

Minutes of LIBOR Trade Association Working Party Meeting
held on 12 March 2020

Present:

ACT
GFMA
ICMA
ICMSA
ISDA
LMA
JSLA
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. UK Finance update

On 20 March 2020, UK Finance, the Sterling Sub-group on Outreach & Communications, Bank of England and the Financial Conduct Authority ("FCA") will host a webinar to discuss the key tasks needed to transition from LIBOR. The webinar is intended to be a 'train the trainer' exercise to help smaller trade associations to embed LIBOR transition into their work plans, communication strategies and outreach to members and stakeholders (the webinar was subsequently postponed due to logistical reasons). In addition, UK Finance continues its work to help market participants understand the issues arising from the transition and the steps needed to be taken in order to identify the key risks and transition in time.

On 26 February 2020, the Bank of England published a Discussion Paper entitled '**Supporting Risk-Free Rate transition through the provision of compounded SONIA**' (the "[Discussion Paper](#)"). The Discussion Paper outlines the Bank's proposal to develop a daily SONIA Compounded Index to support the use of SONIA in as wide a range of financial products as possible by simplifying the calculation of compounded interest rates. The Bank also [published](#) illustrative calculations based on published SONIA data. UK Finance is planning to submit a response to the Discussion Paper on behalf of its member, and is encouraging its members to provide responses on an individual basis as well.

On 6 March 2020, the US Alternative Reference Rates Committee ("ARRC") [released](#) a proposal for New York State legislation, which is intended to minimise legal uncertainty and adverse economic impacts associated with LIBOR transition. The proposed legislation is intended to address existing contracts which either do not have fallback language that adequately addresses a permanent LIBOR cessation or have language that could dramatically alter the economics of contract terms if LIBOR is discontinued. Importantly, the proposed legislation would not override existing contract language that specifies a non-LIBOR based rate as a fallback to LIBOR (e.g. Prime or Fed Funds). In relation to the sterling market, the Sterling Tough Legacy Task Force had asked

relevant sterling sub-groups to provide feedback on the potential use case of a legislative solution to address tough legacy transactions in the sterling markets.

UK Finance asked members of the Working Party to share any educational materials which they think can be shared by the Sterling Sub-group on Outreach & Communications with those impacted by the transition from LIBOR. It was noted that on 23 January 2020, the LMA [hosted](#) an interactive webinar intended to drive engagement on the transition, identify practical actions and, in particular, discuss:

- Where are we now on transitioning from LIBOR?
- Current 'loan market' transition issues
- What should loan market participants be doing?

It was noted that the LMA received good feedback on the webinar, which is now publicly available on the LMA website and free for sharing beyond its membership.

3. TACT update

It was noted that on 26 March 2020, the TACT Loan and Capital Markets Committee is holding a meeting where the transition from LIBOR will be one of the topics under discussion.

4. SIFMA update

It was noted that similarly to the [publication](#) of documents outlining the priorities and milestones for 2020 on LIBOR transition by the UK authorities on 16 January 2020, it is expected that the ARRC will also publish a document outlining its priorities and milestones for 2020 in the near future.

It was noted that as a result of discussions around credit sensitivities in the US, on 25 February 2020, the Federal Deposit Insurance Corporation, the Federal Reserve Board of Governors, the Office of the Comptroller of the Currency and the US Department of the Treasury [met](#) with [representatives](#) of a number of US regional banks that primarily focus on providing traditional retail and commercial banking products and services to [discuss](#) the ways to support the transition of loan products away from LIBOR, including by holding a series of working sessions. Following up on this meeting, Credit Sensitivity Group workshops will be hosted by the New York Fed to further discuss these issues. The workshops aim to build a shared understanding of the challenges that banks of all sizes and their borrowers may have in transitioning loan products from LIBOR. They will also explore methodologies to develop a robust lending framework that considers a credit sensitive rate element in the lending markets as a supplement to SOFR. The Credit Sensitivity Group workshops are separate from and supportive of the work of the ARRC. The workshops will be completed in the spring of 2020; in the meantime, firms should continue their preparations to move off of LIBOR and on to robust alternative reference rates. SIFMA is not a part of the Credit Sensitivity Group.

On 21 January 2020, the ARRC [published](#) a '**Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR**', intended to establish a static spread adjustment that would be fixed at a specified time at or before LIBOR's cessation and would reflect and adjust for the historical differences between LIBOR and SOFR in order to make the spread-adjusted rate comparable to LIBOR in a fair and reasonable way. The consultation closes on 25 March 2020.

Some smaller US banks are concerned that SOFR plus a static spread might not be the correct rate for some of their lending activities. It was noted that on 26 February 2020, some regional US banks sent a [letter](#) to the US authorities noting that, whilst SOFR is an appropriate benchmark for larger financial institutions that have access to collateral and the ability to broadly operate on secured markets, their belief is that markets should have the ability to use multiple reference rates such as AMERIBOR, which they say is representative of their asset structure and risk profiles, as well as being credible and robust and easy to explain to customers and other market participants. It was noted that at the time of the meeting, AMERIBOR is published as an overnight rate and it is not yet published on a forward-looking basis.

5. LSTA update

In respect of education and outreach, the LSTA had to cancel a number of its conferences as a result of the disruption caused by COVID-19. The LSTA continues to engage with members by providing outreach and education by way of online webinars and regularly updating its website. The LSTA is also holding regular calls with various parties in order to provide updates in respect of the transition.

On the documentation side, the LSTA is working on two concept documents: (i) the [Compounded SOFR in Arrears Concept Document](#); and (ii) a Daily Simple SOFR Concept Document. The LSTA is also working on updating the fallback language for the hardwired and amendment approach for loans (whilst highlighting the complications arising in the US context when using the amendment approach).

With respect to operations and execution for SOFR loans, the LSTA continues to work with the operations side, business side and vendors to make recommendations on SOFR-related operational issues for loans. The current focus is on simple and compounded SOFR in arrears. Once available, SOFR-based forward-looking term rates can be operationalised relatively easily, meanwhile operationalising daily simple SOFR is not too difficult, however there are numerous challenges when looking at operationalising compounded SOFR in arrears in the context of the syndicated loan market, given the need to account for intra interest period events such as pre-payments or secondary trading. The LSTA and LMA continue to work through the issues and seek to facilitate international coordination where possible. The LSTA is also working closely with the ARRC's Operations/Infrastructure Working Group to help vendors meet the transition timelines. Given the Bank of England's proposal to develop a daily SONIA Compounded Index, the LSTA also held discussions with various parties about how the development of an index might ease operationalisation of SOFR across systems.

6. LMA update

On 2 March 2020, the LMA held an Extended Early Evening Seminar which focused specifically on LIBOR transition. The seminar provided an opportunity to hear from Edwin Schooling-Latter of the FCA, as well as a panel comprised of key lenders, lawyers and borrowers on the transition (including National Express and British American Tobacco – two borrowers who have loans referencing risk-free rates ("RFRs")). A [recording](#) of the seminar has been made available on the LMA website (available to LMA members only).

The LMA is discussing the development of hardwired fallback language for its recommended forms of LIBOR-based facility documentation.

Following the publication of exposure drafts of a compounded SONIA based sterling term and revolving facilities agreement and an exposure draft of a compounded SOFR based US dollar term and revolving facilities ("Exposure Drafts") in September 2019, 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.

7. JSLA update

It was noted that JBA produced sample fallback language for use in bilateral loans and asked members of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks for feedback. Some borrowers had voiced opposition in respect of JBA's proposal in a meeting on 25 February 2020. JBA is now in the process of considering how to amend the sample fallback language.

The JSLA is in the process of considering publishing sample fallback language for use in syndicated loans.

The industry continues to work on documentation in the context of the transition and how to accommodate backward looking interest rates.

8. ISDA update

ISDA held two conferences in Q1 2020 before the outbreak of COVID-19: ISDA/SIFMA AMG Benchmark Strategies Forum 2020 held on 12 February 2020 in New York, and on 26 February 2020 in London.

ISDA remains on track to finalise documentation in the near term and publish it in Q3 2020, with effectiveness in Q4 2020. Bloomberg had been [selected](#) to publish the adjustments and 'all in' fallback rates and now needs to work on the final mathematical formula for fallbacks, which is a key outstanding issue before the final formula is available and published in three phases: (i) publication of final equations (expected April 2020); (ii) testing of data for the fallbacks (expected April 2020); and (iii) a full indicative publication (expected around the end of June 2020).

In H1 2020, ISDA will be working on finalizing these fallbacks, which is a high priority, however it is pending the results of the [outstanding consultation](#) on how to implement pre-cessation fallbacks for derivatives. The consultation closes on 1 April 2020. ISDA also released a [webcast](#) to go through the consultation and answer questions submitted in advance of the webinar. There is currently no set date within Q3 for the publication of updated ISDA Definitions and Protocol, given the direction of travel in respect of ISDA's work will largely depend on the results of the consultation.

ISDA continues to work on education and other issues, including work on some of the technical issues associated with non-linear derivatives and swaptions, the use of RFRs in this space, as well as implications of the use of RFRs for swaptions. On 7 February 2020, the ARRC released a [consultation](#) on swaptions based on USD LIBOR that could be affected by the discounting change for cleared derivatives from the use of the Effective Federal Funds Rate to the SOFR effective at the close of business on October 16, 2020.

In respect of collateral, ISDA had been working on EONIA amendments which will give market participants a number of options where they had exposures to EONIA either in transactions or documents.

ISDA will publish template provisions for amending USD CSAs in the near term.

9. 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.

On 6 March 2020, ICMSA [published](#) a bulletin entitled "**ICMSA Bulletin – The discontinuation of LIBOR/IBORS – different approaches for transition under English law trust deeds and New York law indentures**". As LIBOR and other IBORs are relevant to floating rate notes constituted by New York law governed indentures as well as under English law governed trust deeds, this bulletin is intended to compare how the transition away from IBORs could be approached under each regime.

10. ICMA update

ICMA continues to work on market conventions.

With the announcement by the Bank of England's proposal to develop a daily SONIA Compounded Index, ICMA assisted with the publication of a [statement on the bond market conventions](#) which focuses on the use of the SONIA Index and weighting approaches for observation periods. Whilst ICMA will not respond to the Discussion Paper, it will encourage its members to do so on an individual basis.

ICMA is currently in the process of reviewing a paper produced in the context of the Sterling Cash Legacy Task Force focusing on the transition of legacy loan transactions referencing sterling LIBOR. ICMA will work on producing a similar paper focusing on the transition of legacy bond transactions referencing sterling LIBOR.

ICMA continues to contribute in the Sterling Tough Legacy Task Force, including working on scrutinising the legislative proposal from the ARRC.

Given the disruption caused by COVID-19, ICMA has been keeping its members updated about the key developments by releasing podcasts, and on 27 February 2020, ICMA released a '[Quick Guide to the transition to risk-free rates in the international bond market](#)'.

11. GFMA update

GFMA's members have noted that they had been actively advocating to the various regulators the importance of international coordination between the different currency jurisdictions in order to align key developments where possible. International coordination is key to making the transition from LIBOR more manageable across all product areas, however the lack of coordination has been identified by GFMA's members as a key ongoing global challenge. GFMA is currently working on how it can help to address this issue.

12. ACT update

ACT members across the board are starting to be very much involved in discussions around the transition. There is a lot of focus on transitioning from USD LIBOR given its global significance and there continues to be an emphasis on facilitating international coordination in the sterling working groups.

On 9 March 2020, the Bank of England and the FCA jointly [published](#) a letter to trade associations on how LIBOR transition may affect their members and stakeholders.

The ACT continues to highlight relevant materials to its members, so as to accelerate their efforts in respect of the transition.

Given the current global environment, RFRs are currently published in a period of market stress and there are some key differences in terms of how various RFRs are behaving when compared to their LIBOR 'equivalents'. Looking at Term SOFR, LIBOR and SOFR Compounded in Arrears, one member of the Working Party noted that the forward looking rates were more volatile because they absorbed market volatility and rates expectations immediately. Compounded in Arrears SOFR was less volatile because it picks up the actual rates from the relevant days.

13. AOB

Members of the Working Party discussed how the outbreak of COVID-19 might impact on the transition efforts, such as with respect to the reduced focus on transition by senior decision makers in institutions and also the impact on anticipated timelines across the different currency jurisdictions.