Minutes of LIBOR Trade Association Working Party Meeting

held on 17 October 2019

Present:

AFME
ICMA
ICMSA
ISDA
LMA
LSTA
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. LMA update

On 23 September 2019, the LMA published exposure drafts of: (i) a compounded SONIA based sterling term and revolving facilities agreement; and (ii) a compounded SOFR based dollar term and revolving facilities agreement (the "**Exposure Drafts**"). The Exposure Drafts do not constitute recommended forms of the LMA. The intention of the Exposure Drafts is to facilitate awareness of the issues involved in structuring syndicated loans referencing compounded SONIA, SOFR or other RFRs and the development of an approach to these issues by market participants. At the current time, there is insufficient established market practice or infrastructure in relation to these areas to enable the LMA to publish a recommended form of syndicated facilities agreement. It is for individual market participants to form their own view of the extent to which they are suitable for use as the basis for preparing loan documentation for transactions. A Commentary has been published alongside the Exposure Drafts which considers some of the structuring issues that have emerged to date. On 17 October 2019, the LMA released a webinar entitled "*An introduction to the LMA Exposure Drafts of Compounded Risk-Free Rate Facility Agreements".* The webinar is intended to provide an introduction to the Exposure Drafts and discusses: (i) the context for, and the purpose of, the development of the Exposure Drafts; (ii) the principal features of the Exposure Drafts; and (iii) the key differences between the Exposure Drafts and the existing LMA Primary Documents. The LMA is welcoming feedback from market participants on the issues discussed in the Commentary and particularly that arising from experiences relating to these issues on transactions.

The LMA is due to publish an exposure draft of a Reference Rate Selection Agreement for use in relation to legacy transactions transitioning from LIBOR to alternative reference rates (this was subsequently published on 25 October 2019).

3. AFME update

AFME continues to hold events which cover the transition from LIBOR, including AFME's 3rd Annual Compliance and Legal Conference on 2 to 4 October 2019 where there was a panel entitled '*Regulation in-focus: Navigating the paths to risk-free rates: plans, progress, achievements and challenges*'. The panel comprised of representatives from the official sector (including Edwin Schooling-Latter of the UK Financial Conduct Authority ("**FCA**") and Tilman Lueder of the European Commission), as well as representatives from the private sector. During the conference, Edwin Schooling-Latter noted that the market should continue to transition to alternative risk-free reference rates ("**RFRs**") and not wait for the development of forward-looking term rates. It was also noted that once available, forward-looking term rates will be intended for use in some niche parts of the cash markets.

In the securitisations market, a number of consent solicitations have begun with respect to covered bonds and securitisations. Following Lloyds' consent solicitation notice in September 2019, it announced 99.8% support (of eligible votes) to amend the benchmark referenced in a £1bn covered bond from LIBOR to SONIA. The consent solicitation used AFME's negative consent language. Following Santander UK's notice in September 2019, strong support from investors was received as it announced the conversion of two LIBOR-linked mortgage bonds to SONIA. A positive consent approach was used.

Nationwide Building Society had issued notice of a consent solicitation to amend the terms of two GBP LIBOR linked covered bonds to SONIA. In addition to this, Nationwide issued notice of a consent solicitation to replace the benchmark referenced in a long-dated LIBOR linked Silverstone securitisation, from LIBOR to SONIA.

4. ICMA update

ICMA continues to monitor new issuances in the SONIA-referencing bond market, where the uptake of such bonds continues to be on an upwards trajectory. It was noted that a number of consent solicitations were now issued, including: two consent solicitations for covered bonds, two consent solicitations of Silverstone securitisations, and three explorations of covered bond consent solicitations – all by Nationwide. This is in addition to the consent solicitations issued by Lloyds, Santander and Santander and Associated British Ports, and signifies a momentum growing in the market. Further progress across NatWest's SONIA loans pilot was announced with the completion of the first LIBOR-referencing loan amendment, converting a South West Water loan from LIBOR to SONIA. The conventions of the loan will use a daily compounded SONIA rate with a five-day reset lag, which are the same as the conventions used in the floating rate note ("**FRN**") market.

ICMA continues to work on a discussion paper on legacy cash products referencing sterling LIBOR (which is due to be published in Q4 2019).

On 16 September 2019, ICMA held a briefing call for ICMA members on the transition, and on 24 September 2019, ICMA held a briefing call for ICMA members in the Asia-Pacific region. ICMA recently recorded a podcast for its website. On 10 October 2019, ICMA published the following two articles in its 2019 Quarterly Report: *"Euro risk-free rate reform"* and *"Risk-free rates: bond market conventions"*.

5. ICMSA update

The new ICMSA working group on IBORs comprises of representation from a broad range of constituents, including lawyers, tax advisers, agents, cash managers, analytics teams and trustees. The working group is working on producing a bulletin for the market which will cover some of the technical considerations and operational limitations in relation to timing of a consent solicitation that treasurers and other parties should contemplate when transitioning from LIBOR.

From a SONIA issuance standpoint, ICMSA continues to see new issuances. ICMSA encourages its clients to add in fallback provisions to any LIBOR deals, however a number of clients continue to resist this due to the costs of doing so. In relation to CPs, ICMSA noted that these are often of an early maturity and clients do not want to include fallbacks at this stage. It was noted that some clients have fixed rate bonds and are reluctant to spend money on lawyers to update these documents. It was noted that LIBOR documents are done in one department and the pricing documents are generally handled by the operations department. If parties do issue a pricing supplement, they need to be mindful of what they have in their programme documents as clients then risk offering documents which are outdated and would need to adapt their pricing supplements. It was noted that with respect to high yield issuance, it is surprising that there are still some drafting lawyers who are advising on deals but are unaware that LIBOR might cease to be published and that new bonds that reference LIBOR might then fall under the ultimate fallbacks. It was noted that whilst market education continues to be a priority on the agenda, there is a large gap in knowledge and people might not understand the need to include appropriate fallbacks.

With respect to legacy transactions, there were now more consent solicitations put forward to the market which is an important step towards transitioning to SONIA.

On 2 October 2019, the European Investment Bank ("**EIB**") printed the market's first €STR-linked FRN with a EUR 1bn 3-year bond. The transaction was announced on 19 September, ahead of the first €STR publication date (2 October for 1 October fixings) in order to give investors sufficient time to prepare. On 19 September 2019, L-Bank issued a two year FRN linked to €STR which was priced at €250m. Both transactions use the backward-looking compounded methodology with fallbacks linked to the European Central Bank rate.

6. ISDA update

On 18 September 2019, ISDA published a Consultation on Final Parameters for Benchmark Fallback Adjustments, seeking input on the final parameters for the adjustments that will apply to RFRs if derivatives fallbacks are triggered. The consultation **closes on 23 October 2019.** It is hoped that feedback received in respect of the consultation will yield consensus and ISDA will be able to publish its final methodology and Bloomberg can begin working to build those.

7. LSTA update

On 17 October 2019, the LSTA published a Compounded SOFR in Arrears Concept Document. The LSTA will discuss this document in detail at its annual conference in New York which takes place on 30 October 2019, where both the LSTA and LMA will provide updates on their work with respect to RFR-based documentation.

With respect to fallbacks, it was noted that new issuances of loans continue to use the amendment approach as opposed to the hard-wired approach, however the LSTA will continue to explore the key outstanding issues to help the market move towards the hard-wired approach for loans.

As part of the US Alternative Reference Rates Committee ("**ARRC**") and its role in the ARRC Business Loans Working Group, the LSTA continues to work on developing a set of conventions for SOFR-referencing loans, and especially the outstanding issues with respect to compounded in arrears. As part of this workstream, 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.

From the operations perspective, the work on conventions will inform the way forward in terms of the LSTA's work on the operations side. The LSTA had recently discovered that there are a number of key issues when seeking to operationalise SOFR compounded in arrears in the context of syndicated lending, particularly because market participants currently know the interest rate in advance and the existing infrastructure is built on that basis. There are a lot more nuances to consider and a number of issues become extraordinarily complex when looking at operationalising compounded in arrears, especially in the context of trading. The LSTA will continue to liaise with other trade associations and currency working groups to solve for this issue.

The LSTA continues to proactively engage in facilitating education to the market. This is particularly important given the breath of misinformation in the market. The LSTA continues to cover LIBOR in as many internal and external events as possible.

8. TACT update

On 10 October 2019, TACT held an annual dinner for its members which was well attended. LIBOR continues to be a general discussion item on the agenda for TACT and its members.

9. UK Finance update

UK Finance is working on producing a guide which is intended to provide high level guidance for business customers. This is aimed to enhance knowledge with respect to the transition amongst small and medium-sized enterprises.

10. AOB

It was highlighted that there was a seminar at Norton Rose Fulbright in London where Richard Fox of the FCA noted that the Working Group on Sterling Risk-Free Reference Rates is expecting to send a number of letters to various national and international authorities regarding the outstanding regulatory barriers to transition away from LIBOR (the following letters were subsequently published on 23 October 2019: (i) letter to Basel Committee on Banking Supervision; (ii) letter to European Commission; (iii) letter to Prudential Regulation Authority; and (iv) letter to the FCA).