stream continues to be impeded by the lack of term rates.

UK Finance is also looking at commercial loans (other than syndicated loans). UK Finance is pursuing active outreach initiatives by providing education to members, especially to small and medium members who may not be as up-to-speed with the issues related to the transition to RFRs.

11. AOB

It was noted that that SIFMA could not join the call but noted that they were working on outreach to their smaller members.

JBA and JLSA also could not join the call but had informed the LMA that there were no significant updates to report on since the last meeting.