

Minutes of LIBOR Trade Association Working Party meeting

held on 19 January 2023

via teleconference

Present

APLMA
ICMA
ICMSA
ISDA
LMA
LSTA
SIFMA
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. APLMA update

In relation to new deal origination in Asia, the APLMA noted that there seems to be no particular landing between term SOFR and compounded SOFR. Although there is a similar deal volume for both options, use of term SOFR is continuing to grow in Asia.

In terms of remediation, the APLMA noted that this is proceeding well in Singapore, Hong Kong, Australia, but not as well in other Asian developing countries. Further, there are some issues that need to be addressed around credit adjustment spreads. Nonetheless, the APLMA is able to see the finishing line, and is waiting for the FCA to release the results from its [synthetic US dollar LIBOR consultation](#) in late Q1/early Q2. Market participants are carrying on with the transition and with the coexistence between compounded and term SOFR. In general, there seems not to be much appetite for simple SOFR.

It was asked whether market participants in Asia had a preferred position for fallbacks to term SOFR. The APLMA noted that the waterfall is slightly contentious because if term SOFR is being used, then the fallback should not be compounded as this is what parties are trying to avoid in the first place. It was further noted that under APLMA documentation the fallback is bank rate, however the market is still unsure about what to do in relation to fallbacks. This is something that the market will need to decide. The LMA explained that its documents provide for two alternative fallback options: (i) fallback to compounded SOFR, which is used mainly in the investment grade space where there are other currencies in the loan which use compounded risk-free rates; and (ii) fallback to fixed central bank rate. The LMA has also not seen any particular firm landing in relation to fallbacks.

3. ICMA update

ICMA noted that ICMA will be holding a sterling Bond Market Sub-Group meeting next week. Like other trade associations, in [its response to the FCA consultation](#) ICMA expressed concerns regarding the proposed timings and timeline. ICMA has also been tracking the transition gap. On US dollar LIBOR, ICMA has a few items on the agenda: (i) concerns regarding the interaction between synthetic LIBOR and the US LIBOR Act, in particular whether synthetic LIBOR will 'trump' the US LIBOR Act; and (ii) monitoring the use of term SOFR, particularly in relation to any potential

creep into the bond and securitisation markets. ICMA is also looking at issues, which are yet to be addressed, in relation to active transition.

It was asked whether there was any regulatory announcement concerning synthetic Japanese yen LIBOR, which was discontinued at the end of 2022, and whether there had been any issues. The APLMA, ICMSA and LMA reported no acknowledged issues with Japanese yen since its cessation. It was noted that JBA and JSLA also had not previously expressed any concerns with Japanese yen transition.

4. ICMSA update

ICMSA noted that the ICMSA also submitted [its response to the FCA consultation](#). The ICMSA recently had a call with its transition working group, where no major concerns or problems were noted. The ICMSA also noted that it is closely monitoring the role of independent advisers in benchmark wording, which should be decided by the issuers of securities.

5. ISDA update

ISDA also [responded to the FCA consultation](#). The response was high level and focused on the need for synthetic USD LIBOR for tough legacy transition. ISDA also provided a technical response to the Federal Reserve consultation on its proposed rules under the US LIBOR Act, which have now been finalised.

ISDA also noted that while it has been relatively quiet over the end of last year, in the last few days there has been an increase in technical questions in relation to derivatives transition (for example, how the fallbacks work and how cash instruments interact with corresponding hedges). None of the questions received sounded concerning, but just seemed to be indicative of an increased focus on transition given the June 2023 deadline.

There do not seem to be any outstanding issues to address, other than promoting a smooth transition. ISDA is considering publishing a technical guide in collaboration with Bloomberg, and also considering to continue the publication of the ISDA RFR adoption indicator, which has been a very successful initiative. There will also be a research paper in Q1 which looks at the narrative around the adoption of risk-free rates.

6. LMA update

The LMA noted that it submitted [its response to the FCA consultation](#), raising similar points around timings. The LMA's main concern relates to the wide use of US dollar LIBOR in developing markets, where market participants have not really been exposed to the transition. A lot of education still needs to be done in developing markets, including in relation to term SOFR documentation, which will be a key priority for the LMA going forward.

The LMA is seeking to gather feedback on the LMA term SOFR exposure draft documents. The LMA is keen to understand whether members are seeing any changes being made to the documents and whether they can be turned into recommended form.

In terms of education, the LMA is also working on new modules for its RFR e-learning course, and held a [webinar providing an update on IBOR transition](#) last November, which attracted over 1,000 attendees. The webinar was well received with many questions being asked. Most questions related to commercial topics such as credit adjustment spreads and hedging. There were also a number of questions on the use cases for term rates in different jurisdictions. However, a couple of questions were quite concerning, reinforcing the need for more education on the differences between compounded and term SOFR and how they are calculated. The LMA is also monitoring developments in other IBORS. The South African Reserve Bank recently started publishing their

own overnight rate (ZARONIA) for observation, while EMMI and Refinitiv have moved forward with their term €STR rates (the Refinitiv rate being a prototype).

Finally, the LMA also sent a separate letter to the FCA highlighting concerns with regard to the transition in developing markets, particularly in Africa. This is particularly important given the wide use of US dollar LIBOR across the globe. The LMA understands that the letter has been shared with other regulators and action is currently being taken.

The LMA further noted that it has been difficult to accurately track transition activity in the EMEA loan market given that the loan market is private and the usual data providers are finding that parties do not submit details around the interest rates being used (as this was historically simply LIBOR). This is different to the US where there is more public data available. The LMA is also interested to know whether term SOFR creep is being observed and it was also noted that the LMA is seeing the coexistence of compounded SOFR and term SOFR.

7. LSTA update

January has so far been a busy month for the LSTA on the LIBOR front, while December was rather quiet. One of the main issues being observed is the slow pace with which remediation has been progressing. There are a good number of deals that have transitioned in the institutional market, but less activity was recorded in corporate and bilateral loans. The LSTA has mainly been focusing on institutional parties, since not many questions have been received on corporate lending. In the institutional market, about 20% of loans have moved to SOFR, while 80% are still LIBOR referencing (of which 30% are hardwired and 10% have amendment-type fallbacks). The LSTA continues to encourage members to transition their loans before the 30 June deadline, but the current economic climate has certainly not been helpful. Further, the LSTA has warned its members that there will be a third wave of amendments, for which they will need to be prepared.

Credit adjustment spreads are being included in remediations, but there is variability in the language in the market. Whilst the market is repeatedly asking for advice on what to do in relation to credit adjustment spreads, this is not something on which trade associations can advise the market on.

The LSTA noted that [the final rule of the LIBOR Act was published](#) in December and the LSTA has been educating its members on it. It was explained that most syndicated loans are not covered by the Act, but it is helpful for some bilateral loans and CLOs. Further, the LSTA added that synthetic LIBOR may be available for some of those loans that do not have fallback language because they were drafted before 2018. Parties will need to check the definition of LIBOR in their loans.

Lastly, the LSTA noted that there will be an ARRC meeting coming up to discuss the potential for sending out a further loan remediation survey.

8. SIFMA update

SIFMA noted that it has been quiet on the LIBOR front. The final rule of the LIBOR Act incorporated many of the comments SIFMA made. Generally speaking, regulators have favoured average daily SOFR, and have been against term SOFR. SIFMA added that discussions around term SOFR will likely take place in the upcoming ARRC meeting.

9. UK Finance update

UK Finance also [responded to the FCA consultation](#), highlighting concerns about timings. In relation to the 3 month sterling synthetic rate, UK Finance suggested the FCA monitor the transition closely before the proposed discontinuation date. In the UK, there are residential and buy-to-let mortgages which could still be referencing LIBOR and where the holders of those mortgages are either not regulated or have no incentive to transition (e.g. the mortgages are being held by administrators).

UK Finance is keen to ensure that the proposed end of 3 month synthetic sterling LIBOR does not create any issues for UK mortgage holders.

Further, UK Finance welcomed the LMA letter to the FCA and reiterated the importance of considering the international element of the US dollar transition. UK Finance will keep monitoring US dollar LIBOR transition. UK Finance noted that, under English law, the UK government passed additional legislation to provide certainty for the use of synthetic LIBOR. However, not all legal systems have an equivalent of this legislation. UK Finance is therefore encouraging the FCA to use its soft powers to discuss the implementation of similar legislation in other jurisdictions.

UK Finance added that it otherwise had very limited concerns being raised from members active in the UK market.

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 thanked the LMA for facilitating these calls, and agreed that calls should continue on a quarterly basis. The next meeting is to be set for April 2023.