Minutes of LIBOR Trade Association Working Party Meeting

held on 26 January 2022

via teleconference

Present:

ACT
GFMA
ICMA
ICMSA
ISDA
LMA
LSTA
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. ACT update

The ACT commented that it has received no notable feedback and no cause for concern from its members since the cessation / pre-cessation of most LIBOR settings on 31 December 2021. There continues to be a lot of work within corporates to actively transition deals, particularly intercompany loans and deals rolling into the first quarter.

The LMA asked the ACT whether market participants were generally using the compounded in arrear methodology, at least for sterling deals. The ACT confirmed that this is what it has seen, but noted that there is some nervousness that some USD deals in the UK market may start to use term SOFR and that this could confuse matters. The ACT noted that the LMA documentation has been really helpful for transition.

3. ICMA update

ICMA noted that the end of 2021 and the beginning of 2022 has been smooth from its perspective and the perspective of the bond market more generally.

ICMA noted that at the last Bond Market Sub Group (**BMSG**) meeting on 19 January, attendees were encouraged to report on any difficulties that they had faced since the new year. Aside from a few teething problems, there was nothing that came up that required particular attention. Accordingly, moving forward, the BMSG will be able to give more focus to encouraging continued active transition of legacy on the basis that synthetic LIBOR will not be available indefinitely. The BMSG will also be able to give more attention to USD transition, in particular for those USD contracts operating under English law, where the solution is not so straightforward.

Elsewhere, ICMA will continue to monitor how the £RFR Working Group evolves to address the above points and any further issues that emerge.

4. ISDA update

ISDA noted that it has had similarly few comments or concerns of substance from its members in 2022 to date, adding that everything is progressing smoothly and that ISDA's fallback language is working well.

Most of the queries that ISDA has received have been very technical in nature, including interpolation queries around discontinued tenors, which ISDA considers to be a positive sign. To address some of these queries, ISDA is planning to publish a guidance note, including some worked examples in relation to fallbacks.

ISDA will continue to focus on benchmark reform moving forward and will continue to include relevant panellists at its upcoming events. However, in addition to LIBOR, it will begin to focus on more regional benchmarks, including the future of the Canadian Dollar Offered Rate (CDOR) after the recent recommendation by the Canadian Alternative Reference Rate Working Group (CARR) for its cessation.

5. JSLA update

The LMA noted that the JSLA was not able to attend the meeting, but had sent a summary update by email, which was read out:

Almost all of the existing Japanese yen LIBOR contracts had successfully completed their transition by the end of December 2021. Although a small number of contracts remain, the transition for these contracts is expected to be completed before the first interest payment. There are no contracts that would fall under the category of tough legacy contracts and therefore be expected to use synthetic yen LIBOR.

The LMA mentioned that it had asked the JSLA about use of synthetic yen LIBOR, since it recalled that there was some nervousness in the market that synthetic yen LIBOR was available for one year and this might not be long enough for certain legacy contracts.

The JSLA responded by saying that it believes steady progress was made in the transition away from Japanese yen LIBOR in Japanese markets, and that contracts for which synthetic yen LIBOR is expected to be used have not yet been specified. However, there is a possibility that tough legacy contracts will arise and synthetic yen LIBOR may be used as a "safety net" for these contracts.

6. LMA update

The LMA noted that it has continued to produce documentation for the transition. In December, it published compounded in arrears documentation for the leveraged market. December also saw the LMA publish RFR versions of its Spanish, German and French law investment grade documents, with the French law (French language) version being published in January.

In January, the LMA also published finalised versions of its secondary debt trading documentation, including revised standard terms and conditions, trade confirmations and participation agreements. The LMA noted that there is more to be done in terms of education on the secondary side, not least due to the low number of secondary trades of RFR-linked loans that have taken place, so this is an area that the LMA will be keeping under review.

The LMA also published a compounded TONA schedule and an updated designated entity clause in January.

Given the size of its documentation library, and due to lack of market precedent in some markets, not all of the LMA's documents have been converted from LIBOR to RFRs. In light of this, the LMA also published an RFR Destination Table to assist members in identifying the LMA RFR-referencing document which is most directly comparable to any given LMA LIBOR-referencing document. Where there is no direct equivalent, the table sets out the RFR-referencing document(s) which is / are most closely related and may be most helpful.

The LMA also has schedules for some non-LIBOR currencies, so will be keeping an eye on activity in these markets too.

The LMA will continue to monitor the market and any trends that arise, for instance with respect to the use of term SOFR in EMEA (especially in multicurrency deals). Education for market participants operating in developing markets will also be a focus given their use of USD LIBOR and the impending deadline of June 2023. The LMA is keen that all market participants prioritise active transition at this time due to the volume of contracts still requiring attention.

The LMA added that the markets it is most concerned with are the developing markets and those related to the developing markets such as ECA and DFI finance. Market practice has yet to develop in these areas.

The LMA also noted that, with respect to further changes to its documentation suite, it is mindful about not leading the market where there is little market precedent or official guidance.

The LMA finished by noting that, much like other members of the Working Party, there were not many problems to report on following the end of year transition save for some teething issues. The main queries that have emerged relate to interpolation, fallbacks, cost of funds and reference banks. This is largely driven by deals where there are interest periods of less than 1 month given that is the shortest tenor for which synthetic LIBOR is available.

7. LSTA update

The LSTA noted that it has observed a rush in the US market to SOFR-based issuance. This trend began in December and has accelerated into January. Most transactions have been tied to term SOFR, particularly in the institutional space. The LSTA also noted the emergence of SOFR-based CLOs as a positive sign in the transition.

The LSTA noted that an issue that will be the subject of conversation in the coming months will be continued active transition and remediation of legacy contracts in 2022. The LSTA is keen to avoid a rush to transition in the first half of 2023, however conceded that the economics are not necessarily conducive to persuading parties to transition now due to how low interest rates currently are.

Nevertheless, the LSTA has been monitoring futures prices and forecasts, and is hopeful that interest rates will move to a point where transitioning to SOFR may actually be attractive to market participants later in 2022.

The LSTA is comfortable that the larger borrowers are up-to-date on the education piece, but are concerned that some smaller borrowers may require more guidance.

The LSTA noted that it is finalising its template forms of amendment, which will provide market participants with templates for amending a LIBOR-referencing loan into a SOFR-referencing loan. Wording for daily simple SOFR and term SOFR will be available.

8. TACT update

The TACT noted that parties are busy on consent solicitations. The TACT noted that the LMA documents have been very useful to its members and that its language has been adopted and amended accordingly, facilitating a smooth process. There is a general understanding from investors and trustees that transitioning their deals to RFRs is a necessary economic change and they are generally willing to proceed and provide consent rather than trying to ask agents to push through changes.

The TACT will be monitoring the market, although it is not expected that any major issues will arise.

9. UK Finance update

UK Finance reported a similarly smooth end of 2021 and start of 2022. It has been in touch with business groups since the new year, but minimal issues have been raised in these discussions. UK Finance will monitor whether this remains the same following the first interest reset dates.

Much like ICMA, UK Finance will be keeping a keen eye on announcements regarding the work of the £RFR Working Group moving forward, and will be engaged in future conversations regarding sterling and yen synthetic LIBOR.

10. ICMSA update

The ICMSA noted that it has not been made aware of any major problems in the market since the start of the year.

The ICMSA will continue to keep a watching brief on deals consented to and changed. In many new deals the first interest payment date has not yet occurred, however when these dates come around, the ICMSA acknowledged that queries may arise.

The ICMSA raised the comments made by Edwin Schooling Latter with respect to dealer polls in his December speech. Given the FCA has said that it would not be willing to compel any of the reference banks to participate in dealer polls, the ICMSA noted that there needs to be more education in the market with respect to how dealer polls will work. The ICMSA included a note on this in its bulletin last week and that it is having the FCA's Toby Williams speak on the matter at an upcoming ICMSA meeting to ensure agents and trustees are aware.

The ICMSA noted that it would also welcome banks releasing public statements outlining their approach to dealer polls, and arranging a central point of contact in order that market participants can get timely responses.

11. GFMA

The GFMA noted that it has had no particular updates or concerns since the last meeting. The GFMA confirmed that it will continue to publish its newsletter into this year and that one should be published shortly.

12. SIFMA update

SIFMA noted that the transition had been smooth from its perspective. It is still waiting for the House of Representatives to vote on and to pass the Adjustable Interest Rate (LIBOR) Act of 2021 (H.R. 4616). The Bill has been subject to some discussions on language over the past few weeks, however SIFMA is hopeful that the Bill will be passed imminently.

13. AOB

After discussion, the Working Party resolved to hold a meeting at the end of March, and then quarterly from that point onwards.

The LMA confirmed that it was happy to continue hosting the meetings.

The LMA thanked members of the Working Party for their updates. The date of the next meeting is to be set for March 2022 and minutes would be circulated.