Minutes of LIBOR Trade Association Working Party Meeting
held on 10 February 2020

Present:

AFME
APLMA
ICMA
ICMSA
JSLA
LMA
LSTA
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. JSLA update

In January 2020, JBA launched a website on LIBOR transition, which includes a recently posted fact sheet in respect of the transition.

Regional banks in Japan are showing increasing engagement with the issues arising from the transition.

JBA is working on preparing sample fallback language for use in bilateral loans. As part of this workstream, JBA is engaging with a range of borrowers to ascertain their feedback with respect to the drafting proposals.

The next meeting of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks is scheduled to take place on 25 February 2020.

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

3. 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.

4. APLMA update

The market is increasingly more engaged and concerned about the issues stemming from the transition, and that there is currently a lot of work going on behind the scenes. It is currently difficult to obtain relevant information from banks, however, given that most banks in Hong Kong do not operate as normal due to the widespread risks associated with the coronavirus. Nonetheless, financial institutions are increasingly engaged with the issues around the topic and many have started to set up internal taskforces intended to manage risks and exposures arising from the transition, including task forces looking into systems issues.

APLMA cancelled a number of its events due to the risks arising from the coronavirus, however the next event is due to take place in May 2020 in Sydney, where a speaker from the Reserve Bank of Australia will deliver a presentation focused on the transition.

In January 2020, APLMA launched an IBOR Transition Survey for its members. The purpose of the questionnaire is to collate the views of Asia Pacific based market participants on the structuring issues arising in relation to the use of risk-free rates ("**RFRs**") in Asia-based loan transactions and the terms of the LMA Exposure Draft of compounded SOFR based dollar term and revolving facilities agreement. APLMA is intending to collate the feedback received from its members with respect to the key issues raised by the Exposure Draft and will share these with the LMA in the coming weeks (the APLMA subsequently released the results of the survey on 20 February 2020).

5. ICMA update

On 16 January 2020, the Bank of England, the Financial Conduct Authority ("**FCA**") and the Sterling RFR Working Group had jointly published a set of documents outlining the priorities and milestones for 2020 on LIBOR transition. One of the documents published is a statement on behalf of the Sterling RFR Working Group considering helpful 'lessons learned' from recent transition of LIBOR-referencing legacy bonds to SONIA by way of consent solicitation.

ICMA continues to participate in the Sterling RFR Working Group, the Working Group on Euro Risk-Free Rates and the National Working Group on Swiss Franc Reference Rates.

ICMA continues to update its members on key recent developments via the publication of its quarterly report.

6. ICMSA update

On 23 January 2020, ICMSA published a bulletin entitled *"Benchmark replacement and fallback provisions – Key principles and guidelines for Agent and Trustees".* This bulletin considers the implications of including benchmark replacement and fallback provisions in documentation for paying, fiscal and/or calculation agents and bond trustees. It suggests present best practice guidelines and principles that should be taken into account by issuers and arrangers when drafting: (i) benchmark replacement and other fallback provisions for bonds which are linked to IBORs; and (ii) interest determination mechanics for bonds which are linked to SONIA and SOFR. Whilst the bulletin primarily relates to the benchmark replacement and fallback provisions in documentation used across Europe, it also considers the practical concerns and consideration that agents and clearing systems have in respect of the wording that was published by the US Alternative Reference Rates Committee ("**ARRC**"), in particular as related to payment conventions.

ICMSA continues to work on additional documents which had been outlined in the minutes of this Working Party from a meeting which took place on 25 November 2019. The next bulletin is expected to be published in late February 2020 and relates to the concerns that trustees might have when being asked to exercise discretion to make amendments in the context New York and English law.

The issuance of consent solicitations continues to be on the rise.

7. LMA update

Following the 16 January 2020 publication by the UK authorities of a set of documents outlining the priorities and milestones for 2020 on LIBOR transition, the Q3 2020 deadline for no issuance of new cash products linked to sterling LIBOR had been accentuated to all market participants. In the UK, the Sterling RFR Working Group announced the mobilisation of three new taskforces to accelerate the transition: (i) the Tough Legacy Task Force to identify and mitigate the extent of contracts unable to convert away from LIBOR; (ii) the Cash Market Legacy Transition Task Force to highlight approaches to convert existing contracts or update contracts to include robust fallback language; and (iii) the Loan Flow Enablers Task Force to identify blockers inhibiting/key milestones to support the Working Group's target of ceasing sterling LIBOR issuance by Q3 2020.

The LMA is working on producing an exposure draft of a compounded risk-free rate multicurrency facility agreement referencing SOFR, SONIA, SARON and EURIBOR.

The LMA is working on producing the third edition of the ACT and LMA LIBOR Guide entitled "*The future of LIBOR: what you need to know*" in order to help market participants to stay updated about the progress with respect to the transition.

On 23 January 2020, the LMA hosted an interactive webinar intended to drive engagement on this important topic, 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?

So far, this webinar was streamed by more than 3,000 people.

On 2 March 2020, the LMA is hosting an Extended Early Evening Seminar on the LIBOR transition. The seminar will provide an opportunity to hear from the FCA, as well as key lenders, borrowers and lawyers with experience in drafting RFR referencing facilities in what is a critical year for the loan market. This seminar will be recorded and subsequently made available on demand on the LMA website.

8. LSTA update

On the documentation side, the LSTA published the *Compounded SOFR in Arrears Concept Document* which is currently in for comment by its members. The LSTA is expecting to publish the document as a recommended form document in early 2020. The LSTA is expecting to release a simple SOFR concept document in order to allow parties to possibly use simple SOFR as a starting point if required. Following the completion of this workstream, the LSTA will update the language for the hardwired and amendment approach (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 (including working on issues such as the lookback and the rounding). The current focus is on simple and compounded SOFR in arrear, given that once available, SOFR-based forward-looking term rates can be operationalised relatively easily.

A recent development in the US is that simple SOFR might be a viable option for loans given that in the first instance it is likely to be easier to implement and operationalise when compared with compounded SOFR in arrear. The LSTA recently published an article which considered basis biases. The article concluded that simple/compound SOFR basis is practically invisible when put on the same chart as LIBOR basis. The math seems to demonstrate that SOFR basis is not remotely the same magnitude as LIBOR basis. For products as flexible as loans (for instance, those that permit frequent intraperiod repayments) that also do not trade with accrued interest, simple SOFR might fit better, might permit easier trading and will be more operationalisable. It was noted that to accelerate the transition in the US, it might be beneficial to start with using simple SOFR and then switch to compounded SOFR in arrear.

One member of the Working Party noted that the issue of simple v compounded RFR was also discussed within the Sterling RFR Working Group. In the UK, however, focus remains on the compounded methodology and the FCA has stated that it would not encourage the market to pursue the two-stage transition process. Some of the reasons for this are linked to the basis risk arising in the context of hedging, the benefit of aligning the loan market with the derivatives market, and the practical risks and complication arising further down the timeline when needing to switch from simple to compounded rates (which includes a conduct risk and might be a lot more complex than it appears at first glance). The FCA encouraged market participants to continue doing pilot transactions in order to help the market think about the issues and solutions around the compounded in arrear methodology, given it is undesirable in the sterling context to introduce yet another step to the transition process. Consequently, the UK continues to focus on operationalising the compounded in arrear methodology.

9. TACT update

Trustees continue to adopt a 'wait and see' approach given that trustees need to be approached by lenders / noteholders on transactions and be asked to approve any replacement arrangements. Trustees are awaiting further certainty with respect to the transition.

10. UK Finance

UK Finance continues to be engaged in the Sterling Communications sub-group. In particular, UK Finance is helping to organise an event for SME stakeholders who operate outside of the financial services industry but who will nonetheless be impacted by the LIBOR transition. The event is intended to provide a general overview of the background to the transition, key risks and challenges, as well as the steps that parties might want to consider undertaking to identify and mitigate risks.

UK Finance submitted a response on behalf of the majority of its members to the Sterling RFR Working Group's consultation on credit adjustment spread methodologies for fallbacks in cash products referencing sterling LIBOR. In general, the majority of members agreed to support the historical median approach. The response submitted by UK Finance also highlighted some of the challenges associated with using this option. The key reason for this was the desire of the majority of its members to align with the derivatives market because adopting a distinct approach would create unnecessary complications in the context of hedging. Another reason as to why this approach was favoured by the majority of its members is linked with the transparency offered by this option. Finally, the response highlighted the need for an officially published or officially endorsed calculator that would enable all market participants to calculate the interest rate. It was noted that both UK Finance and LMA members are also known to have responded to the consultation paper on an individual basis.