

**Minutes of LIBOR Trade Association Working Party Meeting
held on 15 November 2018**

Present:

APLMA
FIA
IA
ICE
ICMA
ICMSA
ISDA
JBA
JSLA
LMA
LSTA
UK Finance

1. Introduction

The purpose of the meeting was for ICE Benchmark Administration ("**IBA**") to provide an overview to the Working Party of their Term RFR Portal and Paper on Potential Term Structures ("**Paper**") for risk-free rates ("**RFRs**"), as well as for the trade associations to provide updates on any developments since the last meeting.

2. IBA overview of the Term RFR Portal and Paper

IBA had recently launched the [ICE Term RFR Portal](#) and published a [Paper on Potential Term Structures for RFRs](#) in response to the efforts of various working groups on RFRs to develop a term rate structure. IBA noted that there was demand from certain segments, mainly of the cash market, for forward-looking term rates and also for the publication of backward-looking average and compounded overnight rate.

Forward-looking term structures could be derived from the derivatives market, namely the overnight index swap ("**OIS**") market or the futures market. IBA have focused on SONIA initially given this is an existing well-established market compared to the other chosen RFRs.

IBA does not publish an indicative rate for a SONIA swaps derived term rate as yet because currently, the SONIA swaps market is mainly forward-starting, rather than spot-starting. Additionally, SONIA swaps are mainly traded on a voice OTC basis, which means there is currently not enough transparency to derive the necessary data.

As for SONIA futures, IBA has used settlement prices in the futures market to derive a term rate. For this purpose, one-month futures have been used since these were the most transparent and provided the most granular information. IBA has used a simple step-function to create a term rate and implied rates from futures contracts for each day and compounded those rates to produce tenors of one, three and six months.

IBA has begun to publish these rates on its Term RFR Portal to help give the market a sense for what these rates would look like. The methodology is explained in detail in the Paper, but essentially four inputs are looked at in establishing the term rate: the overnight SONIA rate, the one-month futures price, the holiday calendar and the MPC calendar.

IBA explained the Term RFR Portal. At the top of the page, the following overnight RFRs are displayed: SONIA, SOFR, TONA, and ESTER (although the ESTER rate is currently left blank as it is not yet published by the ECB). These rates are published daily at various time intervals based on the release of the relevant RFR. SONIA and TONA are published at 11:55 London time and SOFR at 14:15 London time. All RFRs refer to the transactions from the previous day.

For each of GBP, USD, JPY and EUR, the Portal includes sections for both realised (backward-looking) and forward-looking term rates, in each case for 1, 3 and 6 month tenors. In respect of the realised rates, the Portal displays both a simple average and a compounded rate. The compounded rate is calculated based on the market methodology for compounding.

In respect of the forward-looking rates, the Portal displays a futures derived rate for 1, 3 and 6 month tenors.

The Portal currently only provides indicative rates and they are not for use as benchmarks at this stage. IBA expects for the rates to become a benchmark under the EU Benchmarks Regulation ("**BMR**") in due course.

The next steps for IBA are to get more feedback on the Portal and Paper, including on timing of publication of the rates, the tenors and which instruments to use. IBA has started to receive feedback and encouraged the trade associations to encourage their members to submit feedback or questions.

In terms of IBA's Brexit plans, there are transitional provisions under the BMR such that IBA benchmarks could continue to be used until the end of 2019. There are various routes that IBA could take in the event of Brexit, including equivalence, recognition or endorsement. IBA is preparing to use the BMR's third country mechanisms.

The production of forward-looking term rate in respect of the various RFRs in the future would depend on market feedback; if there is demand for a forward-looking term rate then IBA would look to produce one provided that it was robust, transparent and accepted in the market.

3. APLMA update

The APLMA stated that raising awareness remains a key focus, with LIBOR updates scheduled to be held at its upcoming events – the Taiwan Loan Market Conference and the Indonesia Loan Market Conference. The APLMA is particularly seeking to facilitate education in those jurisdictions where awareness was most lacking.

4. ICMA update

ICMA noted that bond issuances referencing compounded SONIA had continued, although October had been quieter due to market conditions. ICMA was now aware of 12 SONIA bond issuances to date.

ICMA had attended the ECB roundtable on euro RFRs in Frankfurt on 9 November. ICMA was also planning to respond to the ARRC consultation on fallbacks for floating rate notes.

On the Swiss franc side, the National Working Group had recently published some fallback language produced by Homburger, which appears to relate to loans. Jointly with SIX, ICMA had held a well-attended event in Zurich on the topic of benchmark transition.

ICMA continues to focus on the key areas of adoption of RFRs in new bonds and the issues surrounding LIBOR-referencing legacy bonds.

5. ICMSA update

There were currently no updates to report, however, the ICMSA continues to monitor the situation carefully.

6. IA update

The IA has mainly focused on engagement and education, such as through release of the [‘Future of LIBOR and Implications for UK Investment Managers’](#) video with Linklaters, and had encouraged its members to respond to consultations. The IA held a [webinar](#) with Linklaters and plan to continue its educational efforts next year. The IA had also invited ISDA to the RFR Investment management Forum to give a presentation on its fallbacks consultation paper to encourage buy-side participants to respond.

7. JBA update

The cross-industry committee on Yen benchmarks met last month and the loan subgroup and bond subgroup have reported a strong need for a term rate. The committee also established a cross-currency swaps working group, the members of which will join the ARRC cross-currency swaps sub-group from the next meeting.

8. JSLA update

The JSLA flagged that the Financial Stability Board had just published their [progress report of 14 November](#), which amongst other things details the progress made in the Yen working groups.

The Yen loans subgroup had held several meetings with lenders and borrowers to gather market opinion on various issues. The JSLA had also started publishing the minutes of the LIBOR Trade Association Working Party Meetings as well as a brief Japanese translation on its website and is also focusing on education and raising awareness.

9. LMA update

On the sterling side, the LMA had worked on a paper with the loans subgroup about issues to consider with new and legacy loans referencing LIBOR. This is with the Sterling Working Group for sign-off. Work is also being undertaken on fallbacks to SONIA-based RFRs and a new joint task force (with bonds, loans and derivatives representatives) is looking at a discussion paper around the conventions for using compounded SONIA.

The euro working group are looking to issue a consultation by the end of the year on forward-looking term rates and also a paper on the transition path for EONIA. On the US side, the LMA will respond to the ARRC consultation on fallbacks.

Language on fallbacks had been published by the Swiss working group, but this was focused on retail loans, as opposed to corporate loans. In the minutes of the working group which were published, they noted that it would be difficult at this stage to produce a forward-looking term rate in the Swiss market so will focus instead on recommending using compounded SARON. The LMA has made strong representations on having a forward-looking term rate for the loan

market and the Swiss working group intends to review the forward-looking term rate once the SARON futures market has developed further.

The LMA has continued its programme of education for members and noted that positive feedback had been received on the existence of this Working Group.

10. LSTA update

The LSTA noted that the ARRC had published its consultation on fallbacks in syndicated loans, the deadline for which was extended to 26 November. Interesting responses had been received to date as to preferences on the amendment/hardwired approaches.

The ARRC is currently working on the consultation on bilateral loans, which should come out in December. Work is also ongoing on the securitisation consultation.

The LSTA continue to raise awareness.

11. UK Finance update

UK Finance has recently started working on the transition from LIBOR to SONIA and its main area of focus will be retail and commercial mortgages and loans, and in particular those areas not already covered by other trade associations.

UK Finance wishes to assist with the outreach programme to raise awareness and will look to cooperate with other associations on this.

12. ISDA update

ISDA's consultation on IBOR fallbacks closed on 22 October and the results should be published before the end of year. ISDA will then look to implement the fallbacks and select a vendor to publish the spreads.