Minutes of LIBOR Trade Association Working Party Meeting
held on 27 April 2020

Present:

AFME
APLMA
GFMA
ICMA
ICMSA
ISDA
JSLA
LMA
LSTA

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. AFME update

AFME continues to engage with the Working Group on Sterling Risk-Free Reference Rates ("**Sterling RFR Working Group**") and its relevant sub-groups and taskforces, including the Sterling Tough Legacy Task Force, where work continues in respect of producing a paper on tough legacy which is intended to be published after receiving sign-off at the next meeting of the Sterling RFR Working Group in May 2020.

AFME continues to participate in the various working groups of the Working Group on Euro Risk-Free Rates ("**Euro RFR Working Group**") where, given the impact of the Covid-19 pandemic, consideration was recently given to whether (or not) the Euro RFR Working Group should recommend a postponement of the CCPs discounting switch date from EONIA to €STR from June to September 2020. There was ultimately no consensus at the Euro RFR Working Group level, however as a result of the feedback received, on 17 April 2020, the European Association of CCP Clearing Houses ("**EACH**") released a statement that it has agreed to suggest that the €STR discounting regime switch date be postponed to 27 July 2020, subject to the successful conclusion of relevant internal agreements on the part of interested members of EACH. The decision was made in order to grant to market participants some relief and allow them extra time to make the necessary arrangements given the impact that the Covid-19 pandemic on EACH Members' clients' workload.

3. APLMA update

In March 2020, the APLMA Documentation Committee decided that the APLMA will not be producing a SOFR-referencing template documentation for use by the syndicated loan market in Asia as this would be envisaged to essentially replicate the LMA's exposure draft of a compounded SOFR based US dollar term and revolving facilities (which was published alongside the exposure draft of a compounded SONIA based sterling term and revolving facilities agreement) ("**Exposure Drafts**"). It was noted that some countries in Asia face difficulties in respect of some of the concepts in the Exposure Drafts (such as with respect to calculating interest on a compounded in arrears basis). This is especially the case in some countries with codified legal systems where knowing the amount of interest due in advance is critical in order to obtain regulatory approvals for paying money offshore. For example, this includes countries such as Indonesia, China and India. Consequently, the APLMA decided that it will produce APAC specific overlays to the Exposure Drafts.

It was queried when the LMA would publish its Exposure Drafts as recommended forms. It was noted that on 20 February 2020, the LMA published a note entitled ***'LMA Exposure Drafts of Compounded RFR Facilities Agreement – outstanding requirements for the production of LMA recommended forms'***. This note is intended to highlight to market participants the outstanding requirements that need to be satisfied before the Exposure Drafts can be published as LMA recommended form documentation. It also considers those areas where, although there are blank placeholders or optionality in the Exposure Drafts, market consensus is not necessarily needed in order for the LMA to publish the Exposure Drafts as LMA recommended forms.

'Tradition' (a well-established money broker in Hong Kong and one of the members of the Hong Kong Treasury Markets Association Working Group on Alternative Reference Rates) has launched 1, 2, 3 and 6-month HONIA rates. These rates, available daily, represent compounded daily HKD rates for the respective periods, calculated in arrears. The rates are based on the 'actual' day count of the calendar month, with daily compounded rates on Hong Kong Business Days per Refinitv publication and simple interest applying to weekends or a day that is not a business day. The month end-to-end convention is also applied per money market practice, e.g. so a one month period commencing on 28 February 2020 will end on 31 March 2020. Tradition has also published historical HONIA-HIBOR spreads on Refinitiv. This initiative might well prove to be a turning point for the HKD loan market in terms of the transition to RFR's. Lenders in the HKD syndicated loan market should take note.

As a result of a price-fixing scandal on equities in Australia, banks there are worried about coming together to discuss elements associated with the transition given concerns around competition law and have requested further guidance.

There have been discussions in the market with respect to how Covid-19 could impact on the already set-out transition timelines across the different currency jurisdictions. Consequently, in April 2020, some trade associations in the APAC region held a cross-industry call to discuss members' feedback. Whilst there has been a significant slow-down in respect of work on the transition as market participants continue to be occupied with more pressing issues, the end-2021 transition deadline stands.

4. GFMA update

GFMA had been engaged with its members to discuss the impact of Covid-19 on their business and their counterparties, especially as related to making progress in respect of the transition. Most members noted that it is too soon to state with certainty what the impact of Covid-19 will be, especially given the continued uncertainty.

GFMA's members had expressed concern that they have lost valuable time to work on the transition given focus of their counterparties on more pressing issues.

On 17 December 2019, the Financial Stability Board ("**FSB**") announced, as part of its 2020 work programme, that it would conduct a survey of exposures to LIBOR and supervisory measures being taken to address benchmark transition issues, in order to improve collective understanding of LIBOR transition progress so far and to increase awareness of the importance of ensuring a timely transition. It was noted that responses to the survey were due by the end of January 2020 and that the FSB is expecting to publish the results of the survey in due course. It was noted that these results will reflect market readiness as of that point in time, and does not take account of the recent market developments.

5. ICMA update

The next meeting of the Sterling Bond Sub-Group is scheduled to take place on 30 April 2020. Members of the sub-group had been actively engaged in discussions via teleconference meetings and work continues as normal.

Following the publication of results of the consultation on credit adjustment spreads for fallbacks in cash products referencing GBP LIBOR, ICMA, as chair of the Sterling Bond Sub-Group, has been working with the LMA, as chair of the Sterling Sub-Group on Benchmark Transition Issues in Loan Markets, on a proposed statement containing a recommendation following the results of the consultation. The purpose of the recommendation would be to satisfy the language in loan replacement of screen rate language and bond fallbacks which refer to a credit adjustment spread designated / nominated / recommended by a Relevant Nominating Body. The bond market is also asking for a recommendation of a successor rate for bonds. In addition to the statement, ICMA and the LMA were asked to prepare a paper setting out the rationale and support for the statement, the effects of making/not making the statement, who should make the statement, and the relevant provisions and defined terms for bond and loan documentation. It was noted that the next meeting of the Sterling Bond Sub-Group will touch on both the paper and statement. Notwithstanding that it is not necessary to make a recommendation on a successor rate adjustment spread immediately, there is an impetus to progress as much as possible with the transition in the near term. Despite the current circumstances, the FCA has stated that the central assumption that firms cannot rely on LIBOR being published after the end of 2021 has not changed and should remain the target date for all firms to meet. Consequently, it is important to keep the momentum going to help market participants.

Work is continuing on market conventions. Following the announcement by the Bank of England of its proposal to develop a daily SONIA Compounded Index on 26 February 2020, the consultation period on the discussion paper has now closed and results are being awaited. The proposed SONIA Index could bring with it a slight change in the conventions used in the bond market given the SONIA Index would be compatible with any financial product that uses the “shift” approach. Consequently, this may influence an issuer’s decision whether to use the “shift” approach over the “lag” approach in the bond market. This is not to say however that any transactions which have been issued using the “lag” approach, of which there are many, will be affected. Indeed, the Sterling RFR Working Group released a statement on bond market conventions in March, in which it stressed that “it is important to maintain confidence and stability in [the lag] format, both as regards the transactions completed and any future development using the lag approach”. SONIA linked transactions which are already in issue and which use the “lag” approach can continue as they are: no changes would be required to align them with the “shift” approach, and it is considered that there is no substantive economic difference in terms of the coupon amounts for each approach. See ICMA's article entitled ***'RFR bond market conventions: shifts, lags and the SONIA index'*** for further details.

There was a discussion in the Sterling Bond Sub-Group around the decimal places used in the index. In the US, 8 decimal places are used, but it would be ideal if it used 10 decimal places like the proposed Bank of England Index. There are also discussions around the implication of negative interest rates.

There has been a high volume of newly issued SONIA-referencing bonds across 2020 (including in the duration of lockdown), however these were mainly short transactions with maturity before end-2021.

The next meeting of the Sterling Bond Sub-group will also address the question of swap resets.

The Sterling RFR Secretariat noted that work of the Sterling Cash Market Legacy Transition Task Force is currently on pause given the implications of Covid-19.

In respect to communications and education, a new LinkedIn page is being set up under the auspices of the Sterling Communications Sub-Group to help market participants stay abreast with latest news and developments. The LinkedIn page was subsequently launched on 29 April 2020. Members of the Working Party were encouraged to share content on LinkedIn to disseminate market knowledge.

6. ICMSA update

ICMSA continues to work on additional documents which had been outlined in the minutes of the 25 November 2019 meeting of this Working Party. Following the publication of a bulletin entitled ***"ICMSA Bulletin – The discontinuation of LIBOR/IBORS – different approaches for transition under English law trust deeds and New York law indentures"*** on 6 March 2020, ICMSA continues to work with its working parties on finalising its next bulletin focused around the timing of consent solicitations, which is expected to be published in early May 2020.

Following the announcement of the SONIA Index and its compatibility with the shift methodology, there has been an increase in the inclusion of the option to have shifts as the base methodology for calculation, whilst also retaining the lag methodology in programme updates. It is also more common to see provisions for the use the SOFR Index and bookmarks for when the SONIA Index starts to be published.

One further consent solicitation had been successfully completed by Barclays for covered bonds. In this instance, it was noted that a virtual bond holder meeting took place given it was provided for in the underlying documentation. ICMSA is also working on a bulletin on the topic of virtual bondholder meetings.

7. ISDA update

On 22 April 2020, Bloomberg published a rule book which sets out the final methodologies for the IBOR fallbacks that ISDA expects to implement for certain key IBORs via a Supplement to the 2006 ISDA Definitions and related Protocol. Bloomberg expects to publish weekly testing of data for the fallbacks on a currency-by-currency basis in the coming weeks, followed by a full indicative publication around the end of June 2020. The rule book is a result of the consultations ran by ISDA between 2018 and 2019, however it does not currently include pre-cessation fallbacks for LIBOR. It will however be updated to cover this concept as work on how to implement pre-cessation fallbacks for LIBOR evolves.

On 15 April 2020, ISDA published the preliminary results of its consultation on how to implement pre-cessation fallbacks for derivatives referenced to LIBOR. The initial results indicate a significant majority of respondents are in favour of including both pre-cessation and permanent cessation fallbacks as standard language in the amended 2006 ISDA Definitions for LIBOR and in a single protocol for including the updated definitions in legacy trades. ISDA currently expects to move forward on the basis that pre-cessation fallbacks based on a 'non-representativeness' determination and permanent cessation fallbacks would apply to all new and legacy derivatives referencing LIBOR that incorporate the amended 2006 ISDA Definitions. The updated definitions for other covered IBORs will continue to include permanent cessation fallbacks only. The documents are nearly final and are expected to be published in July 2020. One outstanding open issue relates to confirming that all relevant competition law authorities are satisfied with ISDA's direction of travel. Additionally, Bloomberg, Linklaters and ISDA are jointly working on producing a white paper which will explain how fallbacks will work in concise terms, using plain English. ISDA is also expecting to work on producing a webinar with Bloomberg in the near term.

Given the current environment, ISDA is working to hold a number of online webinars to replace its conferences. On 12 May 2020, ISDA is holding a virtual conference which will provide an update on benchmark reform efforts globally. This conference will cover market, economic, operational and legal issues related to these topics, and specifically will have sessions which address the transition to RFRs, implementation of fallbacks in derivatives, and transitioning non-linear interest rate derivatives.

ISDA recently published the Bilateral Template EONIA Amendment Agreement which enables parties to amend one or more existing confirmations, existing credit support documents or existing master agreements to update references to EONIA in light of the anticipated permanent cessation of EONIA on 3 January 2022.

8. JSLA update

JSLA is in the process of considering publishing sample fallback language for use in syndicated loans and has issued a memorandum of understanding for comment by its members by early May 2020. It is likely that such language would be consistent with the fallback language used in the bilateral space.

The last meeting of the Cross-Industry Committee on Japanese Yen Interest Rate benchmarks took place on 31 March 2020. During the meeting, it was agreed that the Sub-Group on Loans would deliberate on spread adjustment methodologies for fallbacks in loans referencing JPY LIBOR and that the Sub-Group for the Development of Term Reference Rates would further develop market practices in order to enhance the liquidity of the JPY OIS transactions.

On 17 March 2020 the Cross Industry Committee on JPY Interest Rate Benchmarks announced that Quick Corp. has been selected for calculating and publishing prototype rates for JPY term reference rates. Certain Committee documents, including a tentative plan for timing of publication of term reference rates, have also been made available, which show the publication of JPY term reference rates is anticipated for around mid-2021.

9. LMA update

The LMA continues to work on helping to develop a set of conventions for compounding in arrears for the syndicated loan market, including through calls between the various national risk-free rate ("**RFR**") loan sub-groups and central banks. As part of the work on conventions, the LMA undertook to establish a survey on some of the outstanding convention issues for compounded SONIA relevant to the syndicated loan market, which intends to seek to identify what is deemed to be important in this context for sterling syndicated facilities and the sterling leg of multicurrency facilities. It is anticipated that the feedback received may be helpful in future cross-currency calls between the various RFR loan groups and collectively help to inform build requirement discussions with loan system vendors. It was noted that other currency groups may decide to run similar surveys in their respective currency jurisdictions.

Whilst progress on LIBOR transition continues to be made, there is a wide acknowledgment that the challenges presented by the current operating environment had slowed down the engagement of the borrower community with respect to the transition. By way of mere pragmatism, many borrowers continue to sign various emergency liquidity facilities referenced to LIBOR given the lack of time to seek to agree on RFR-referencing deals, given the ongoing discussions with respect to conventions. On the bank side, there is still however a big push to make progress.

10. LSTA update

On 8 April 2020, the US Alternative Reference Rates Committee ("**ARRC**") announced its recommended spread adjustment methodology for fallbacks in cash products referencing USD LIBOR. The ARRC is recommending a spread adjustment methodology based on a historical median over a five-year lookback period calculating the difference between USD LIBOR and SOFR. For consumer products, the ARRC is additionally recommending a 1-year transition period to this five-year median spread adjustment methodology. The five-year median spread adjustment methodology matches the methodology recommended by ISDA for derivatives and would make the ARRC's recommended spread-adjusted version of SOFR comparable to USD LIBOR and consistent with ISDA's fallbacks for derivatives markets. The ARRC has committed to making sure its recommended spread adjustments and the resulting spread-adjusted rates are published and will work with potential vendors to make sure that these spreads and spread-adjusted rates are made publicly available. A more detailed recommendation will follow in the following weeks.

On 17 April 2020, the ARRC announced a set of key objectives for 2020, which aim to build on the ARRC's existing work and progress towards achieving market readiness and supporting the voluntary adoption of SOFR. Key objectives of interest for the loan market include:

- By 30 June 2020, publish revisions to the ARRC's hardwired fallback language (including a more permissive early opt-in trigger), recommended conventions, and supporting materials for business loans.
- By 31 July 2020, establish final recommended conventions for SOFR-based floating rate notes, business loans, and securitisations.
- By 30 September 2020, establish an RFP process and criteria for recommendations in order to select an administrator of an ARRC-recommended forward-looking term SOFR rate to be published in the first half of 2021 if liquidity in SOFR derivatives markets has developed sufficiently, and also establish recommended scopes of use for such a term rate.

- By 30 September 2020, establish an RFP process for selection of an administrator to publish the ARRC's recommended spread adjustments and spread-adjusted rates and finalise technical details related to the recommended spread adjustments.

The LSTA continues to work with the operations side, business side and vendors to make recommendations on SOFR-related operational issues for loans. The LSTA recently attended the cross-currency call on loans and continues to work closely with the LMA on conventions-related issues where progress continues to be made.

The LSTA is also working on updating the fallback language for the hardwired approach for loans to take account of developments since these were last published and given increased focus in the market towards moving to hardwired fallbacks.

On the documentation side, given the current market disruption the LSTA had extended deadline for comments by its members in respect of the 'Compounded SOFR in Arrears Concept Document' and a 'Daily Simple SOFR Concept Document'. The final forms of these documents will be updated to include the ARRC's recommendations on conventions.