

Minutes of LIBOR Trade Association Working Party Meeting
held on 25 June 2020

Present:

AFME
GFMA
ICMA
ICMSA
LMA
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

The series of events that UK Finance had been working on with trade associations and other stakeholders in the Sterling Communications Sub-Group will now be released as webinars, given that the initial plans had been impacted by Covid-19. The webinars will be focused on providing the background to LIBOR transition and facilitating education in respect of key transition issues for non-financial services, trade associations and other stakeholders. The webinars will be released by the UK Financial Conduct Authority ("**FCA**") and the Bank of England and will be featured on the Working Group on Risk-Free Reference Rates' ("**Sterling RFR Working Group**") [LinkedIn Page](#). The first webinar will focus on the background to LIBOR transition and it is hoped that it will be released shortly. The following webinars will then focus on specific issues for SMEs, treasury and accounting.

UK Finance continues to engage with its members on their progress with respect to the transition and the outstanding barriers to transition. One of the key difficulties that UK Finance members have noted relates to achieving clarity with respect to the methodology for compounded SONIA in arrear. Some members also noted challenges when transitioning to other alternative non-LIBOR rates, such as base rates.

3. TACT update

On 28 May 2020, TACT and K&L Gates held a webinar which discussed issues associated with the transition. It was noted that those who joined the webinar did not have any questions which TACT could share with members of the Working Party, however, members of the Working Party will be updated of any such questions in the future so as to shed some light on trustees' key concerns with respect to the transition. This webinar will be made available for TACT members on demand in July 2020 and any feedback received will also be shared.

4. GFMA update

GFMA is continuing to monitor and await the release of the results of the Financial Stability Board ("**FSB**") survey, which is expected to come out in July 2020. It was noted that the FSB Official Sector Steering Group ("**OSSG**") is also planning to host a roundtable on reforming major interest rate benchmarks.

Overall, there is continued commitment from its larger members in respect of the transition, however, its members are conscious that they are only on one side of the equation and that a lot of work remains outstanding.

5. ICMSA update

ICMSA continues to hold monthly working group meetings. On 12 June 2020, ICMSA [published](#) a bulletin entitled "***The discontinuation of LIBOR/IBORS – timeline of a consent solicitation***", which provides some background and explanation of the process around consent solicitations, including timelines. It is hoped that, along with the [earlier publications](#) released by ICMSA, this bulletin will assist market participants in understanding the complexities around conducting consent solicitations and any practical challenges.

A follow-up bulletin is also in the pipeline. This will focus on the technical details associated with conducting consent solicitations, including by providing a checklist for calculation agents in respect of what they need to look out for in documentation. It is hoped that this follow-up bulletin will help to smooth and speed up the process of conducting consent solicitations across the market.

6. LMA update

On the sterling side, on 24 June 2020, the UK HM Treasury [published](#) a written ministerial statement announcing that it intends to bring forward legislation to amend the Benchmarks Regulation to give the FCA enhanced powers to help manage and direct an orderly wind-down of critical benchmarks such as LIBOR, and, in particular, help deal with the problem identified by the Sterling RFR Working Group of 'tough legacy' contracts that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended before end-2021. The Sterling RFR Working Group's paper on the identification of 'tough legacy' issues was [published](#) on 29 May 2020. The FCA also published a [statement](#) and a [Q&A webpage](#) on the proposed legislation and what the changes to its powers are intended to achieve.

The LMA and LSTA continue to work on conventions for compounding in arrear for the syndicated loan market. This is a key outstanding milestone to help vendors finalise work on systems and for banks to embark on implementing these internally / borrowers' treasury systems to be developed and implemented accordingly, with a view to scale up risk-free rate ("**RFR**") issuance in the loan market and to facilitate greater certainty in relation to transitioning legacy facilities.

The LMA continues to work on producing a facility agreement which contains an in-built switch from LIBOR to RFRs, which will be important in helping the market to reduce the volume of legacy LIBOR-referencing loans which need amendment. Once there is clarity with respect to conventions, this will enable the LMA to finalise its exposure drafts of RFR facility documentation.

On the euro side, the Working Group on Euro Risk-Free Rates ("**Euro RFR Working Group**") is currently working on finalising two consultations on fallback triggers and the appropriate fallbacks for EURIBOR.

In respect of education, the LMA is sending out a regular [LIBOR newsletter](#) to its members which sets out information on key LMA initiatives on LIBOR transition, as well as the latest legal and regulatory news and other sources of useful information on the transition.

7. ICMA update

There is a lot to consider on the bond side in light of the recent announcement by the UK HM Treasury that it intends to bring forward legislation to give the FCA broader powers and the corresponding messages from the FCA. It was noted that the Sterling Bond Sub-Group will consider these developments at its next meeting.

In its statement, the UK Government also stated that market participants should continue to focus on active transition, as this is the only way for parties to have certainty about contractual continuity and control over their contractual terms. It was noted that, as a result, there continues to be a push

by the regulators towards conducting consent solicitations and it is incredibly helpful that ICMSA continue to publish market briefings on this topic to assist market participants in understanding and engaging with the process.

On 11 June 2020, the Bank of England [published](#) a summary of the feedback received on the Discussion Paper entitled "**Supporting Risk-Free Rate transition through the provision of compounded SONIA**" and its response to that feedback. Given near universal support from respondents, the Bank of England confirmed that it will publish a daily SONIA Compounded Index with anticipated publication from early August 2020.

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. ICMA also continues to look at the various nuances in the bond market, including looking at bonds with embedded LIBOR swaps and other technical points.

In respect of education, ICMA is due to release a webinar focused on: (i) progress on the transition to RFRs; (ii) remaining challenges to complete implementation of the transition in time, including legacy issues; and (iii) the importance of international coordination. This webinar was subsequently [released](#) on 26 June 2020 and comprised of representatives from the official sector across the Sterling, Euro, US dollar and Swiss markets.

8. AFME update

AFME is working on producing a version of its negative consent language, which was originally published for the sterling market a couple of years ago, for EURIBOR. AFME is assisted by Freshfields with this workstream and it is planning to engage with a wider stakeholder group before releasing the final version to the market. Whilst this project is ongoing, there have been some delays arising from the impact of Covid-19.

AFME had been asked by the European Central Bank to convene a group of securitisation experts to help Sub-Group 5 of the Euro RFR Working Group look into fallbacks to EURIBOR, analyse the options and help finalise the relevant section of the upcoming consultation paper.

9. SIFMA

On 18 June 2020, the U.S. Securities and Exchange Commission's ("**SEC**") Office of Compliance Inspections and Examinations ("**OCIE**") [issued](#) a [Risk Alert](#) outlining its plans to examine registrants' readiness for the LIBOR transition. The agency cited the transition as an exam program priority for 2020. In the Alert, OCIE states that it plans to conduct examinations of investment advisers, broker-dealers, investment companies, municipal advisors, transfer agents, and clearing agencies. A sample document request is provided with the Alert. It was noted that, combined with the recent statement of Edwin Schooling Latter of the FCA that a non-representativeness determination in respect of LIBOR could come as soon as November or December 2020 – giving the market 12 months to prepare for cessation at the end of 2021, this helps market participants to stay on top of transition-related issues and acts as a reminder that this issue should be dealt with now.