Minutes of LIBOR Trade Association Working Party Meeting
held on 17 December 2018

Present:

ACT
AFME
ICMA
ICMSA
ISDA
JSLA
LMA
LSTA

1. Introduction

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

2. LMA update

The LMA had continued its work on documentation, such as fallbacks for SONIA referencing deals and standard clauses for transitioning legacy deals, however, both work streams are detrimentally affected by the absence of term rates and adjustment spreads. It was noted that discussions were held on whether legacy deals can be amended on a wholesale basis, however, this is unlikely as it would raise substantial practical issues.

The LMA would consider drafting some standard amendment language based on LMA documentation standards to cover substantive issues and to minimise the agents' discretion (the prevailing preference of the European market), which would enable the market to refer to only one set of language when amending their deals.

The LMA would continue its lobbying work with regulators to emphasise that international cooperation should become more visible and transparent, since this is a key concern to the multicurrency loan market.

3. ACT update

The ACT had continued its work with outreach to treasurers. As part of its work on education to the market, the ACT held a webinar on LIBOR which was well attended, and which received positive feedback.

The ACT produced a Treasurer's Checklist which outlines issues for corporates to consider in regards to the transition away from LIBOR, however, so far the issues stemming from Brexit have overshadowed LIBOR. It was noted that hedge accounting is expected to constitute a major issue going forward and the International Accounting Standards Board had recently announced a new work stream focusing on the impact of transitioning away from LIBOR.

4. AFME update

On 14 December 2018, the first SONIA-based securitisation had been issued by Elland (£7.6 billion RMBS transaction issued on the same basis as the Lloyds covered bonds, i.e. a backward-looking SONIA, compounded in arrears with a 5 day lag), which was wholly retained by Lloyds. This depicts that backward-looking SONIA can work for securitisations, although the market is in early stages. AFME will work with investors to determine whether such a basis for securitisations would be accepted by the market.

AFME is current collating data to determine how much UK RMBS would remain outstanding – although this would assume no new LIBOR RMBS are issued by the end of. AFME is also working on refreshing its transition language, which was published in April 2018.

5. ICMA update

ICMA continues to be involved in official sector working groups in the UK, euro area and Switzerland. In the UK (where ICMA chairs the Sterling Risk-free Reference Group's Bond Market Sub-Group), work is continuing on market conventions for new bonds referencing SONIA compounded in arrear and also on the question of legacy bonds referencing LIBOR.

6. ICMSA update

ICMSA is concerned with the issues stemming from the absence of a term rate and adjustment spread, particularly from the perspective of the bond market.

ICMSA had published a bulletin 'Implications for English law Trustees on discontinuation of LIBOR/IBORs', which addresses issues of amendments and discretion. A similar bulletin is being developed which will look at the perspective of the fiscal agent.

There are few issuers that are actively amending their documentation as they prefer to wait for a set market standard to prevent possibly needing to amend their documentation twice. A substantial number of deals continue to use LIBOR with tenors beyond 2021 and such transactions would need to be amended at a later stage.

7. ISDA update

ISDA is expecting to publish the results of its July consultation on spread adjustments for certain benchmarks (now available here) and work on the implementation of fallbacks would continue in early 2019. A supplemental consultation on fallbacks to US dollar LIBOR is expected to be launched in early 2019 and ISDA will liaise with the ARRC to ensure that all end-users can provide input.

In 2019, ISDA would work on selecting a vendor to publish the spread and term adjustments. Other important work in 2019 comprises documentary solutions in derivatives for market participants who are implementing fallbacks in their cash products to assist them to align their hedging with their cash products.

ISDA had recently published a protocol by which parties can multilaterally incorporate the terms of the Benchmark Supplement into their transactions, following the publication of ISDA's Benchmark Supplement in September 2018 as a response to the EU Benchmarks Regulation ("**BMR**"). There is no regulatory deadline by which parties must sign up to this as it is voluntary.

ISDA continues to work with several trade associations, such as AFME, on advocating for an extension to the BMR transitional period, including EONIA and EURIBOR and also for 'third country' benchmarks, the use of which could be prohibited in the EU after 2019.

8. JSLA update

There were no significant updates since the last meeting.

9. LSTA update

On 6 December 2018, the ARRC had released the results to its consultation on fallback contract language for floating rate notes and syndicated business loans. On the loans side, there was a lot of interest amongst respondents in pre-cessation triggers, which may not be aligned with the ISDA approach. In terms of fallbacks, while the responses were split at first sight between the amendment approach and the hardwired approach, upon close examination respondents seem to have indicated a preference for the hardwired approach once more information becomes available on term SOFR and a spread adjustment.

The forward-looking term SOFR remains favoured, however, results have also indicated that compounded SOFR in arrears may be possible as a second step. Further work needs to be undertaken to better understand the operational issues which have been flagged by respondents.

On 7 December 2018, the ARRC published consultations on fallback contract language for bilateral business loans and securitisations for public feedback, which close on 5 February 2019.

While the ARRC had published the responses to the syndicated term and floating rate notes consultations, no preliminary nor final recommendations have yet been made.