Minutes of LIBOR Trade Association Working Party Meeting

held on 30 September 2020

Present:

ACT
GFMA
ICMA
ICMSA
ISDA
JSLA
LMA
LSTA
SIFMA
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. AFME update

AFME is getting members organised for a plan to help trustees address issues holding up transition for LIBOR legacy deals. It was also noted that, following the European Central Bank's ("**ECB**") request to convene a group of securitisation experts to help Sub-Group 5 of the Euro RFR Working Group to look into fallbacks to EURIBOR, AFME has contributed to the securitisation section of the consultation.

AFME also hosted two LIBOR transition panels at: (i) the Global ABS Virtual Conference hosted by AFME and IMN on 15-17 September 2020; and (ii) IMN's Virtual Investors' Conference on LIBOR on 29 September 2020.

Regarding market developments, AFME has seen the first consent solicitation for LIBOR-linked pass-through residential mortgage-backed securities ("**RMBS**") underway in the Friary RMBS deal. It was particularly noted that the LIBOR-linked pass-through RMBS structure was used in contrast to a master trust RMBS structure.

3. ACT update

The ACT continues to focus on raising awareness and encouraging corporates to engage internally and externally on transition away from LIBOR to alternative risk-free reference rates ("**RFRs**").

The ACT will host its annual conference on 5-8 October 2020, which will take place virtually. It is also hosting a number of other webinars over the coming months. These events will aim to raise awareness amongst corporates regarding LIBOR transition and will provide relevant tools to facilitate conversation on LIBOR transition.

4. GFMA Update

GFMA continues to regularly circulate its monthly newsletter focused on regional and global updates to help its members keep abreast of the developments with respect to the transition. GFMA circulated its latest monthly newsletter on 30 September.

5. ICMA update

ICMA, in conjunction with the sterling bond market sub-group, are looking at conventions in the bond market in light of the conventions announced for the loan market. Further work will be conducted on the use of the Bank of England's published Sonia Compounded Index and the observation shift methodology in the bond market.

In relation to credit adjustment spreads, ICMA is working with the LMA on the appointment of a provider to publish the recommended credit adjustment spread for fallbacks in cash products referencing GBP LIBOR following the publication by the Working Group on Sterling Risk-Free Reference Rates ("**Sterling RFR Working Group**") recommendation. Further work may take place in the Sterling RFR Working Group on identifying credit adjustment spread methodologies for active LIBOR transition.

In relation to legacy bonds, the ICMA is looking at options to tackle the "irreducible core". On tough legacy, the ICMA is analysing the proposed legislative solutions for transitioning tough legacy LIBOR contracts and has identified issues in respect of the UK tough legacy proposals announced by HM Treasury on 23 June 2020.

In respect of education, ICMA will host its upcoming flagship 'Primary Market Forum' conference on 13 October which will provide an overview of progress on LIBOR transition.

6. ICMSA update

On 29 September 2020, ICMSA participated in the IMN Virtual Investors' Conference on LIBOR. In particular, following the LIBOR session, ICMSA is involved in the project to help trustees address issues holding up transition for LIBOR legacy deals.

ICMSA continues to focus on the recommended 2-day lookback in the US, as this timeline may cause difficulties on multinational deals where issuers, agents and clearing systems may be based in different geographical locations.

ICMSA also continues the development of its bulletins on market updates.

7. ISDA update

On 21 September 2020, ISDA sent a letter to the Financial Stability Board's Official Sector Steering Group ("**FSB OSSG**") regarding launch timing of the IBOR Fallbacks Protocol and the IBOR Fallbacks Supplement. ISDA was waiting for the Business Review Letter from the US Department of Justice ("**DOJ**") as well as feedback from other national competition authorities. Following receipt of a positive DOJ Business Review Letter and after completing its discussions with other competition authorities, ISDA will set its launch date and provide 2 weeks' notice to the market upon doing so.

Once the Protocol and Supplement are launched, they will not be effective until three months following the launch date and are expected to be effective not before the second half of January 2021. However, parties can sign up to the Protocol in advance in escrow during the 2 weeks' notice period before the launch and, following this, via ISDA's website.

Regarding other workstreams, on 29 September 2020, ISDA posted a product table describing how the new fallbacks will operate in certain non-linear derivatives and participated in the IMN Virtual Investors' Conference on LIBOR.

ISDA also noted its observations regarding the European Commission's proposal for a regulation amending the Benchmarks Regulation ("**BMR proposal**") to give it a power to designate a replacement benchmark. It was noted that this proposal has undergone certain changes as a result of negotiations between the Commission and the Council. One aspect of the changes is that the power purports to override contractually agreed pre-determined cessation fallbacks in the event that the European national competent authorities decide that the pre-determined replacement rate no longer measures the same economic reality as the benchmark being replaced.

8. JSLA Update

On 30 September 2020, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmark's second public consultation on the appropriate choice and usage of Japanese yen interest rate benchmarks closed. Currently the Committee continues to work through the feedback received. The consultation suggested term rates and overnight compounded rates as suitable fallbacks for cash products referencing JPY LIBOR. There appears to be no initial opposition identified to this approach.

JSLA noted that the use of TIBOR as a fallback to JPY LIBOR in loans is under consideration given the inclusion of a credit spread within TIBOR.

JSLA is also exploring fallback language for loans, which is expected to be released in October if there is no significant disagreement.

9. LMA Update

The LMA has been engaging with the regulators in relation to the BMR Proposal. Key areas of concern from the LMA's perspective include the geographic and product scope of the BMR Proposal and also the designation of a single replacement rate, which would not be appropriate for the loan market as a one size fits all solution is not feasible. Whilst the LMA had some constructive discussions with the regulators, the outcome is still awaited.

On 11 September, the LMA published an Exposure draft multicurrency term and revolving facilities agreement incorporating rate switch provisions ("**Rate Switch Agreement**"). This is based on lookback without observation shift, in line with the Sterling RFR Working Group's published conventions for SONIA compounded in arrears. A version with observation shift will also be published as this has been recognised as a valid and robust alternative. It was noted comments were requested on the rate Switch Agreement by 25 September. Comments had been received and so the LMA was in the process of working through these.

The LMA is working on a significant amount of documentation in support of LIBOR transition, and this will continue through Q4 and into 2021.

The LMA's Virtual Annual Conference was highlighted, which had a LIBOR panel session including panellists from the FCA and ACT, along with several banks. Over 2,500 attendees logged onto the conference, and the panel sessions have also been published on demand for a limited period of time. In addition to the conference, the LMA also published its September Webinar Update on transition from LIBOR in the loan market.

10. LSTA Update

LSTA highlighted the ARRC's best practice recommendations stating that syndicated loans should begin using hardwired fallback language from no later than 30 September 2020. To date , the LSTA understands that 6 or 7 deals have been closed using hardwired fallback language. This may take some time to become precedent, but market participants have been keen to see the recommended language adopted. The LSTA is pleased to see the adoption of the ARRC language.

On the LSTA side, the LSTA has published its 'Daily Simple SOFR Concept Document', and its 'Compounded SOFR in Arrears Concept Document' (based on a compounding the balance methodology). It was noted that the LSTA is also finalising its forms of concept document for compounded SOFR in arrears using a compounding the rate approach, as well as an amendment document to cater for a number of scenarios, including where the underlying loan includes no fallback provisions at all and forms of notice for conforming changes to be used with the ARRC hardwired approach fallback language.

From a secondary trading perspective, the LSTA's Trade Practices and Forms Committee is reviewing proposed drafting changes for trade confirmations, with a view to updating LIBOR-based cost of carry to simple RFRs.

Regarding communication and outreach, the LSTA continues to focus on remediation and buy-side members in terms of assisting buy-side firms and vendors in their understanding of their portfolios. The LSTA also continues to conduct external presentations and will have LIBOR sessions at its Virtual Annual Conference on 20-22 October 2020.

11. TACT Update

The TACT sent an email to AFME on liaising with them on next steps for IBOR transition, following AFME's point on extended communication with trustees during the LIBOR panel at the Virtual Conferences noted above.

It was also noted that although TACT members were initially concerned about how challenging noteholder consent solicitations might be when it came to seeking changes to trust documentation arising from LIBOR transition, a number of solicitations had been undertaken in the market successfully, so concerns had not been expressed recently.

The TACT is also keeping a watching brief on consent solicitations.

12. UK Finance Update

On 18 September 2020, UK Finance published an updated version of 'Discontinuation of Libor: a guide for business customers' which was previously published in November 2019. The updated version reflects recent developments which are intended to help business customers with LIBOR-linked loans navigate LIBOR transition. The guide particularly clarifies questions regarding the nature of LIBOR and SONIA as well as outlining steps that parties can currently take in preparation of LIBOR transition.

13. AOB

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