Minutes of LIBOR Trade Association Working Party Meeting
held on 24 February 2021

Present:

ICMA
ICMSA
ISDA
JSLA
LMA
LSTA
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. ICMA update

ICMA hosted a workshop on consent solicitations on 11 February 2021 for the BMSG to work through issues around the consent solicitation process, with a view to identifying methods for making the process more efficient.

It was noted that ICMA/the BMSG may develop educational materials as well as look into carrying out more work in relation to investors in the bond market.

Regarding the milestones of the Working Group on Sterling Risk-Free Reference Rates (the **£RFR WG**), ICMA highlighted the end-Q1 deadline to identify, and progress active conversion of, all legacy GBP LIBOR bonds where viable by end-Q3 2021. In particular, ICMA is considering the potential implications for bonds that do not meet this deadline.

In relation to legacy LIBOR bonds, ICMA highlighted the £RFR WG consultation paper to support a recommendation nominating a successor rate for legacy GBP LIBOR bonds, which ICMA contributed to the drafting of, which will close on 16 March 2021. ICMA will also be responding to the HM Treasury consultation, published on 15 February, on supporting the wind-down of critical benchmarks for legacy IBOR contracts.

ICMA is also looking into the implications of so-called "type 1" and "type 2" fallback provisions in bonds potentially being triggered upon FCA and IBA announcements on the prohibition of use of LIBOR.

ICMA further noted that it has joined the Sterling Structured Products Sub-Group, a sub-group within the BMSG, as an observer.

On the education side, ICMA published on 4 February a webinar and podcast on the global transition from LIBOR to risk-free rates (**RFRs**) in the bond market.

3. ICMSA update

ICMSA has published two LIBOR bulletins in January 2021. The first bulletin provides a brief update on the position for trustees and agency roles. It also sets out considerations for other relevant market participants to consider during a consent solicitation process when transitioning bonds to

RFRs. For example, certain steps can be considered to develop more efficient back office processes. The second bulletin considers operational and procedural points to keep in mind during the consent solicitation process. It also includes a two-page checklist on operational questions for arrangers and issuers to complete and are recommended by ICMSA and its members. The purpose of the checklist is to guide a more efficient consent solicitation process. ICMSA members are already using this checklist and have reported positive results.

ICMSA continues to support workstreams within the BMSG and has also helped ICMA on the webinar on the global transition from LIBOR to RFRs in the bond market. ICMSA continues its educational work in expanding knowledge on the consent solicitation process.

Regarding further workstreams, ICMSA will look into the HM Treasury consultation on supplementary legal safe harbours. ICMSA is also currently drafting another bulletin to identify distinctions between paying agents on a bond, calculation agents on a bond, and calculation agents within the 2006 ISDA definitions. This will aim to map out differences in various key issues, such as timing, for agents and other commercial parties. For example, the recommended ISDA two-day observational shift approach may not be appropriate in the bond-market.

4. ISDA update

ISDA noted that now that the ISDA Fallbacks Protocol and Supplement are in effect, and following subsequent positive uptake, ISDA is working through follow-up questions and engaging in follow-up conversations around these.

ISDA continues to work on its new 'rate options' for daily RFRs which will be added to the ISDA Definitions. These will facilitate the use of RFRs (such as compounding, or simple averaging methods) with certain conventions to encourage more precise alignment with hedges.

In relation to other ongoing workstreams, ISDA highlighted the £RFR WG paper, published with the support of the Non-Linear Derivatives Task Force in January 2021, on transition in sterling non-linear derivatives referencing GBP LIBOR ICE swap rate. The paper addresses fallbacks for the ICE swap rate and ISDA is looking to implement these for derivatives.

ISDA also continues to look at the various legislative solutions for tough legacy derivatives contracts and their alignment and workability within multi-jurisdictional contexts.

5. JSLA update

JSLA noted that the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks have published in December 2020 examples of TONA (fixing in arrears) conventions to use in loans. JSLA also held a LIBOR seminar for its members on 19 February.

Regarding future publications, JSLA will soon publish a sample fallback clause for syndicated loans based on the JBA bilateral loans example (note: the example fallback clause was subsequently published on 26 February).

JSLA further noted that the Bank of Japan and other regulatory authorities such as the Financial Services Agency have continued to explain the transition away from LIBOR to various associations and market participants. JSLA highlighted that local banks have been responding well to LIBOR transition and the Japanese market is becoming more aware of the transition more generally.

JSLA noted that it is still hearing that despite high engagement in LIBOR transition efforts by regulators, borrowers are still hesitant to start borrowing based on post-determined interest rates.

JSLA further noted that it hears an increase in demand from the market for term interest rate constructions.

6. LMA update

Regarding documentation, the LMA is working in particular on developing Single Currency Compounded RFR Rate Facilities agreements. The LMA is also working on transitioning its suite of RFR-based exposure draft agreements to LMA recommended forms. The LMA will also update its LIBOR consideration issues notes for various products/jurisdictions outside of the English law investment grade context, originally published on 3 February 2021, for these developments.

The LMA further noted that it continues to work on its suite of secondary trading documentation. It was highlighted that this is still ongoing and the LMA is considering in particular issues in loan trading within a compounded RFR context.

On the education side, the LMA noted the LIBOR transition quarterly update webinar. This webinar was published on 2 February and has been popular, with many market participants engaging and asking questions, perhaps influenced also by the nearing end-Q1 £RFR WG milestone to cease LIBOR-linked lending in sterling loan products. The LMA is also working closely with the Sterling Loan Enablers Task Force on creating an end-Q1 Q&A and a best practice guide (Note: these were subsequently published on 26 February).

Regarding RFR term rates, the LMA highlighted that it has reached out to its Export Finance Working Party to seek comments and thoughts on potential fallbacks for forward-looking term SONIA. This is still a work in progress as the LMA has not received many responses on this.

Regarding recent consultations, the LMA is looking to respond to the HM Treasury consultation on supplementary legal safe harbours. The LMA also highlighted the Euro Risk-Free Rate Working Group (**Euro Working Group**) EURIBOR consultation responses, published on 15 February 2021. The LMA will work with the Euro Working Group on EURIBOR recommendations for the loan market.

The LMA also published on 19 February 2021 another updated version of its list of loans referencing near risk-free rates. The update highlights further deals using RFRs and rate switch mechanics based on the SONIA loan conventions.

7. LSTA update

Regarding documentation, the LSTA is looking at the implications of a potential announcement of non-representatives by the FCA. For example, this could trigger the fixing of the credit adjustment spread in the US dollar market. Hardwired fallbacks would require the agent to deliver a trigger notice and the LSTA is working on developing a form of notice for the market to use in this event. The LSTA noted that in relation to this the Alternative Reference Rates Committee (**ARRC**) is working on streamlining its hardwired fallbacks language to a 4-page document to simplify this for the market and remove the current prospective language.

The LSTA is also developing its simple RFR multicurrency concept credit agreement and it is hoped this will be published before end-Q1 (note: the first draft has subsequently been circulated on 25 February, with comments requested by 8 March).

On the operations side, the LSTA continues to engage with its vendors on various practical issues such as rounding conventions. The LSTA is also working through its trading documentation and considering their workability within a simple/compounded SOFR context.

Regarding education, the LSTA is hosting its Virtual Annual Operations Conference in April 2021, which will include a session on LIBOR. The session will aim to analyse the US replacement rate architecture and explain its contents from an operations perspective.

The LSTA also reported that it is hearing about the use of the simple SOFR methodology within bilateral SOFR loans in the real estate market.

Separately, the LSTA asked the Working Party on expectations of timing of the FCA and IBA announcements and the sterling progress in achieving end-Q1 targets. The LMA noted that it was not aware of timing of any announcement. Regarding the end-Q1 deadline, the LMA noted that the position had not changed since the last Working Party meeting but highlighted the LETF workstream on developing an end-Q1 Q&A and a Best Practice Guide to provide clarity on the milestone (note: these were subsequently published on 26 February).

The LMA also highlighted that the UK regulators are strong in their messaging about the market needing to meet these deadlines. In the context of bilateral loans, transition is being achieved as many of these use Bank Rate. On the syndicated loans side, the market is yet to see an increase in deals referencing RFRs from the outset. This could be to do with the fact that global markets have experienced less economic activity overall or borrowers having sufficient liquidity. It may also be that parties are waiting on the FCA / IBA announcement to provide clarity on cessation dates and also trigger the fixing of the credit adjustment spread.

The LSTA thanked the LMA for their feedback and further noted that the LSTA has heard from some market participants that sterling options were being removed in certain multicurrency facilities for simplicity. The LMA noted that this may be a result of market participants becoming more focussed on entering into facilities with currencies which will realistically be used rather than arranging facilities with a large number of currencies which may not be drawn on. For example, borrowers who largely draw in sterling may wish to drop the option to draw in certain other currencies.

8. UK Finance update

UK Finance and PwC published their joint guide entitled "Discontinuation of LIBOR for banks and lenders". UK Finance noted that this is aimed at members who are not on the LIBOR transition working groups and who may be less familiar with LIBOR transition more generally. The guide summarises specific issues, provides steps to take, and sets out links to resources for market participants to read more about. This is aimed at providing members with a source to go to as a first-point of information regarding LIBOR transition.

Regarding tough legacy, UK Finance is currently drafting its response to the HM Treasury consultation on supplementary legal safe harbours.

In addition, UK Finance continues to work on its outreach efforts within the Sterling Outreach and Communications sub-group.

9. AOB

KM thanked members of the Working Party for their updates. The date of the next meeting is to be set for March 2021 and minutes would be circulated.