Minutes of LIBOR Trade Association Working Party Meeting

held on 27 May 2020

Present:

ACT
AFB
AFME
GFMA
ICMA
ICMSA
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. UK Finance update

Following the publication on 29 April 2020 by the Working Group on Sterling Risk-Free Reference Rates ("**Sterling RFR Working Group**") of a statement regarding the impact of Covid-19 on the timeline for firms' transition plans, there were some concerns about the need to clarify what is exactly meant by some of the recommendations in that statement. As a result, the Sterling Loan Enablers Task Force had been tasked with working on developing a document which will outline a Q&A on the interpretation of the statement. UK Finance and ACT are working together on coming up with the questions, meanwhile the Loan Enablers Task Force is tasked with drafting the answers to these questions. In order to provide clarity on the statement, it is anticipated that the Q&A document will be published as soon as possible, once it had been signed off by the Sterling RFR Working Group.

The Paper on the identification of Tough Legacy issues across asset classes in the UK would be shortly published (the Paper was subsequently published on 29 May 2020).

Whilst due to the implications of Covid-19 a number of workstreams had been delayed in the Sterling Communications Sub-group, some workstreams nonetheless continue being progressed, including the launch of LinkedIn page for the Sterling RFR Working Group. The Communications Sub-group is also working on developing a video series to explain LIBOR transition to end users.

UK Finance continues to work with market participants to increase awareness and provide education in respect of the use cases of benchmark rates (as per the paper entitled ***'The use cases of benchmark rates: compounded in arrears, term rate and further alternatives'***, which was published by the Sterling RFR Working Group on 16 January 2020). UK Finance is also engaging with members in respect of the transition timelines and ensuring that its members are aware of the key milestones that they need to achieve. In order to do so successfully, UK Finance is doing a survey of its members to track their progress on transitioning away from LIBOR. It is anticipated that the results of the survey will be published in July 2020.

It is anticipated that some forward-looking term rate providers are going to start publishing BETA rates as of June 2020. Once these rates are being published, UK Finance will hold sessions for its members, especially targeting those who have little or no exposure to vendors, in order to facilitate education and awareness around these rates. In the US, the Alternative Reference Rates Committee ("**ARRC**") announced in its key objectives for 2020 that, by 30 September 2020, it will establish an RFP process and criteria for recommendations in order to select an administrator of an ARRC-recommended forward-looking term SOFR rate to be published in the first half of 2021 if liquidity in SOFR derivatives markets has developed sufficiently, and also establish recommended scopes of use for such a term rate.

There was a meeting with different sterling industry bodies focused around the UK Coronavirus Business Interruption Loan Scheme and the UK Coronavirus Large Business Interruption Loan Scheme. It was largely agreed that given the immediacy for the need by borrowers to be able to draw on these loans, they would be referenced to LIBOR not SONIA.

3. TACT update

It was noted that given there were various developments in the market in respect of virtual bondholder meetings and consents, it will be interesting to see how banks will respond to the new environment and the way forward (i.e. banks could either seek to obtain relevant consent required under documentation or amend the documentation altogether).

On 28 May 2020, TACT and K&L Gates are holding a webinar series of Lunchtime Conversations, where the first topic under discussion is going to cover the transition away from LIBOR. Speakers at the webinar include Alex Campbell of Fieldfisher and Christopher English of Deutsche Bank / ICMSA.

4. LSTA update

The LSTA continues to work on conventions. In particular, through the US Business Loans Working Group ("**BLWG**"), the LSTA is working on developing a conventions matrix which is expected to be published in July 2020. The conventions matrix will cover simple and compounded SOFR, however, most outstanding questions at this stage are in relation to compounded SOFR given the issues in respect of operationalising compounded SOFR in respect of loans. Many market participants in the US are gravitating in the first instance towards the use of simple SOFR given that the basis between simple and compounded SOFR is relatively small. Nonetheless, the conventions matrix will cover both methodologies.

The LSTA continues to work on updating the ARRC's fallback language for the hardwired approach for loans to take account of developments since these were published and given increased focus in the market towards moving to hardwired fallbacks. The updated language is expected to be released towards the end of June 2020. The draft is currently under review with the BLWG, where current discussions are focused on updating the waterfall of replacement rates as a second stage in the waterfall from compounded SOFR (noting that the current language leaves it open as to whether this is compounded in arrear or in advance) to simple SOFR. It was noted that the option of including compounded SOFR in arrear will still be covered in the users' guide. The first stage in the waterfall language is still to forward-looking term SOFR (the development of which is highlighted in the ARRC's key objectives for 2020).

On 27 May 2020, the ARRC published its recommended best practices, along with a corresponding factsheet, to assist market participants in their preparations for the cessation of USD LIBOR. The recommended best practices are intended to clarify the timelines and interim milestones that the ARRC believes are appropriate for transitioning away from USD LIBOR in a way that will minimise market disruption and support a smooth transition through the broad voluntary adoption of SOFR. The best practices include dates after which no new LIBOR activity should be conducted. In particular, the ARRC's key recommended best practices for business loans include:

- all new business loans should include ARRC-recommended (or substantially similar) hardwired USD LIBOR fallback language as soon as possible, but in no event later than 30 September 2020; and
- no business loans using USD LIBOR and maturing after 2021 should be originated after 30 June 2021.

5. LMA update

The LMA continues to work on a number of projects in respect of producing LMA documentation for the transition, including in light of recent developments with ISDA, considerations around whether the LMA should include a specific pre-cessation trigger in the LMA Recommended Revised Form of Replacement Screen Rate Clause, which was recently discussed with the LMA LIBOR Working Party. The LMA is also working on producing documentation for a full hardwired / switch mechanism approach.

The LMA and LSTA continue to work to on conventions for compounding in arrear for the syndicated loan market, including through calls between the various national risk-free rate ("**RFR**") loan sub-groups and central banks. The recent survey that the LMA developed on some of the outstanding convention issues for compounded SONIA relevant to the syndicated loan market is now closed and the LMA is awaiting for the results of that survey to be released by the Bank of England. The survey sought to identify what is deemed to be important in this context for sterling syndicated facilities and the sterling leg of multicurrency facilities. It is anticipated that the feedback received may be helpful in future cross-currency calls between the various RFR loan groups and collectively help to inform build requirement discussions with loan system vendors. It was noted that whilst to the extent possible work on conventions is conducted on an international basis so as to achieve the maximum possible consistency between the conventions used across the different currency jurisdictions, it may be the case that different currency jurisdictions will nonetheless opt to use different conventions in this respect given that there appears to be some shift in market participants' views as to the correct direction of travel.

The LMA continues to work on facilitating education to the market in respect of the transition, and on 13 May 2020, the LMA released a webinar entitled '***Transition from LIBOR in the Loan Market – Update***', which provides an update on transition since the previous LMA webinar on transition in the loan market in January 2020. In particular, the webinar covers the following key topics: (i) where are we now on transitioning from LIBOR?; (ii) update on current 'loan market' transition issues; and (iii) what should loan market participants be doing?

On 20 May 2020, the LMA published a table which sets out RFR referencing loans which have been announced to date. The list is based on publicly available information and seeks to raise awareness of RFR referencing loans by providing information on the conventions used and also links to public information. This table is available on the LMA LIBOR Microsite and is publicly available.

On 21 May 2020, the LMA released a spotlight interview entitled '***Switching it up – British American Tobacco's £6bn LIBOR to SONIA/SOFR RCF***' , in which Kam Mahil of the LMA speaks to British American Tobacco ("**BAT**"), HSBC and Allen & Overy, about the recent BAT multicurrency facility which contains a switch mechanism providing for sterling and US dollar LIBOR to be replaced by compounded SONIA and compounded SOFR respectively.

6. ICMSA update

The next meeting of the ICMSA Committee is taking place on 28 May 2020, where progress is being made on developing bulletins to help market participants understand the process of consent solicitations in the context of the transition. The Committee is currently working on covering transitioning legacy bonds by way of a bondholder meeting (including aspects related to virtual bondholder meetings).

It was noted that, given the implications of Covid-19, there had been a reduction of issuances of new RFR-referencing bonds and that it will be interesting to see how quickly issuance will pick-up again given transition timelines. It was noted that DBS had issued a one year transaction in Singapore based on SORA (the Singapore Overnight Rate Average).

7. ICMA update

Whilst issuance of RFR-referencing bonds continued in 2020, the nominal volume of new issuances is lower when compared with this time last year: in 2019, 29 floating rate notes were issued at this point in time and represented the nominal value of around £20bn, whereas in 2020, the market had so far seen the issuance of 39 deals with a nominal value of £17.3bn.

ICMA continues to monitor the situation in the market with respect to tough legacy transactions and is thinking ahead to some of the issues that are expected to come up in the context of potential legislative solutions.

ICMA's work in respect of the Sterling Cash Legacy Task Force paper focused on the bond market has now been taken over by the Bank of England, however, there were no further updates on this workstream or when this might be finalised / published at the time of the meeting.

Following the publication of the results of the consultation on credit adjustment spreads for fallbacks in cash products referencing GBP LIBOR, ICMA continues to work alongside the LMA on a proposed statement containing a recommendation following the results of the consultation. The purpose of the recommendation would be to satisfy the language in loan replacement of screen rate language and bond fallbacks which refer to a credit adjustment spread designated / nominated / recommended by a relevant nominating body. ICMA also continues to look at the various nuances in the bond market, including looking at bonds with embedded LIBOR swaps.

ICMA continues to work on considerations around documentation, including the process connected with the implementation of backward-looking rates into documentation.

8. GFMA update

To aid the awareness of the IBOR transition processes impacting globally-active financial institutions, the GFMA had been working on updating the following documents which outline the various parts and players (these documents were subsequently published on 1 June 2020). The updated versions of these documents were updated from its previous September 2019 versions to provide the latest information regarding rates for major currencies including the Australian dollar, Canadian dollar, Euro, Hong Kong dollar, Japanese yen, Singapore dollar, Swiss franc, UK pound sterling and U.S. dollar. This information is organised into four publications:

- Key Timelines and Milestones for the Japanese yen, Euro, UK pound sterling, U.S. dollar, Swiss franc, Australian dollar, Canadian dollar, Hong Kong dollar and Singapore dollar;
- 2020 Objectives and Milestones;
- Snapshot of the IBOR and RFR variables associated with each currency; and
- 'At a Glance' Tracker of each official sector working group activities and near-term expected actions.

The GFMA continues to regularly circulate its monthly newsletter focused on regional and global updates to help its members keep abreast of the developments with respect to the transition.

9. AFME update

AFME had been assisting with the production of GFMA's publication.

AFME is currently working on developing model wording for EURIBOR along with Freshfields and a small working group which comprises of some of its members. This project is on-going, pending some delay arising from the implications of Covid-19.

10. AFB update

AFB's members had been focused on developments in respect of the transition taking place in the UK. In particular, members were concerned about the development of forward-looking term rates and the timeline for when such rates might become available for use in the market. The AFB had also been speaking to the FCA about the impact of Covid-19 on timelines.

AFB had the opportunity to discuss with the LSTA the implications of Covid-19 on transition timelines and updated their members accordingly on developments in the US.

AFB continues to update its members on the transition by facilitating access to new and relevant information in respect of the issues which are of key concern for them.

11. ACT update

ACT members have been mostly pre-occupied with the implications of Covid-19 and this had somewhat reduced the engagement of corporates with work on the transition.

On 13 May 2020, the ACT held a webinar with Edwin Schooling Latter of the UK Financial Conduct Authority ("**FCA**") and experienced bankers. It is clear that, in general, there is a lot of engagement in the market with the transition despite the impacts of Covid-19 and it is expected that dealing with the transition will be accelerated once the most immediate impact of Covid-19 passes. On 29 April 2020, the ACT welcomed the clarification of the interim timelines relating to LIBOR transition in the sterling market and in particular the announcement of a delay until Q1 2021 for the cut-off date for new loans referencing sterling LIBOR.

It was noted that the list of new loans referencing RFRs which was published by the LMA is incredibly helpful and it was shared with ACT members. In order to assist with the transition from LIBOR to RFRs, the ACT has encouraged all its members going through the process of transition to contribute to the list.