

Minutes of LIBOR Trade Association Working Party Meeting held on 28 March 2019

Present:

AFME
APLMA
FIA
ICMA
ICMSA
ISDA
JBA
JSLA
LMA
LSTA
SIFMA

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. APLMA update

On 3 April 2019, the APLMA will hold a workshop in [Hong Kong](#) with Clifford Chance to update market participants on the recent developments related to the transition away from LIBOR to risk-free reference rates ("RFRs"). This workshop will take place again in [Singapore](#) on 15 May 2019. There has been a high demand in terms of attendance and education in respect of the transition in both markets.

There has not been much progress in terms of new developments more widely as there is still no suitable alternative to LIBOR for the syndicated loan markets.

The Hong Kong Monetary Authority has issued a [circular](#) calling on all authorised institutions to prepare for the transition (similar to the Dear CEO letters that were sent in the UK in 2018), in order to ensure the preparedness of firms for the transition away from LIBOR to RFRs.

The [Briefing to the Legislative Council Panel on Financial Affairs](#) issued by the Hong Kong Monetary Authority provided that the TMA will conduct a consultation in the first quarter of 2019, but there were no developments since.

3. FIA update

The FIA is planning to hold an event in May 2019 to educate its members on the transition away from LIBOR to RFRs, which will specifically focus on cleared derivatives and the impact of benchmark reform in the EU and UK.

4. AFME update

AFME continues to be engaged with work on SONIA-linked securitisations and is closely monitoring new issuances and developments in this market.

AFME is in the process of updating its model transition wording which was released in the spring of 2018. This is currently being discussed with members.

AFME continues to be engaged in the Sterling RFR working groups and the Euro RFR working groups. The Working Group on Euro RFRs is being restructured, including to form a new sub-group on communication and education of market participants (i.e. sub-group 7). There will also be a new

sub-group 5 on the 'adoption by cash products and derivatives', as well as a new sub-group 6 which will focus on 'financial accounting and risk management issues'.

5. ICMA update

ICMA is continuing its work on transitioning legacy bonds referencing LIBOR and also continues to monitor new SONIA-linked floating rate note issuances.

ICMA also continues its work on outreach and education. For example on 15 May 2019, ICMA will hold a panel about the transition to RFRs and the international bond market at its [AGM Conference](#) in Stockholm. The panel will cover developments in the US, UK and the Euro area.

ICMA continues to be involved in the Euro RFR Working Group, the Sterling RFR Working Group and the Swiss National Group on RFRs.

6. ICMSA update

ICMSA continues to work with its issuer and borrower members who will need to update their fallback provisions.

ICMSA is currently focusing on the discussion paper issued by the Sterling RFR Working Group on conventions for referencing SONIA in new contracts. ICMSA has reached out to its members to determine whether ICMSA should coordinate a collective response on behalf of its members, or whether individual members would prefer to respond themselves.

It was noted that international coordination is of key importance to the international bond market. Whilst work has been on-going in terms of developing fallback provisions across different rates, international coordination would be helpful to streamline approaches across jurisdictions.

7. JBA update

The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks and its sub-groups have held meetings in January 2019 and continue to work diligently towards a public consultation. The Committee will meet again in April or May 2019 to discuss the content of the public consultation.

It is expected that the Accounting Standards Board of Japan will start to discuss accounting issues arising out of the transition away from LIBOR.

A specific date for the consultation has not yet been decided, however following the publication of the [proposed roadmap](#) by the Committee last summer, it is expected that the consultation will be published in May or June 2019.

8. JSLA update

On 16 April 2019, the Japan Loan Market Conference will be held in Tokyo. This will cover issues such as the possible impact of the transition to RFRs, and aims to educate market participants about the consequences stemming from the discontinuation of LIBOR.

9. LMA update

The LMA (as Chair of the Sterling loans sub-group) is working on a draft consultation paper on the possible methodologies for adjustment spreads for cash products. Additional input is currently being sought from technical experts.

The discussion paper on conventions for referencing SONIA in new contracts closes for feedback on 30 April 2019. The discussion paper specifically asks loan market participants whether conventions from the Sterling bond market can be used in the loan space. The LMA sent an alert to its members about the paper to encourage responses and will release a webinar to emphasise the significance of the discussion paper.

The LMA continues to work on documentation in respect of the transition and any feedback received in response to the discussion paper will be helpful in this respect.

On the Euro side, in addition to the formation of new sub-groups under the Working Group on Euro RFRs, sub-group 3 is working on a consultation paper on the legal action plan for transition from EONIA to €STR with regard to existing and new contracts.

EMMI has released a consultation paper on the change in the methodology for EONIA, following the recommendation by the Working Group on Euro RFRs on the transition path from EONIA to €STR. EMMI is seeking feedback on the preparation and implementation of changes in IT or valuation systems given the move to a T+1 publication under the recalibrated methodology. The consultation closes on 15 April 2019.

The LMA is working on expanding its outreach and education initiatives, such as by making contact with various banking and treasury associations. This is particularly important given there is a concern about the lack of awareness in respect of the transition to RFRs. This is partially due to the fact that developments across different currencies take place at different times and because some jurisdictions have opted to keep their IBORs and develop RFRs to coexist alongside IBORs.

10. LSTA update

The LSTA is continuing to work on the ARRC fallback language for syndicated loans. A number of education and webcast initiatives will follow after the ARRC makes its recommendation.

The LSTA is continuing to work on ensuring that the fallback language it recommends to the ARRC can be operationalised. The LSTA is continuing to work with a number of operations experts to figure out how to operationalise SOFR. The current critical work stream is determining the fallbacks to SOFR. There is a lot of desire in the market for a forward-looking term SOFR as a replacement rate to LIBOR, however, since there is no guarantee that a forward-looking term SOFR will exist in time, the market must be prepared for other SOFR rates as well. Three SOFR rates are being considered: the (i) compounded SOFR in advance; (ii) compounded SOFR in arrears; and (iii) daily simple SOFR. Determining the preferences of market participants for second fallbacks is critical to building systems.

The LSTA is continuing its work on outreach and education. The LSTA's outreach programme comprises of publications on the LSTA website and newsletter, as well as holding events such as the LSTA Operations Conference which takes place on 9 April 2019. This will include two panels devoted to the cessation of LIBOR as well as a roundtable to discuss what different banks are doing in respect of the transition. The LSTA will also publicise the paper on SONIA market conventions, although the LSTA will not respond to the discussion paper.

11. SIFMA update

SIFMA has held discussions with its smaller members and these discussions had differed considerably in terms of awareness and capacity to deal with the issues stemming from the transition to RFRs. A number of concerns stem from limited access to human resources required to review all transactions in which clients are involved. It was noted that there are a number of fintech companies looking at AI solutions to replace the need to assess each contract individually.

In respect of those market participants who deal with customers' assets, such as wealth management companies, it is interesting how to determine the responsibility in respect of disclosure to customers on LIBOR transition issues.

12. ISDA update

ISDA continues to work on the supplemental ISDA Consultation on fallbacks covering USD LIBOR, HIBOR and CDOR.

The ISDA consultation on pre-cessation issues will be published at the same time.

The time-line for amendments to ISDA documentation is yet to be confirmed.

ISDA continues to participate on all RFR Working Groups, as well as continuing its work on fallbacks. ISDA will consult on €STR as a fallback to EURIBOR and EUR LIBOR once €STR is published.

13. AOB

It was noted that the ARRC had released a paper on the methodology for developing a forward-looking term SOFR, however this is contingent on the existence of sufficient trading volumes in futures.

It was noted that various issues are expected to unfold as the market transitions to new rates and as new considerations and impact become more apparent. For example, as loans and CLOs may move to alternative RFRs at different times, this could result in basis risk between the loans and the liabilities during the transition period.