Minutes of LIBOR Trade Association Working Party Meeting

held on 8 January 2020

Present:

ACT
AFB
GFMA
ICMA
ICMSA
ISDA
JBA
LMA
LSTA
SIFMA
TACT
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. ACT update

In H1 2020, the ACT will continue to work on outreach and education with respect to the transition. As new solutions continue to be developed, the ACT is expecting to be in a better position to disseminate knowledge and awareness more widely amongst its members.

3. AFB update

This is the first meeting of the Working Party which the AFB had joined. AFB will be able to share more updates on its work going forward.

4. GFMA update

GFMA continues to work on and regularly circulates a monthly newsletter focused on regional and global updates to help its members keep abreast of the developments with respect to the transition.

5. ICMA update

ICMA continues to monitor the progress with respect to the transition from LIBOR to SONIA in the FRN market. It was noted that Lloyds released four new consent solicitations on covered bonds, which are due to be completed by 6 February 2020.

ICMA prepared its contribution to the discussion paper on legacy cash products referencing sterling LIBOR. The paper is currently being looked at by the Sterling Cash Market Legacy Transition Task Force, which is due to meet for the first time in January 2020.

ICMA continues to provide input to the work undertaken by the Sterling Tough Legacy Task Force, which includes contribution to identifying the tough legacy issues and how these can be addressed. The first meeting of this task force took place in December 2019.

ICMA had been involved in drafting a statement which is due to be released by the Sterling Term Rate Use Case Task Force.

ICMA continues to look at operational issues (including the lag and weightings).

6. ICMSA update

The last meeting of the ICMSA Working Group on IBORs took place on 7 January 2020. The meeting was attended by a wide range of ICMSA members. The working group continues to work on producing bulletins for use by the market, which will be published by the end of January 2020, including: (i) a document that discusses some of the protections or points of concern that trustees and agents are likely to be noting in benchmark discontinuation wording, or indeed fallbacks to SONIA and SOFR; and (ii) a document to outline high level timelines in relation to conducting a consent solicitation, in order to maximise the awareness of all parties with respect to some of the operational and practical limitations arising from transitioning from LIBOR to an alternative risk-free reference rate ("**RFR**").

The working group continues its work on producing additional documents which had been outlined in the minutes of this Working Party from a meeting which took place on 25 November 2019. It is hoped that these additional documents will be published by the end of Q1 2020.

During the meeting, the working party discussed some practical concerns and consideration that agents and clearing systems have in respect of the wording that was published by the US Alternative Reference Rates Committee ("**ARRC**"), in particular as related to payment conventions. Discussions are ongoing with respect to whether such conventions can be supported in Europe. Whilst issuers are becoming accustomed to the wording that was published for the US market, it will be necessary to highlight that different considerations apply between the US and English law documentation. These discussions might result in the production of various other bulletins by the working party to help with market education in this respect.

7. ISDA update

ISDA remains on track to finalise documentation in Q1 2020, which will enter into force in Q2 2020. Bloomberg had been selected to publish the adjustments and 'all in' fallback rates and now needs to work on the final mathematical formula for fallbacks, which is a key outstanding issue before the final formula is available in Q1 2020. In H1 2020, ISDA will be working on implementing some of these fallbacks, which is a high priority. Throughout the year, ISDA will also focus on the use of RFRs across SONIA, SOFR, SARON and €STR. ISDA will continue to work on education, including by holding conferences on the implementation of fallbacks on 12 February 2020 in New York, on 26 February 2020 in London, as well as in Hong Kong and Tokyo (the dates are still to be confirmed).

ISDA will continue to work on some of the technical issues associated with non-linear derivatives and swaptions, the use of RFRs in this space, as well as implications of the use of RFRs for swaptions. ISDA will also work on some technical work related to the conventions for RFRs in derivatives vs. cash products, and conventions for fallback rates vs. OIS. Consequently, it is anticipated that ISDA will produce relevant educational materials and engage in market outreach.

On 18 December 2019, ISDA launched a supplemental consultation on the spread and term adjustment that would apply to fallbacks for derivatives referencing Euro LIBOR and EURIBOR in the event that those benchmarks are permanently discontinued. The consultation also covers technical issues related to the adjustment methodology, and seeks feedback on whether the adjustment would be appropriate for lesser-used IBORs if ISDA implements fallbacks for those benchmarks in the future. The consultation **closes on 21 January 2020**. On 14 January 2020, ISDA is due to host a market call to answer questions regarding this consultation (the recording was subsequently made available online).

In order to encourage take up of the RFR product, ISDA is working on language to help to standardise hedges for cash products which use lag and lockout conventions. ISDA will share a draft of this language with some members of the Working Party to seek their views on a number of key issues in order to ensure that its proposals can provide standardisation in documentation with respect to the appropriate approach for hedging.

One member of the Working Party highlighted that on the bond side, it remains difficult to implement the two-banking-day backward shift adjustment due to operational and payment reasons. This is because a longer period is required to enable parties to liaise with clearing systems. It was noted that there is a significant shift in relation to the time expectations arising from the transition and this will be a significant challenge for the bond market. This issue must be worked through as there are concerns in respect of global programmes which might be impacted by the divergence in standards applicable across the US as compared to those which apply in Europe, given there are key differences between wording, mechanics and expectation, as well as how this ties back into swaps.

8. JBA update

On 29 November 2019, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks published the final report on the results of the public consultation on the appropriate choice and usage of Japanese yen interest rate benchmarks. The Committee also published a summary of main points of the final report.

With respect to the choice for alternative benchmarks for loans, Option 3 and Option 4 were the most preferred (both of which are based on TONA), followed by Option 5 (which is based on JPY TIBOR). A look at individual industries reveals that many non-financial corporates, securities companies, and institutional investors selected Option 3 or Option 4, whereas for banks, Option 5 was the most preferred option. With regard to the use of Option 5, banks which expressed positive opinions suggested that it is a widely used interest rate in Japan and is highly compatible with current business operations and systems. On the other hand, many non-financial corporates expressed negative opinions since JPY TIBOR is higher than JPY LIBOR, and hedging by derivatives is difficult. Given the disparity between the views presented by lenders and borrowers, it was confirmed that they would need to reach a mutual agreement on the path for permanent measures, which includes the selection of the temporary options, by engaging in sufficient communication with each other.

As for the temporary use of alternative benchmarks until the development of term reference rates for loans, most non-financial corporates and securities companies were divided between Option 2 (which is based on compounded TONA in arrear) and Option 5, whereas all banks and institutional investors selected Option 5.

9. LMA update

In its capacity as chair of the Sterling Sub-group on Benchmark Transition Issues in Syndicated Loan Markets, the LMA had been working closely with the ARRC and the LSTA to solve for a number of key outstanding issues, including with respect to the precise calculation methodology for compounding RFRs for the loan market, as well as how to accommodate operational challenges for RFRs (such as prepayments and secondary trading). This work is on-going, however one of the key issues relates to the observation shift.

The LMA had started to build out its communication programme for 2020, which will include a number of events and webinars on the transition with the aim of maximising outreach and education to as many market participants as possible. As part of this workstream, the LMA is also hoping to coordinate with numerous members of the Working Party across different currencies.

On 18 December 2019, the Working Group on Sterling Risk-Free Reference Rates ("**Sterling RFR Working Group**") published a consultation on credit adjustment spread methodologies for fallbacks in cash products referencing sterling LIBOR. Feedback is requested on the consultation paper **by 6 February 2020**. The LMA encourages all its members to respond to the consultation paper.

The LMA had responded to the EU Commission's public consultation on the review of the EU Benchmark Regulation.

10. LSTA update

The LSTA and the ARRC continue to focus on operations, documentation and education.

With respect to operations and execution for SOFR loans, the LSTA continues to work with the operations side, business side and vendors to make recommendations on SOFR-related operational issues for loans. The current focus is on simple and compounded SOFR in arrear, given that once available, SOFR-based forward-looking term rates can be operationalised relatively easily.

The LSTA continues to work on developing a set of conventions for SOFR-referencing loans, and especially the outstanding issues with respect to the compounding in arrear methodology. The LSTA continues to liaise with the LMA and other national loans sub-groups and central banks as part of the Joint Call on Loans to ensure global consistency between conventions.

On the documentation side, the LSTA published the *Compounded SOFR in Arrears Concept Document* which is currently at for comment by its members.

The LSTA continues to proactively engage in facilitating education to the market, including through regularly holding online webcasts on the transition and by speaking at various conferences. Whist the LSTA's bank members are increasingly engaged and alarmed about the transition, corporates are still slightly behind and this is where the LSTA will focus its education initiative in the coming months.

11. SIFMA update

On 15 November 2019, the ARRC held a meeting where there was a discussion around the likely adverse economic and financial impact on consumers, businesses, and other market participants that would materialise in the event that LIBOR ceases in the absence of a legislative solution. Consequently, the ARRC agreed that it was appropriate to discuss a potential legislative solution with relevant New York State authorities and to begin engaging more publicly on the issue. Work on drafting legislative solutions is to cover situations where a LIBOR-referencing contract had no fallbacks to create a safe harbour for people to transition to SOFR. SIFMA's members are engaged in this work and SIFMA continues to encourage relevant new institutions to join this workstream. Target for completion of this workstream is end of H1 2020.

There had been a split of views in the US between large and commercial banks around credit sensitivity of the replacement rate and term rate, which highlights that the debate around the transition is increasingly intensifying.

12. TACT update

In December 2019, TACT held a meeting in which TACT members were informed about being able to access the minutes of the Working Party to help them keep abreast with any relevant developments with respect to the transition. Many TACT members continue to adopt a 'wait and see' approach given the need for further certainty with respect to the direction of travel.

As ICMSA members, TACT is looking forward to providing comments on ICMSA's briefings.

In 2020, TACT is due to hold a conference for its members where there will be a discussion around the issues for trustees arising from the transition.

13. UK Finance

UK Finance continues to be involved in the various sub-groups and task forces of the Sterling RFR Working Group, including the Tough Legacy Task Force, Cash Market Legacy Transition Task Force, and Loan Enablers Task Force.

The first meeting of the Loan Enablers Task Force is due to take place in January 2020.

UK Finance continues to engage in the Sterling Communications Sub-group.

UK Finance had been encouraging its members to respond to the Sterling RFR Working Group's consultation on credit adjustment spread methodologies for fallbacks in cash products referencing sterling LIBOR.