IBOR TRANSFORMATION
AUSTRALIAN WORKING GROUP

Meeting of the IBOR Transformation WG

Wednesday, 6 March 2019
10:00am

AFMA Boardroom 1
Level 25 Angel Place, 123 Pitt Street Sydney

Minutes

Attendees

Duncan Marshall	Member	Australia and New Zealand Banking Group Limited
Pieter Bierkens	Member	Commonwealth Bank of Australia
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
Murray Regan	Support Executive	Australian Financial Markets Association Limited

Apologies

Nicholas Allen	Member	Westpac Banking Corporation

1. Meeting Opening

1.1. The meeting opened at 10:04 am. Attendees and apologies were noted as above

2. Purpose of group

The group agreed that there was a real need and value in assembling. The group note and agreed that IBOR Transformation Working Group is to give initial strategic level member views on transitional challenges and issues that need to be addressed at an industry level. The group would define a timeline and transformation plan that aims to minimise disruption to the Australian market and clients and safeguard the continuity of contracts to the greatest extent possible as part of global efforts to assist IBOR transition.

3. Issue identification and priority setting

The ISDA consultation on market participants' preferred design attributes of a near risk free fallback rate has identified that a majority preference the 'compounded setting in arrears rate' for the adjusted risk-free rate (RFR) and a significant majority preference for the 'historical mean/median approach' for the spread adjustment. ISDA developing fallbacks for inclusion in its standard definitions based on the compounded setting in arrears rate and the historical mean/median approach to the spread adjustment for all of the benchmarks covered by the consultation. Given that derivatives contracts are by far the largest product group referencing existing benchmarks, the outcomes will shape priorities for other products.

4. Industry coordination – ASF, APLMA etc

The importance of local industry dialogue was discussed. How to get great buy-side involvement was considered. A group is needed. Secretariat advised that such a group had been convened late last year of industry associations under the guise of the IBOR Transformation Australian Industry Group. Membership is AFMA, APLMA, FTA and ASF.

Noted that ASF group is very active and important to coordinate with them on debt securities and securitisation.

Action item: Secretariat to set up next meeting for the IBOR Transformation Australian Industry Group

5. Australian trigger events

The Group discussed trigger fallback language. Particular focus for AFMA needs to be on debt securities language. Australian law debt securities documentation has no agreed market standards, whether wholly (such as derivatives and ISDA) or partially (such as loans and the LMA). In the event that the benchmark rate is unavailable, there are, however, fallbacks which would typically be seen in debt securities documentation:

- a "reference bank rate" calculation by the relevant agent on the basis of an average of rates supplied by selected banks;
- quotations obtained by the relevant agent from major banks for loans to other Australian banks for the relevant interest period; or
- as an ultimate fallback, the rate would tend to default to the interest rate from the previous interest period. This would effectively change a floating rate instrument into a fixed rate instrument which is clearly unsatisfactory from a commercial standpoint and could lead to mismatches in related transactions such as underlying derivatives or securitisations.

Typically, the trigger for the application of fallbacks is the same as for loan documentation situation where the screen rate is unavailable.

The Group noted that AFMA's Documentation committee has said Australian triggers should align with ISDA's Index Cessation Events and should follow the wording of ISDA's Index Cessation Events:

[For ease of reference ISDA's proposed Index Cessation Events are as follows:

(i) "Index Cessation Event" means, in respect of an Applicable Rate,

(A) a public statement or publication of information by or on behalf of the administrator of the Applicable Rate announcing that it has ceased or will cease to provide the Applicable Rate

permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the Applicable Rate; or

(B) a public statement or publication of information by the regulatory supervisor for the administrator of the Applicable Rate, the central bank for the currency of the Applicable Rate, an insolvency official with jurisdiction over the administrator for the Applicable Rate, a resolution authority with jurisdiction over the administrator for the Applicable Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the Applicable Rate, which states that the administrator of the Applicable Rate has ceased or will cease to provide the Applicable Rate permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the Applicable Rate.]

Since July 2018 the working groups have prepared consultation papers. By the end of 2018, ARRC has released consultations (ARRC Consultations) on fallback language for:
- floating rate notes;
- syndicated loans bilateral business loans and
- securitisations

ARRC Trigger formulations:

I. *Announcement by the LIBOR administrator (IBA) that it will cease (or has ceased) the publication of LIBOR on a permanent or indefinite basis.*

II. *Announcement by the regulatory supervisor (Financial Conduct Authority) or an insolvency official for IBA the publication of LIBOR that it will cease (or has ceased) on a permanent or indefinite basis.*

III. *Public statement to the effect that the administrator of the benchmark is permanently or indefinitely ceasing to provide it and that at that time there is no successor administrator who will continue to provide it. That statement could be made by the administrator, its supervisor or the central bank of the benchmark's currency, or by certain insolvency officials or courts.*

A suggested Australian interpretation of this might be as follows -

I. An announcement by the BBSW administrator, or an external insolvency administrator or receiver for the BBSW administrator that the publication of BBSW will cease (or has ceased) on a permanent or indefinite basis and no successor administrator will continue to provide it.

II. A notice published by regulatory supervisor for the administrator of BBSW that it has suspended, varied or cancelled the benchmark administrator licence of the person licensed to administer the BBSW benchmark such that the person is no longer licensed to administer the BBSW benchmark, and where no other person is licensed to administer the BBSW benchmark.

III. A public announcement of a decision by the resolution authority with the jurisdiction over the administrator of BBSW or a court or an entity with similar resolution authority that the administrator of BBSW will cease to operate and no successor administrator will continue to provide it.

6. Use of AONIA as a reference rate

The meeting discussed the use of 'AONIA' as a reference rate. This was prompted by endeavours of SAFA to interest the market in an AONIA referenced transaction. It was noted that the meaning of AONIA did not seem to be formally defined and that the SAFA formula calculation was based on a

Action item: Secretariat to follow up on this definitional issue and provide clarification in case action is needed. This has been actioned – see the Attached Item 6 on Terminology explanations

7. **Future meeting schedule**

The Group agreed that should meet on a three weekly basis given the rapid pace of developments. Pieter Bierkens was appointed as Chair. Secretariat will liaise

8. Close of Meeting

The meeting closed at 11:05 am.

Attachment

Item 6 – AONIA and other terminology definitions

Starting with LIBOR and IBORs, they stand for 'interbank offered rates'. Next there are alternative reference rates which are supposed to be selected from 'risk free rates' known as RFRs.

The alternative reference rate for Australia is the Interbank Overnight Cash Rate (Cash Rate). The RBA sets an operational target rate and as the banks use the market for unsecured overnight interbank loans to manage their liquidity the Cash Rate results from the average rate of those transactions, which is expected to meet the operational target rate.

The term 'AONIA' is now coming into more common usage in the Australian market. AONIA is another way to refer to the Cash Rate. The RBA provides this authoritative definition in its Glossary of terms. *"AONIA – AUD Overnight Index Average. AONIA is an acronym for the Cash Rate used in financial markets."* AONIA has particular importance because it is used in the ISDA 2006 Definitions for Australian Rate options in the calculations for 'AUD-AONIA-OIS-Compound' and 'AUD-AONIA-OIS-Compound –Swapmarker'.

The reason for referring to AONIA in preference to the Cash Rate is that it is consistent with the naming convention for other RFRs, such as SONIA, EONIA and HONIA. It also distinguishes it from usage where the target rate set by the RBA for the Cash Rate is referred in the same way as the actual rate resulting from transactions. While in practice they are the same rate, it is possible in theory that a change in market practice could see the Cash Rate deviate from the target rate.

The term 'IBOC' is also used to refer to the Cash Rate. It stands for Interbank Overnight Cash. Reference is often made among professionals to the IBOC market and is used in the AFMA Cash Conventions to this effect.

AONIA may be substituted for IBOC and would produce the same result in a formula.

The Cash Rate Total Return Index (TRI) is a reference rate published by the RBA. Members of the public can the use TRI as a benchmark with a (near) risk-free rate of return. The TRI draws on the Cash Rate. The TRI is calculated as the weighted average of the interest rate at which overnight unsecured funds are transacted in the domestic interbank market. The TRI measures the performance of an investment earning the Cash Rate, where interest is reinvested. This last element is important as this makes it a compounded rate.

It is useful to note that the TRI is calculated on the 'RITS Calendar', which means the business days on which the Reserve Bank Information and Transfer System (RITS) is open. RITS is Australia's high-value settlement system, which is used by banks and other approved institutions to settle their payment obligations on a real-time gross settlement (RTGS) basis. As RITS operates on a national basis it is open for two more days a year than the NSW [Sydney] business days calendar. The term 'NSW business days' is defined and used in AFMA Conventions and 'Sydney business days' is used in ISDA agreements, and they are the same in practice the same.