Minutes of LIBOR Trade Association Working Party Meeting

held on 29 March 2022

via teleconference

Present:

ICMA
ICMSA
ISDA
LMA
LMA
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. UK Finance update

UK Finance noted that UK Finance has been appointed Vice-Chair of the Working Group on Sterling Risk-Free Rates (**£RFRWG**). UK Finance continues to hear from members that there is minimal customer reaction even as some transition is ongoing as the 2022 contract reset dates are approaching.

UK Finance is eager to hear the FCA's approach on synthetic LIBOR wind-down or extension of certain tenors later into the year. UK Finance expressed eagerness about updates relating to the US dollar market, and welcomed the recent signing into federal law of the Adjustable Interest Rate (LIBOR) Act 2021 (the **LIBOR Act**).

3. LSTA update

The LSTA was not involved in process surrounding the LIBOR Act, highlighting that loans are excluded from its remit because they largely fall back to an alternative base rate. Nevertheless, the LSTA have engaged with the other trade associations which are also involved in LIBOR transition on this point.

The LSTA drew attention to a clause in the LIBOR Act providing that, in the context of origination rather than fallbacks, banks may use any benchmark replacement rate that they feel is appropriate for the needs of its customer, indicating that credit sensitive, non-SOFR benchmarks such as Ameribor or BSBY can be used.

The LSTA noted that origination of new loans continues to progress well and mainly on a Term SOFR basis. There remains a debate on credit adjustment spreads (**CAS**) to bridge the gap between LIBOR and SOFR. The initial round of transactions shows three main trends: many deals have adopted a CAS curve (10bps for 1-month SOFR, 15bps for 3-month SOFR, and 25bps for 6-month SOFR); some deals have embedded CAS in the margin; finally, a subset of deals have opted for flat CAS (typically 10bps for any tenor).

The LSTA noted that LIBOR is now higher than SOFR plus CAS and SOFR plus the ARRC hardwired CAS fallback (of 11bps, 26bps and 42bps for 1-month, 3-month and 6-month tenors respectively). This should encourage early opt-in on loans. While it was previously uneconomic for borrowers to opt in early to SOFR loans, now they may benefit and so this may help to kick start remediation work.

The LSTA has developed drafts of an initial suite of SOFR amendment forms to assist in remediating LIBOR loans and streamline amendments for fallbacks. It includes a Conforming Changes Cover Amendment, a Benchmark Replacement Cover Amendment, Operative Terms / Exhibit A provisions, and a Term SOFR Consensual Amendment.

4. TACT update

TACT noted that parties are busy on consent solicitations, or otherwise applying synthetic LIBOR in a minority of cases. TACT raised that a key issue for stakeholders was the future of synthetic LIBOR and many are waiting on the outcome of this issue. TACT also noted that further solicitations are expected in the US dollar space or in relation to multicurrency securitisations.

5. ICMA update

ICMA is convening a Bond Market Sub-Group meeting in April. ICMA is waiting on revised terms of reference and are looking into the composition of the group. ICMA is monitoring consent solicitations on Sterling LIBOR. With an eye to 1-month and 6-month synthetic LIBOR potentially being retired sooner than the 10-year period allowed, ICMA is also analysing 3-month settings with a view to informing authorities on the impact.

The transition of US dollar LIBOR bonds under English law is going to be a key priority of ICMA going forwards, although it is as of yet unclear what this will look like. ICMA is receiving more questions from members as to the conventions accompanying new risk-free rates and as to whether there is any consensus, in particular between SONIA and SOFR conventions.

Elsewhere, ICMA has discovered that its data sources are not as readily accessible as they previously had been. In light of this, it was briefly discussed how best to track data concerning consent solicitations and US dollar LIBOR deals under English law. It was agreed that generally providers of this data are constrained by contractual obligations, but at the same time data on the transition would be fundamental in driving progress and informing regulatory authorities on how to proceed (indeed absence of this data constrains it).

6. ICMSA update

The ICMSA focus has been on Sterling and Yen transition, which seems to have gone smoothly. Members have been busy with consent solicitations or otherwise applying synthetic LIBOR.

The ICMSA has not had a Working Group meeting since late January, when the FCA spoke at the ICMSA forum on transition with a focus on the comments made by Edwin Schooling Latter with respect to dealer polls in his late December speech.

The ICMSA has not been made aware by members of any major problems and is waiting for issuers and arrangers to initiate transitions on the other bonds. Unless and until a settled view between the US and Europe on conventions for US dollar, and particularly whether term or compounded is to be used, there is unlikely to be much activity from ICMSA on this front.

However, following this meeting the ICMSA may consider re-convening its working party to ask questions in relation to US dollar LIBOR deals under English law, given the current demand for further data on this front from the rest of the wider market.

7. ISDA update

ISDA has had similarly few comments or concerns of substance from its members and continues to work with other trade associations around hedging for US dollar LIBOR.

8. LMA update

The LMA is seeking feedback on whether US dollar deals in EMEA are primarily using Term SOFR or a compounded rate. Although the LMA has not currently had a substantial amount of feedback yet on this subject, there appears to be a mixture. The LMA will seek further feedback from its members at its LIBOR Working Party meeting on 5 April 2022.

In terms of the regulatory overlay with use of Term SOFR in EMEA, the LMA noted that the FCA have concluded that market participants may use it, although the LMA suggested that the key determinant for the loan market will be the ARRC use case (which is fairly broad). On the basis of the ARRC recommendation, regulators are generally accepting of it, although they are perhaps likely to maintain that compounded is more robust. The LMA will continue to track the overriding trend, though a clear trend has not yet emerged.

In relation to US dollar fallbacks, additional feedback would be needed before the LMA produces more detailed Term SOFR language. In the LMA's early opinion, different fallbacks may be required for different segments of the market. That said, there has been limited feedback from members as of yet and the LMA continues to reach out to members for further information.

The LMA noted that there does not appear to be much tough legacy in the Yen or Sterling loan space, with the exceptions of PFI loans and some structured deals. That said, the LMA will continue to monitor the market for other areas of difficulty (and will raise this for discussion at the LIBOR Working Party in April).

The US dollar transition, which covers a wider geographic scope and has a much greater nominal backlog of legacy contracts for transition, is likely to be a much greater challenge to achieve by June 2023. The LMA will take as a priority understanding the scale of the problem and flagging this to those involved through education efforts.

The LMA also intends to canvas views from members of the LIBOR Working Party around the €STR-based fallbacks to EURIBOR and why the related recommendations are not being followed.

9. AOB

The LMA thanked members of the Working Party for their updates. The date of the next meeting is to be set for June 2022 and minutes would be circulated.