Minutes of LIBOR Trade Association Working Party Meeting
held on 19 September 2019

Present:

AFME
GFMA
ICMA
ICMSA
ISDA
LMA
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, as well as to discuss gaps in respect of trade association coverage of all LIBOR-referencing products.

2. LMA update

On 4 September 2019, the first Joint Call on Loan Working Groups was held between the different LIBOR currency loan working groups and central banks. The call was organised in order to facilitate international coordination on loans, and it was hoped that the Joint Loans Calls would take place on an on-going basis.

The last meeting of the Sterling Loans Sub-Group took place on 16 September 2019. The LMA is working on producing the consultation on credit adjustment spread methodologies for fallbacks in cash products referencing GBP LIBOR.

The LMA is due to publish draft LMA documentation based on SONIA and SOFR compounded in arrears, which will be published alongside extensive commentary intended to guide market participants through both documents (these were subsequently published on 23 September 2019).

On 24 September 2019, the LMA is holding its annual Syndicated Loans Conference in London, where there will be a panel entitled '*Beyond LIBOR – can we find solutions in time?*', which will consider the issues stemming from the transition from a number of perspectives, including those related to: the risk-free rate ("**RFR**") options available to the loan market, operational challenges in the new RFR world, the borrower and developing market view on the transition, and how to document loans in the new world and solve for the transition of the legacy book. The conference is expected to be attended by over 1,000 people in person and over another 1,000 people watching live online.

3. LSTA update

The LSTA is continuing to work on developing a draft facility agreement based on SOFR compounded in arrears (this was subsequently published on 17 October 2019) and is continuing to work on reaching out to vendors and operationalising SOFR in the loans space. The LSTA is also continuing to proactively engage in educational outreach.

4. GFMA update

The GFMA had been working on and regularly circulating its monthly newsletter to help its members keep abreast of the developments with respect to the transition across the relevant jurisdictions.
The GFMA is working on updating the following materials, which were originally published on 8 April 2019: '*Key Timelines and Milestones for the U.S. dollar, Japanese yen, Euro, UK pound*

sterling, and Swiss franc'; a '*Snapshot of the IBOR and RFR variables associated with each currency*'; and an '*'At a Glance' Tracker of each official sector working group's activities and near-term expected actions*'. (These documents were subsequently published, having been expanded to cover the following rates: Australian dollar, Canadian dollar, Hong Kong dollar and Singapore dollar in addition to currencies included in the initial documents (i.e. Japanese yen, euro, sterling, U.S. dollar and Swiss franc).)

5. AFME update

Between 2 to 4 October 2019, AFME is holding its 3rd Annual Compliance and Legal Conference, where there will be a panel entitled '*Regulation in-focus: Navigating the paths to risk-free rates: plans, progress, achievements and challenges*'. The panel will comprise 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.

Most AFME members decided to provide individual responses with respect to the Bank of England's discussion paper on risk management approach to collateral referencing LIBOR for use in the Sterling Monetary Framework, and that as a result, AFME would not submit a response on behalf of its members.

It was noted that in the securitisations market, a number of consent solicitations have begun with respect to covered bonds and securitisations. Lloyds Bank announced two consent solicitations for existing bonds where it is looking to replace LIBOR-referencing coupons with coupons that reference SONIA (one of which is a £1 billion covered bond and is a standard consent solicitation, the other is for a £300 million ABS and is a negative consent amendment). Meanwhile Santander issued a notice of intention to explore transitioning certain sterling LIBOR linked notes issued by Holmes Master to SONIA.

AFME continues to be engaged in the Sterling Bond Sub-Group, as well as the UK Regulatory Dependencies Taskforce.

6. ICMA update

The next meeting of the Sterling Bond Sub-Group is due to take place on 23 September 2019.

ICMA continues to work closely with the US Alternative Reference Rates Committee ("**ARRC**") to determine the extent of any alignment between the conventions used in transactions in the SOFR market with the SONIA market.

ICMA is currently reviewing the draft consultation on spread adjustments for cash products.

It was noted that there had been a substantial increase in activity in consent solicitations, including by Lloyds Bank and Santander. The Sterling Bond Sub-Group is considering how to encourage market participants to actively transition their portfolios by way of further consent solicitations.

ICMA continues to be involved in the UK Regulatory Dependencies Taskforce.

With respect to educational outreach, on 16 September 2019, ICMA held a call for its members which was attended by over 600 people. In the following week, ICMA is also hosting calls which will be focused on the Asia Pacific region, whilst intending to continue to hold relevant industry panels on the transition.

7. ICMSA update

The new ICMSA working group on IBORs brings together all the various ICMSA sub-groups and comprises of representation from a broad range of constituents, including lawyers, tax advisers, agents, cash managers, analytics teams and trustees.

ICMSA had a meeting with the FCA to discuss that in most cases trustees will not be able to amend documentation without bond holders' consent. During the meeting, ICMSA outlined the challenges for agents, including practical issues. One member of the Working Party queried whether these discussions focused on legacy transactions or also new contracts. It was noted that the meeting mostly focused on legacy transactions. With respect to new transactions, most institutions are now generally adding fallback language into documentation, however it is problematic that some market participants may include insufficient fallbacks and lack the financial resources to ensure that new systems for such fallbacks can be embedded in their respective institutions.

It was noted that on 17 September 2019, SOFR experienced a surge of 282 basis points compared to the previous day, reaching 5.25%. Such volatility can have a profound impact on agents in terms of calculations of interest due. Such spike might also impact the discussions surrounding lookback- vs. lock out periods.

On 19 September 2019, the ARRC published a Practical Implementation Checklist for SOFR Adoption to facilitate market participants in transitioning to SOFR. It provides 57 discrete steps, grouped under 10 areas (e.g. transition program, risk management, tax) that firms can take to help prepare for the transition away from LIBOR.

8. ISDA update

On 18 September 2019, ISDA published a report that summarises the final results of the supplemental consultation which focused on USD LIBOR, CDOR and HIBOR as well as certain aspects of fallbacks for derivatives referencing SOR. The report confirms the preliminary findings that the overwhelming majority of respondents preferred the 'compounded setting in arrears rate' to address the differences in tenors and the 'historic mean/median approach' to address the differences in risk premia.

ISDA also 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.** All market participants are encouraged to provide responses to as many questions as possible, however, there is no requirement to answer all of the questions.

ISDA is due to hold a call to go through the consultation and answer questions submitted in advance of the call (the call subsequently took place on Thursday 3 October 2019 and a recording of the call was made available on the ISDA website).

The timing with respect to fallbacks for EURIBOR is uncertain, given the fallback for EURIBOR and EURO LIBOR will be to €STR, which is due to be published as of 2 October 2019. Following the publication of €STR, ISDA will be required to conduct a supplemental consultation with respect to an adjustment to €STR as a fallback, however the anticipated timing is currently uncertain.

It was noted that Bloomberg will publish the spreads and more information will be released in the following weeks.

ISDA is currently holding a number of its 2019 regional conferences where there will be panels focused on RFRs, including at ISDA's Annual Europe Conference in London which took place on 19 September, the Annual North America Conference in New York on 26 September (where ISDA's CEO – Scott O'Malia, is due to conduct an interview with the Senior Associate Director, Board of Governors of the Federal Reserve System - David Bowman), Annual Australia Conference on 23 October, and Annual Japan Conference on 25 October. Additionally, ISDA is holding two half-day benchmark symposiums on 8 October in London, and 23 October in New York.

On 9 September 2019, the US Commodity Futures Trading Commission's Market Risk Advisory Committee approved the *'"Plain English" Disclosures for New Derivatives Referencing LIBOR and other IBORs'*, which provides a clear explanation that LIBOR is due to be discontinued and outlines the fallbacks to new rates.

9. TACT update

It was noted that it continues to be appropriate for trustees to adopt a 'wait and see' approach. TACT had been looking into consent solicitations in the market and considering the reasons why parties may wish to proceed on that basis. TACT is due to have a meeting with trustees to determine whether there had been any investor pushback on doing consent solicitations.

On 10 October 2019, TACT is due to hold a dinner for its members and is hoping to provide feedback at the next meeting of the Working Party.

10. UK Finance update

With respect to mortgages, UK Finance had been working with associate members on building a contract toolkit to help mortgage lenders to navigate through the applicable legal framework. This is intended to help lenders in a number of ways, including by ensuring they are up-to-date with respect to conduct risk and regulatory issues, and is available for use by UK Finance members only.

UK Finance continues to be involved in the UK Term Rate Use Case Task Force and the UK Regulatory Dependencies Taskforce.

UK Finance is working with social housing providers to identify any potential LIBOR mortgage exposures. With respect to commercial loans, UK Finance is working with a number of parties across the market to ascertain the outstanding areas where LIBOR might be referenced, but which had not yet been flagged or covered by any trade association.

11. Discussion about the gaps in trade association coverage

It was noted that UK Finance is working on a gap analysis to ascertain the products which may be impacted by/linked to LIBOR. The objective is to identify which trade association/industry stakeholder is leading on each product, and any areas that do not seem to have a lead. It was highlighted that this was an issue particularly important to UK Finance, given the breadth of its membership and coverage remit across a wide selection of products. It was noted that commercial leasing, contracts referring to late payment clauses, and Islamic Finance did not seem to be covered by another trade association.

It was noted that the following trade associations were leading on certain products: LMA (syndicated loans); ISDA (derivatives); ICMA (bonds); AFME (securitisations); ACT (impact on corporate treasurers).