Meeting of the IBOR Transformation Working Group

20 May 2021 at 3.00pm
AFMA Office and Webex

Minutes

Attendees

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

Guest Regulators

Andrea Brischetto	RBA
Duke Cole	RBA
Alastair Harris	APRA
Alex Orgaz-Barnier	ASIC
Nathan Bourne	ASIC
Jessica Gao	ASIC

Secretariat in attendance

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

1. Meeting Opening

Meeting opened at 3:02 pm. Attendees were noted as above.

2. General regulator views

Regulators restated the importance of ensuring a timely transition away from the London Interbank Offered Rate (LIBOR). This requires ceasing the use of LIBOR in new contracts before the end of 2021. They support the guidance and expectations set by the FSB and the US Banking Supervisors. Firms need to address financial, conduct, litigation, and operational risks associated with inadequate preparation. The Regulators are looking to market participants to adhere to the deadline at the end of 2021 for the issuance of new LIBOR contracts. They should also accelerate the active conversion of legacy LIBOR contracts.

3. ISDA fall-backs

3.1. Supervisory expectations

What are supervisory expectations of reliance on the fall-backs vs. active transition?

The observation from the UK's "Dear CEO" letter was discussed in this context:

> *While the ISDA protocol provides a fall-back designed to enable derivative contracts to continue to function post cessation, firms should be prepared to demonstrate the steps they have taken to identify where an active transition would be more appropriate and how any residual risks from reliance on fall-backs will be managed.*

As indicated in the Regulators' Statement last year in support of adhesion to the ISDA Protocol and more generally support globally of industry on use of the ISDA spread adjustments both in derivatives and cash products, and the further desirability of homogenous spread adjustments that allow derivatives and cash products to operate smoothly together the use of the ISDA spread adjustments for cash products that are to fall back or move from an IBOR to overnight RFRs or to RFR-based term rates.

3.2. Overseas milestones of LIBOR transition.

What are the expectations for market participants in Australia?

Australia continues to adhere to the multi-rate approach, which allows for voluntary adoption of RFRs in response to market dynamics driven by developments offshore.

4. USD transition timeline.

The Group discussed the expected speed of transition in the US Should the market consider SOFR alternatives as we transition away from LIBOR? It was observed that an increasing number of financial institutions are using alternative benchmarks, rather SOFR. Other rates, particularly ones that include a credit component, which SOFR lacks. BSBY are being experimented with, including AMERIBOR and ICE's Bank Yield Index.

In the US there is investor pushback against SOFR as it lacks both a forward-looking rate and a credit component. This complicates the efforts of US authorities to get the switch to SOFR and poses additional issues as it adds a layer of complexity as well as slows the creation of liquidity in any one benchmark.

5. BBSW fall-backs.

Secretariat reported on progress on draft of fallback language. Progress made with FRNs but ASF is still deliberating and there is a need to align language to securitised issuance processes.

RBA will speak separately to AFMA and ASF about this work. Two associations are coordinating on this matter.

6. Close of Meeting

The meeting closed at 4:16 pm.