

Minutes of LIBOR Trade Association Working Party Meeting
held on 5 June 2019

Present:

ACT
AFME
APLMA
ICMA
ICMSA
ISDA
JBA
JSLA
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. ACT update

The ACT is continuing its work on outreach and education. On 21 and 22 May 2019, the ACT held its [annual conference](#) where two sessions focused on LIBOR transition. The conference was attended by approximately 600 people.

3. AFME update

On the morning of 5 June 2019, the Bank of England, the Financial Conduct Authority ("**FCA**") and the Working Group on Sterling Risk-Free Reference Rates ("**Sterling RFR Working Group**") held a conference entitled '[Last Orders: Calling Time on LIBOR](#)' in London to discuss the transition from LIBOR to alternative risk-free reference rates ("**RFRs**"). The conference had sessions involving stakeholders who use LIBOR discussing the progress that had been made by the sterling market in adopting RFRs, an assessment of the remaining challenges in adopting SONIA, setting out the agenda for the Sterling RFR Working Group, and sharing thematic feedback from the Dear CEO exercise.

Between 11 to 13 June 2019, AFME will hold its [Annual Global ABS](#) in Barcelona which is expected to be attended by 3,600 people. During the conference, three different panels will focus on IBORs. Representatives from the European Central Bank and the FCA will speak on these panels.

A number of public SONIA-linked securitisations have now been placed with investors. It was noted that market activity has increased substantially, which shows that the securitisations market has adapted quickly to using SONIA (using conventions that have become established in the floating rate note ("**FRN**") market).

4. APLMA update

The APLMA has held a number of educational events. On 29 May 2019, the APLMA held its [annual conference](#) in Singapore which was attended by approximately 500 people.

The direction of travel in respect of the Hong Kong dollar is now more defined following the April 2019 identification of reformed Hong Kong Dollar Overnight Index Average ("**HONIA**") as the alternative rate to HIBOR, as well as the Hong Kong Treasury Markets Association's desire for a multi-rate approach. On the other hand, the uncertainty with respect to deals which reference US dollar LIBOR (which is the most frequently used rate in the Asia Pacific region), continues to be problematic. It was noted that progress made in the derivatives and bond markets is well ahead of the progress made in the loan market, where LIBOR continues to be referenced in new deals.

5. ICMA update

ICMA continues to monitor new issuances in the SONIA bond market, where the uptake is on an upwards trajectory.

ICMA is waiting for the publication of the results by the Sterling RFR Working Group of the discussion paper on conventions for referencing SONIA in new contracts, which closed on 30 April 2019. ICMA would use the results to inform its ongoing workstreams.

ICMA continues to work on exploring market-led solutions for transitioning legacy bonds referencing LIBOR to RFRs, including working on refining its proposed industry code to account for a number of outstanding issues, such as those related to systems and ensuring there is adequate market infrastructure for handling large volumes of consent solicitations should this methodology be taken forward. On 20 May 2019, Associated British Ports ("**ABP**") launched a consent solicitation to move its legacy LIBOR-linked FRN maturing in 2022 to SONIA. It was noted that it will be interesting to see the market response (the result of the process was subsequently published [here](#)).

ICMA continues to be engaged with all relevant market consultations and contributed significantly to a recent regulatory checklist produced by the Sterling regulatory taskforce to assess the type of regulatory interventions / forbearance which may be required for the adoption of RFRs in new deals as well as transitioning legacy deals.

On 15 May 2019, ICMA held its AGM conference in Stockholm where there was a panel on LIBOR. The panel comprised representation from the US Federal Reserve, the European Central Bank, the FCA and the National Working Group on Swiss Franc Reference Rates. ICMA also regularly updates its [website](#) with developments across relevant jurisdictions.

6. ICMSA update

Given the vast amount of CLOs which continue to reference LIBOR, it is difficult to imagine how legacy deals could be transitioned to RFRs without the existence of forward-looking term rates. The lack of RFR-based term rates continues to be the biggest concern for ICMSA.

It was noted that there have been indications of various tax repercussions that would arise in the US context when amending deals or putting fallbacks to RFRs in those deals.

On 15 July 2019, the Financial Stability Board ("**FSB**") will hold its roundtable in New York covering international regulatory and tax issues.

In the Euro area whilst the methodology for EONIA is being reformed to realign it with ESTER plus a spread, EURIBOR will continue to maintain utilisation for cash products, in particular Euro denominated CLOs, where much further development will be needed in terms of transition to an appropriate replacement protocol.

7. ISDA update

On 16 May 2019, ISDA launched two consultations: (i) the consultation on spread and term adjustments for fallbacks in derivatives referencing US dollar LIBOR, CDOR and HIBOR and certain aspects of fallbacks for derivatives referencing SOR; and (ii) the consultation on pre-cessation issues for LIBOR and certain other IBORs.

In terms of the first consultation, feedback is sought on a proposed fallback for Singapore's SOR following a permanent cessation of US dollar LIBOR, given US dollar LIBOR is currently used as an input to calculate SOR. This consultation follows a previous consultation launched in July 2018 (the "**July 2018 consultation**") that covered sterling LIBOR, Swiss franc LIBOR, yen LIBOR, yen TIBOR, euroyen TIBOR and the Australian Bank Bill Swap Rate ("**BBSW**"). The consultation paper references the feedback report which was published by ISDA in December 2018 and asks market participants to confirm that feedback for the benchmarks covered by this supplemental consultation. The consultation alternatively offers market participants the opportunity to provide feedback on the other individual options for adjustments that were outlined in the July 2018 consultation paper. All market participants are encouraged to respond to the consultation even if they did not provide feedback to the July 2018 consultation. Market participants should also confirm if their original responses remain the same with respect to this consultation by submitting a short letter to ISDA. ISDA will not imply that this is the case without a clear indication from respondents. ISDA will consult on adjustments for €STR as a fallback to EURIBOR and EUR LIBOR at a later date following the anticipated publication of €STR as of 2 October 2019.

The second consultation relates to pre-cessation issues and seeks feedback on how derivatives contracts should address a regulatory announcement that LIBOR or certain other IBORs categorised as critical benchmarks under the EU Benchmarks Regulation are no longer capable of being representative of an underlying market. Anything implemented as a result of this consultation would be in addition to the fallbacks ISDA expects to implement to address a permanent cessation of a key IBOR. ISDA encourages market participants to provide responses to as many questions as possible, however there is no requirement to answer all of the questions.

ISDA has also published a [webinar](#) explaining the two consultations.

Both consultations close on **12 July 2019**.

ISDA continues to work on selecting a vendor who will publish the fallback rate.

ISDA continues to participate on all RFR Working Groups and continues to engage with the market to provide education and raise awareness with respect to the transition. ISDA is also holding a number of relevant international events. For example, on 10 June 2019 ISDA will hold a conference in Washington D.C. where the chair of the US Alternative Reference Rates Committee ("**ARRC**") will deliver a speech.

It was noted that the Working Group on Euro Risk-Free Rates (the "**Euro RFR Working Group**") has published a public consultation on an EONIA legal action plan which sets out various recommendations on which feedback is sought. The consultation closes on **12 June 2019 at 17:00 CET**.

8. JBA update

On 5 June 2019, the Bank of Japan held a meeting of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks. The Committee provided an update on international discussions on financial benchmarks, discussed the public consultation paper on the appropriate selection and use of Japanese Yen interest rate benchmarks, and the [Committee's future administration policy](#). The future policy also addresses policies on establishing a [framework for producing a term rate](#). The consultation paper is scheduled to be published by the end of June 2019.

The JBA will cooperate with its members and their clients to increase awareness and provide education to market participants with respect to the transition.

9. JSLA update

There were no other additional updates from the JSLA. The JSLA continues to engage with its members to raise awareness.

10. LMA update

The LMA continues to work on producing LMA documentation for the transition.

The Bank of England has published three presentations delivered by three potential administrators of a Term SONIA Reference Rate ("TSRR") at the last meeting of the Sterling RFR Working Group on 14 May 2019: [IBA](#), [Refinitiv](#) and [FTSE Russell](#). The development of a TSRR by each provider is dependent on transactions being executed on central limit order books, which will entail a change in the market.

On 14 May 2019, the Financial Stability Board published a [user's guide to overnight RFRs](#) which provides an overview of RFRs, details of how they are calculated, and options on how overnight RFRs can be used in cash products.

In terms of education, the LMA continues to cover LIBOR at all of its relevant events, including an upcoming LMA Loan Operations Conference which takes place on 6 May 2019 where KM and Brian Fraser (Senior Manager, Markets Lending Delivery - Lloyds Banking Group) will deliver a session focusing on the practical impacts of the transition on operations teams. This session will be recorded and subsequently made available on demand on the LMA LIBOR microsite.

11. LSTA update

On 25 April 2019, the ARRC published its recommended contractual fallback language for US dollar LIBOR denominated [floating rate notes](#) and [syndicated loans](#). On 25 May 2019, the ARRC published its recommended contractual fallback language for US dollar LIBOR denominated [bilateral business loans](#) and [securitisations](#). Whilst it is difficult to ascertain the uptake of these given the recent release of these publications, Covenant Review, a US based loan market service provider, has reported that at least one closed syndicated loan deal has used the amendment approach as recommended by the ARRC.

On 22 April 2019, the ARRC published a white paper entitled '[User's Guide to SOFR](#)' to help explain, in simple terms, how market participants can use the ARRC's recommended alternative to US dollar LIBOR (SOFR). The ARRC also started to publish an indicative Term SOFR and compounded SOFR data.

The LSTA has been providing education with respect to the ARRC's recommended fallback language, including through participating in the [ARRC roundtable](#) on 3 June 2019. The LSTA has also participated in a number of educational events with borrowers.

12. TACT update

On 22 May 2019, the TACT held its [annual conference](#) where LIBOR formed part of one of the panels. TACT members had expressed a number of concerns. For example, there is a lot of uncertainty from external parties in the market with respect to the role of the trustee in transactions. Another issue relates to the burden of cost with respect to paying for amending documentation, as well as who should lead this process (e.g. it would seem odd for the issuer to lead the process when it is an SPV).

It was noted that it continues to be appropriate for trustees to adopt a 'wait and see' approach ahead of the on-going regulatory discussions as trustees will be better placed to act once there is more certainty.

13. UK Finance update

UK Finance continues to survey its members in respect of their commercial loan LIBOR exposures and will continue to do so for the next few weeks.

14. AOB

The date of the next meeting is to be set for July 2019.