



# Meeting of the IBOR Transformation Working Group

4 February 2021 at 3.00pm  
Via Webex

## Minutes

### Attendees

Pieter Bierkens	Chair	Commonwealth Bank of Australia
Duncan Marshall	Member	Australia and New Zealand Banking Group Limited
John Henson	Member	National Australia Bank Limited
Mark Beeley	Member	Westpac Banking Corporation

### Secretariat in attendance

David Love	Policy Executive	Secretary
Mark McCarthy	Support Executive	AFMA
Murray Regan	Support Executive	AFMA
Natalie Thompson	Support Executive	AFMA

### Apologies

David Ziegler	Member	Macquarie Group Limited
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### 1. Meeting Opening

- 1.1. The meeting opened at 3:05 pm. Attendees and apologies were noted as above.
- 1.2. The previous minutes were accepted.

### 2. Summary of Recommendations: APLMA, AFMA and the FTA for risk free rate loan market conventions

The Group noted that APLMA late last year had considered the preferred method to develop new market conventions in consultation with members of the syndicated loan market in Australia (lenders, borrowers, facility agents and their legal advisors) and representatives from the Australian Financial Markets Association and lenders' LIBOR programmes.

The following three key recommendations were discussed:

- I. Interest Methodology – 'Compounding in Arrears' and 'Compound the Rate' is preferred. Some market participants may prefer 'Compounding the balance' (simple) and we note that the LMA and the APLMA in Hong Kong have produced separate facility agreements containing this methodology. However, borrowers in this market segment in Australia are well resourced and often use their own documentation, so developing separate APLMA facilities employing Compounding the balance interest methodology is a low priority for the Australian market.

- II. Interest Calculation - *'Lookback without Observation shift'* and *'non-cumulative Rate Method'* are preferred. It may suit some borrowers to use *'Lookback with observation shift'* and we note the LMA has just published a separate loan agreement containing this methodology, however this will be a lower priority in this market.
- III. Lookback/lag days - *'Five business day lookback without Observation shift'* was the preferred approach, as it aligns with existing market conventions and provides sufficient time for the Australian market to calculate interest using offshore domestic RFRs. The five day period will be in brackets (indicating that it is optional) in the RFR schedules to the APLMA agreement, so no other documentation will be required to accommodate alternative periods should market participants decision to use them.

These recommendations were considered to be in line with the ISDA methodology and indicated a broader view that the approach was more broadly applicable to other cash products in the Australian market.

### **3. Priorities 2021**

The Group considered the consequences of the adoption of the ISDA Protocol and the release of the RBA consultation. They decided that as a national priority there is a need for fallback language for FRN and BBSY needed to be agreed by the market.

The Group took the view that robust fallback language for BBSW is required in financial contracts to enable a smooth transition in the event of a benchmark cessation event. Fallback language comprises three key components: fallback trigger event, benchmark replacement and benchmark replacement adjustment. In addition to the fallback language, firms need to consider other key contractual features that may impact the IBOR transition, including maturity date, firm's role in the contract, benchmark use, amendment and consent provision, governing law and jurisdiction and force majeure provisions. These matters need to be taken into consideration by the market and taken forward.

### **4. DCM Issues**

Following on from the direction of the Group that fallback language for FRNs is required that group asked AFMA to pursue this matter through its forums and come up with a recommendation and language.

### **5. Margining - LIBOR transition discrepancies in timeliness of reconciliations – CPS 226**

Draft correspondence to APRA from AFMA was noted concerning LIBOR transition discrepancies in timeliness of reconciliations under CPS 226.

### **6. NZFMA market consultation**

Group noted that NZFMA had issued a consultation to determine its position on the required conventions against the published ARRC recommendations. NZFMA noted that consistency across product and currency markets is an important consideration for the ongoing development of overall Liquidity. The consultation also discusses the evolution of a new RFR based Cross-Currency swap closing curve that will be required to support the evolution of its market.

### **7. RBA Consultation on Repo eligibility**

The Group noted that the RBA is conducting a consultation on draft repo eligibility criteria, which will require fallbacks for new BBSW-linked securities issued on or after 1 July 2022. Securities issued before 1 July 2022 will be grand fathered, except for internal asset-backed securities (self-securitisations). The RBA will require all floating rate notes (FRNs) and asset-backed securities issued on or after 1 July 2022, where BBSW is the relevant interest rate for the purposes of calculating coupons, to meet the certain criteria in order to be eligible for purchase by the Reserve Bank under repo. FRNs and other asset-backed securities issued before 1 July 2022 will not be subject to this requirement for eligibility. Nevertheless, the inclusion of robust and reasonable and fair fallbacks for such securities, depending on their length of time to maturity, is recommended as a matter of prudent risk management. The RBA criteria do not specify the fallback language to be included in security documentation as RBA expects this to be developed by industry participants.

The Group was advised that AFMA will respond to the consultation supporting the criteria and the encouragement to the market to develop and incorporate robust fallback language for securities in general.

#### **8. Timing for meeting with Regulators**

Proposed that a meeting being tentatively scheduled for 14 May 2021.

#### **9. Other Business**

The Group asked the Secretariat to arrange a meeting of industry associations involved in fallback work in the near future.

#### **10. Close of Meeting**

The meeting closed at 4:10 pm