



Meeting of the IBOR Transformation Australian Working Group

31 August 2021 at 2.00pm

Webex

Minutes

Attendees

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

Secretariat in attendance

David Love	Policy Executive	Australian Financial Markets Association Limited
Mark McCarthy	Support Executive	Australian Financial Markets Association Limited
Murray Regan	Support Executive	Australian Financial Markets Association Limited

Apology

Mark Beeley	Member	Westpac Banking Corporation
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1. Meeting Opening

- 1.1. The meeting opened at 2:03 pm. Attendees and apologies were noted as above
- 1.2. The previous minutes were accepted.

2. Australian market response to simultaneous switch on 21 Sept. – Cross currency Swaps

The Group discussed the possible effect on the Australian market of the SOFR Market switch on 21 September. Local market feedback indicates that trading is likely to be conducted on a SOFR to BBSW basis. Foreign client sentiment may move over time to requesting RFR to RFR / AONIA later in the year. Australian clients continue to request BBSW but how long this situation will continue in the context of trading changes in July is unclear given that 31 December is still considered to be the key transition date. ASIC, APRA, and the RBA expect all market participants to adhere to the deadline at the end of 2021 for the issuance of new LIBOR contracts. Large client sentiment may change quickly given developments in the US, but smaller clients are less likely to want to change.

The Group reflected on feedback from the ARRC meeting with peer national WGs, including ITAWG. The SOFR First recommendation is encouraging interbank market participants to adopt SOFR and other alternative reference rates (ARR) in their transactions before then, by suggesting that interdealer brokers replace LIBOR with SOFR and other RFRs from 26 July 2021. In addition, interdealer LIBOR screens for non-USD LIBOR rates should be turned off by 22 October 2021.

The recommendation is intended to encourage more active trading in ARRs and trading activity in the first week of the SOFR First implementation demonstrated a shift in dealer behaviour that was supportive of the recommendation. Other major currencies are ready to move on 21 September to RFR to RFR. GDP, JPY, SFR. Euro ESTER is taking more time. Australia along with Canada, while ready think the market may take more time to adjust as there is no regulatory impetus, with the end of the year being the clear cut-off.

The Group noted that Australia is a multi-rate jurisdiction, with both BBSW and the Australian alternative reference rate being available. The US push to SOFR is globally influential and interest rate trading markets will be closely watched by Australian market participants as we move to the end of the year to see what momentum there is for a shift to alternative reference rates as a result of the change in interdealer trading conventions.

3. BBSY Fallback to AONIA under ISDA MAs - operational considerations for implementation

The Group recommended that AFMA raise the need to look at the BBSY fallback definition in the ISDA definitions with ISDA.

The Secretariat undertook to do this.

4. Fallback language

There has been considerable behind the scenes work on fallback language drafting over the last three months which has centred on discussions with the ASF drafting WG. There is a strong desire for language to be consistent between FRNs and securitised issuance. The central issue to be solved has been on cessation trigger language which requires coordination between the ASX and ASIC around what signals, consultation and official statements will be put to the market. There is ongoing dialogue and regular meetings of AFMA, ASF, ASX with ASIC and the RBA. We are hopeful that language for public consultation will be ready in September for consultation with the market.

5. RBA Repo eligibility announcement

The Group was advised that the RBA has signalled are preparing to announce new eligibility criteria requiring robust fallback language for securities to be accepted as collateral in the RBA's market operations. The Bank will provide at least 12 months to prepare for the new criteria.

The Group consider the promulgation of the criteria to be an important and practical official encouragement to the market to incorporate robust fallback language into cash products and a signal to the market as a whole, and support the RBA's planned action.

6. Close of Meeting

The meeting closed at 2:54 pm.