Minutes of LIBOR Trade Association Working Party Meeting

held on 13 October 2022

via teleconference

Present

AFME
APLMA
ICMA
ICMSA
ISDA
LMA
LSTA

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. LMA update

Over the summer the LMA responded to the FCA consultation on winding down synthetic sterling LIBOR and USD LIBOR, providing similar comments to those submitted by other trade associations. In late September, the FCA announced that the publication of 1- and 6-month synthetic sterling LIBOR will permanently cease after 31 March 2023. The FCA's decision on 3-month synthetic sterling LIBOR and synthetic USD LIBOR is expected to be published later this year.

In relation to the LMA's on-going work to update its documentation suite, the LMA has recently published new and updated exposure draft term SOFR for investment grade and developing markets, alongside an updated term SOFR commentary. The LMA will also be continuing education on the need to push forward with legacy transition, particularly as there are parts of the market that were not impacted by LIBOR transition to date but will be by USD LIBOR transition.

The LMA had participated in a webinar held by Afrexim. There were a range of attendees and it was clear that many were not familiar with the transition or the deadlines involved so it was a very helpful event for raising awareness.

It was also noted that the LMA continues to monitor developments in other IBORs. For instance, the LMA has attended a couple of meetings of the South African JIBAR Working Group and there have also been recent announcements about the roadmap for the transition away from WIBOR in Poland.

3. LSTA update

The LSTA noted that the main developments in the US were around the LIBOR Act and the Federal Reserve's proposals on the implementation of the Act. The LSTA reminded the Working Party that Congress passed the LIBOR Act to deal with tough legacy which, generally speaking, did not touch loans given that loans usually fallback to Prime (an alternative base rate). For this reason, the LSTA's involvement in the process was at first limited. However, the LSTA highlighted that the Federal Reserve issued proposed rules which would look to divide contracts into "covered" and "non-covered contracts" and to deal with the potential ambiguity that could be caused by the publication of synthetic USD LIBOR. These rules would, if implemented, impact loans and could cause confusion in the loan market. The LSTA has therefore pushed back on the proposals via a comment letter.

The LSTA noted that new issuance is going well, although there are not many at the moment given market conditions. There also remains a debate about credit spread adjustments (**CSAs**). It was noted that there is a distinction to be made between legacy transition and new deals. CSAs were designed to be used for legacy transition, but some parties in the loan market have also been using CSAs to price new deals based on RFRs. This has often been to make pricing simpler and clearer in this transition phase but over time it is expected that new deals would not use CSAs. The ICMA noted that in the bond market CSA is not being used for new deals, but only for legacy deals.

In relation to loan remediation, the LSTA noted that it is proceeding at a slow pace. Most loans have amendment fallbacks and so will need to proactively be amended and this will become a bigger issue the closer we get to June 2023. The LSTA noted that stakeholders are beginning to understand that remediation poses a serious issue, also thanks to the press now covering this issue.

The LSTA also pointed out that market participants are using either simple daily SOFR or an amendment approach as fallbacks to term SOFR.

4. JSLA update

The LMA noted that the JSLA could not attend the meeting, but they had noted by email that they did not have many updates to share, except that on USD Libor transition banks have started initial discussions with clients. It was also noted that the public consultation on fallback issues for JBA TIBOR closed on 30 September and results are expected to be published by March 2023.

5. ISDA update

ISDA noted that it had submitted a response to the FCA consultation on synthetic USD LIBOR and also a comment letter on the Federal Reserve's proposed rules. ISDA is supportive of both tough legacy solutions.

On other IBORs, ISDA will be holding a panel event on CDOR in Toronto next week. Like other trade associations, ISDA is also involved in JIBAR discussions. ISDA noted that there would be work next year on WIBOR fallbacks. There has also been work on enhanced fallbacks for Russia and there will be work in Israel where the local IBOR will be replaced.

6. ICMSA update

The ICMSA continues to engage with its members on issues they are facing. The ICMSA submitted its response to the FCA consultation. In January 2022, the ICMSA issued a paper on dealer poll mechanisms, an issue that appears to be an ongoing concern and which the ICMSA continues to monitor.

The ICMSA also highlighted that in February 2022 the ICMSA published a paper containing a pro forma set of standard provisions for holding virtual or hybrid bondholders/noteholders meetings, which would make it easier to arrange these meetings. However, there are reservations as to whether purely administrative reasons would amount to sufficiently good justifications for holding these meetings online.

It was noted that the ICMSA had been working on general paper in response to suggested IBOR fallback wording in Australia. The paper is to highlight that where a third-party agent is determining the rate, then some of the BBSW fallback language appears to give too much discretion to the calculation agent, may be less appropriate for parties in Europe.

In relation to the transition, the ICMSA noted that progress has been rather slow, although there was one transitioned deal that closed successfully. Further, the ICMSA explained that there were some structured deals with a pass through from bonds to loans which were having some issues with the daily accruals provided for within LMA documentation. This was more of an education point on mechanics since both the cumulative and non-cumulative rates are the same at the end of the period.

7. ICMA update

ICMA supports the introduction of synthetic US dollar LIBOR. ICMA members are also considering the situation in relation to the USD ICE Swap Rate.

With respect to active US dollar transition, ICMA members had highlighted challenges connected with the fact that securities may be held by investors based in jurisdictions that are not aware of the need to transition or are retail investors. In sterling, legacy transition was relatively easier because there was a more concentrated pool of investors.

In relation to sterling LIBOR, the FCA published its announcement on 1- and 6-month synthetic sterling LIBOR and it remains to be seen what will happen with the 3-month setting. ICMA had suggested in its response to the FCA consultation that the FCA extend 3-month synthetic sterling LIBOR beyond end-March 2023 and conduct a further review in 2023.

As for other updates, ICMA noted that it had also been contacted about JIBAR reform, and that the ICMA's website continues to provide information and updates to its members on an ongoing basis.

8. APLMA update

APLMA noted that the APLMA held a conference in Singapore in September and released the results of a survey on term SOFR in April 2022. According to the survey feedback, many APLMA's members are leaning towards using term SOFR in new deals. However, the transition of legacy contracts is proceeding very slowly and it seems that members are waiting for additional guidance before taking any action.

9. AFME update

AFME noted that there was not much to report in addition to what other Working Party members had reported. AFME are in the process of trying to quantify the size of USD LIBOR exposures under English law, but this was proving to be difficult.

The deadlines for WIBOR reform were discussed. It was noted that the Polish regulator published a roadmap in Polish and English, according to which the reform of benchmark interest rates is expected to be completed by the end of 2024. However, there still does not appear to be any official announcement on a cessation date.

10. AOB

The LMA thanked members of the Working Party for their contributions and sought feedback as to whether these calls are still deemed useful and, if so, what their frequency should be. Members agreed that these calls should continue on a quarterly basis. Some members suggested that these meetings could return to a monthly frequency in the new year, given the USD LIBOR deadline in June 2023. The next meeting is to be set for January 2023.