



IBOR TRANSFORMATION AUSTRALIAN WORKING GROUP

Meeting of the IBOR Transformation WG

Thursday, 16 May 2019
2:00pm

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

Minutes

Attendees

Duncan Marshall	Member	Australia and New Zealand Banking Group
Pieter Bierkens	Member	Commonwealth Bank of Australia
David Ziegler	Member	Macquarie Group Limited
John Henson	Member	National Australia Bank Limited
Ellis Connolly	Guest	Reserve Bank of Australia
Amanda Cornish	Alternate	Westpac

Secretariat in attendance

David Love	Policy Executive	Australian Financial Markets Association Limited
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Apologies

Murray Regan	Support Executive	Australian Financial Markets Association Limited
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1. Meeting Opening

- 1.1. The meeting opened at 2:04 pm. Attendees and apologies were noted as above.
- 1.2. The previous minutes were accepted and action item to invite RBA as done.

2. Conversation with RBA

2.1. General

The bulk of the meeting was taken up with a conversation with Mr Connolly from the RBA. The first part covered the function of the Working Group.

The Group wanted to clarify understanding around what signals the Bank is sending to the market about BBSW. In response there was emphasis on the clear message the RBA was giving to the market. The Bank is not saying they think that BBSW will end in the foreseeable future but it is obviously prudent for users of all benchmarks to have robust fall-back provisions in their contracts,

not just those referencing LIBOR. ISDA's work on fall-backs is progressing well, and we encourage all users of interest-rate benchmarks to adopt ISDA's fall-backs once they are finalised. The comments relating to the vulnerability of 1 month BBSW were not a signal to the market but a way to emphasise the above message that fall backs need to be put in place.

Once ISDA has finalised its wording for fallback provisions, the Bank expects all users of BBSW to adopt them where possible. For new securities referencing BBSW, the RBA will make it a requirement that these fall-back provisions be adopted before the securities can be eligible in the RBA's market operations. Currently, this would affect FRNs issued by banks, securitisation trusts and the state governments.

The Group discussed the ISDA consultation relating to pre-cessation issues. ISDA is seeking comment on how derivatives contracts should address a regulatory announcement that LIBOR or certain other IBORs categorized as critical benchmarks under the EU Benchmarks Regulation are no longer representative of an underlying market. The pre-cessation language will have general application in ISDA Master Agreements and situations which might give rise to pre-cessation triggers have been discussed at some length by the IBOR Transformation WG. While there are theoretical scenarios which can be envisaged giving rise to a pre-cessation trigger, in practice for Australia we could only foresee event driven triggers, such as announcements by the benchmark administrators that they are ceasing publication of a benchmark and no successor will continue its publication.

The ASIC letter to financial institutions was discussed. The Bank along with ASIC and APRA are making clear their expectation that all institutions currently relying on LIBOR need to consider the impact of LIBOR transition on their business. In particular, users of LIBOR should:

- be aware of the size and nature of their exposures to LIBOR;
- put in place robust fall-back provisions in contracts referencing LIBOR; and
- be taking action to transition to alternative rates.

The possibility of the development of term rates was discussed. This is up to the private sector.

2.2. OSSG

The need for a specialist industry person from Australia to participate in the OSSG regulatory, accounting and tax discussions was discussed. Members will make further inquiries to find a suitable person who needs technical expertise.

Action item: Members to make further inquiries to find a suitable person who person from Australia to participate in the OSSG regulatory, accounting and tax discussions
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2.3. Market communication

The importance of market education was discussed and the need to find communication channels to the investor side of the market.

3. Accounting developments

Members noted consultation from AASB replicating for Australia the IASB proposals on hedge accounting. The members support the proposed amendments that modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform.

Members noted that the proposed exceptions are not intended to provide any relief from any other consequences resulting from the interest rate benchmark transition and this needs to be a matter brought to the attention of the OSSG subgroup work on accounting issues.

4. Meeting Schedule

Next meeting to be arranged in July.

5. Close of Meeting

The meeting closed at 3:10 pm.