

Interbank Offered Rate Reforms

Industrial and Commercial Bank of China (Asia) Limited (“ICBCA”)

Overview

Interbank Offered Rates (IBORs), including the London Interbank Offered Rate (LIBOR) ¹, the Hong Kong Interbank Offered Rate (HIBOR), and the Euro Interbank Offered Rate (EURIBOR), are undergoing reform and some IBORs may be discontinued (“IBOR transition”). Among them, LIBOR is widely used in financial products denominated in a number of currencies and is published in GBP (British Pound), USD (US Dollar), EUR (Euro), JPY (Japanese Yen) and CHF (Swiss Franc).

The UK Financial Conduct Authority (“FCA”), the supervisory authority of LIBOR, has stated in July 2017 that it will no longer compel banks to submit rates used to calculate LIBOR after 2021. This means that LIBOR is expected to be discontinued after end-2021. In light of this, regulators and industry groups across the global have recommended that market participants should transition away from the LIBOR and switch to alternative reference rates (ARRs).

What are the alternative reference rates (ARRs)?

ARR working groups in the jurisdictions of each currency have identified alternative reference rates to IBORs and have begun developing strategies for transition. ARR are overnight near risk-free rates that calculated based on large volumes of actual transactions, which are considered to be more robust and transparent than IBORs.

As ARR are structurally different to IBORs, transitioning to the new rates may result in different calculation methodologies and different performances than in the past, for example, payments under the product and/or the value of the product will be affected. Hedging arrangements, for example, arrangements that are associated with IBOR referencing liabilities/assets, may also be impacted.

Next Steps

ICBCA is actively monitoring developments of industry, working groups and regulatory bodies. We will provide further information as the situation and industry solutions develop. ICBCA has established an IBOR Transition Programme to assist the Bank and our clients through the transition.

In the meantime, we encourage you to raise awareness of these changes and keep up to date with the industry developments in relation to IBOR transition and seek independent professional advice on the potential impact on your own business. If you would like to discuss the possible implications of the IBOR

¹ LIBOR or the London Interbank Offered Rate is an interest rate benchmark administered by ICE Benchmark Administration Limited.

transition on the products you currently have with our Bank, please feel free to contact your usual ICBCA contact.

More information

If you would like to find out more about the IBOR transition, please refer to the information published by regulators, ARR working groups and industry associations. Kindly find below websites for your reference:

Alternative Reference Rates Committee (ARRC)

- <https://www.newyorkfed.org/arrc>

Financial Conduct Authority (FCA)

- <https://www.fca.org.uk/markets/benchmarks>

Bank of England

- <https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>

European Central Bank (ECB)

- https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_riskfree_rates/html/index.en.html

Swiss National Bank (SNB)

- https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks

- <https://www.boj.or.jp/en/paym/market/sg/index.htm/>

Treasury Markets Association (TMA)

- https://www.tma.org.hk/en_market_LIBOR.aspx

Financial Stability Board (FSB)

- <https://www.fsb.org/work-of-the-fsb/policy-development/additional-policy-areas/financial-benchmarks>

International Swaps and Derivatives Association (ISDA)

- <https://www.isda.org/category/legal/benchmarks>