



IBOR TRANSFORMATION AUSTRALIAN WORKING GROUP

Meeting of the IBOR Transformation Working Group

Thursday 27 February 2020

3pm

AFMA Boardroom

Level 25, Angel Place, 123 Pitt Street Sydney

Minutes

Attendees

Pieter Bierkens	Chair	Commonwealth Bank of Australia
Duncan Marshall	Member	Australia and New Zealand Banking Group Limited
David Ziegler	Member	Macquarie Group Limited
Gregory Kaspar	Member	Westpac Banking Corporation
James Leather	Guest	UK Sterling Reference subgroup member

Secretariat in attendance

David Love	Policy Executive	AFMA
Mark McCarthy	Support Executive	AFMA
Murray Regan	Observer	AFMA

Apologies

John Henson	Member	National Australia Bank Limited
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1. Meeting Opening

1.1. The meeting opened at 3:04 pm. Attendees were noted as above.

1.2. The previous minutes were accepted.

2. Guest - James Leather

James Leather represents the Association of Corporate Treasurers on the UK Working Group on Sterling Risk-Free Reference Rates subgroup. He provided the group with an overview on the role of the group. The purpose is to support transition of legacy £ cash market products for bonds, securitisation & loans. Its objectives are

- To promote awareness of 'active conversion' approaches
- To support transition by considering 'fallback' language & update methods
- To explore different transition paths

Current work by the Working Group is on:

- A “loans’ discussion paper” by Easter (prioritised by participants)
- A “bonds’ paper” by late spring (examining market-based solutions)
- A fallback paper (possibly)

JL group working on the Loans’ discussion paper will have a wholesale market focus

- Seeking market based solution (not regulatory)
- Covering: blockers; credit spread adjustment, calculations & conventions; & fallback language

Key points made by this group to JL for take back to UK are:

1. Australia has made a ‘strategic decision’ in this area to be a follower, so are looking to the Bank of England to lead (re LIBOR to SONIA)
2. There has been a strong emphasis on bank conduct by the regulators in Australia so conduct risk and value transfer is very much front of mind.
3. Thus, guidance on how banks/FIs can communicate with borrowers about the transition from LIBOR to SONIA plus a credit spread adjustment in a way that is acceptable to the regulator, would be helpful in accelerating transition
4. Fairness is an important concept in Australian law, but difficult to define and thus it is difficult to get guidance from an Australian lawyer as to what would constitute as being ‘fair’
5. Lack of clarity on conventions was thought to be a fundamental problem. Under SONIA, it was mentioned that there were at least 6 different ways of calculating interest, whereas under LIBOR there is one. Any interest calculation should be easily reproducible by anyone. Getting this resolved will also help to accelerate transition. (and my takeaway from this, is that clarity here will help unblock the system issue, as well as borrower understanding)
6. Whilst it is understood that the starting point for using a Term SONIA Reference Rate for wholesale loans is not possible, there is concern that borrowers will ask for a term rate (and in fact insist on it if they see it is available in other products). Thus, what should lenders do, if their clients ask for this? Especially if another bank starts to offer a term rate? It could become a point of differentiation / customer service / competitive advantage. Might there be a Conduct risk in offering such a rate, or in not offering such a rate?
7. There was interest in fallback language, but the message was that the focus is on pro-active transition and encouraging participants not to rely on fallback language, which might expose participants to volatile spreads between LIBOR and SONIA.

3. December CFR letter follow up

3.1. Group noted that it is awaiting a reply from CFR to its December letter concerning official guidance on conduct risk.

3.2. Transition relief

Sterling WG has written a letter to the European Commission, which discusses trade reporting obligation and risk mitigation techniques, and impact on capital requirements.

Group discussed to what extent does it need to raise these issues with regulators. If so, what issues should be raised.

Secretariat advised that the AFMA Market Responses WG is compiling market related transition issues. It is meeting next in mid-March. Secretariat will report back on whether issues need this group's attention and raising with the regulators.

4. Delay in ISDA fallback effect on other work

Group noted that the delay in ISDA fallbacks means a delay in the ASF work on BBSW and this has been flagged with RBA/ASIC.

Other markets are seeing the need for "a body" to publish compounded rates and an index to encourage transition to RFR (Fed for SOFR or "NatWest/BoE for SONIA). Does this need to be revisited in Oz for AONIA

UK seems to be going through a minor recalibration of compounding methodology - 5 day lag versus 5 day observation shift.

5. Chair report on FSB OSSG meeting

The Chair gave a report on the FSB OSSG meeting in February.

6. Close of Meeting

The meeting closed at 4:20 pm.