ICBC (LONDON) PLC AND ICBC LONDON BRANCH: THE POTENTIAL IMPACT OF BENCHMARK REFORM

Background

Interbank offered rates ("**IBORs**") such as LIBOR and EURIBOR are benchmarks that are used as global reference rates for financial products, including for calculating interest. Various global regulatory authorities have announced their support for a reduced reliance on IBORs and there is ongoing national and international reform. As a result, certain IBORs may be discontinued, materially changed, cease to be representative or it may no longer be permissible for market participants to enter into financial contracts which reference such IBORs.

Transition to new replacement rates is underway, and certain "risk-free" rates ("**RFRs**") have been identified as potential replacements.

RFRs are calculated on a different basis to IBORs; IBORs are term rates that embed credit risk whereas RFRs are overnight rates based upon larger numbers of transactions, and are generally viewed as near risk free.

Currency	**IBOR rate**	**Alternative Rate**
USD	LIBOR	SOFR, Secured Overnight Financing Rate
EUR	LIBOR, EURIBOR, EONIA	€STR, Euro Short Term Rate Note that €STR will replace EONIA at the end of 2021. As of the date of this communication, no cessation date has been given for EURIBOR.
GBP	LIBOR	SONIA, Sterling Overnight Index Average
JPY	LIBOR	TONA, Tokyo Overnight Average

Transitioning away from IBORs is not a straightforward task and efforts are ongoing across the industry. IBORs (including LIBOR rates for different currencies) are at different stages of transition, may have different outcomes and may affect new and existing products in different ways.

Whilst this national and international benchmark reform is ongoing, we encourage you to keep up to date with the latest industry developments and, for Sterling LIBOR, more information can be found on the Bank of England website (https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor).

Your Existing IBOR-Linked Products With ICBC (London) plc or ICBC London Branch ("ICBC London")

You should review your existing products which reference IBORs and consider how IBOR transition might impact them. Many products will contain contractual fallback provisions, which provide for an alternative reference rate upon the occurrence of certain events, such as if the applicable IBOR is discontinued, is materially changed and/or ceases to be representative.

You should ensure you understand (by taking independent professional legal, financial or other advice), how your products (and any fallback provisions) will operate in the event that the applicable IBOR for your product is no longer available or is subject to other changes.

If the reference rate for your product changes, this might have adverse economic, accounting or operational consequences, such as:

- changes to the amounts you have to pay;
- impairment of the product's performance;
- a material mismatch in the applicable rate across linked products, such as a loan and an interest rate swap intended as a hedge;
- practical implications, such as changes to systems or your accounting practices.

For certain products, an amendment may be required to their terms to provide for transition to an alternative rate. If so, ICBC London will be in touch with you at the appropriate time.

ICBC London cannot provide any assurances as to the likely costs or expenses associated with such risks. ICBC London is not providing advice and will not owe you any duties or have any liabilities to you in connection with IBOR transition.

Derivatives

For derivative transactions on standard ISDA terms, the fallback wording in the 2006 ISDA Definitions has historically provided for the replacement rate to be determined through a poll of reference banks. The fallback wording in the 2006 ISDA Definitions was drafted primarily with the temporary cessation of IBORs in mind.

In 2018, ISDA published the ISDA Benchmarks Supplement. The ISDA Benchmarks Supplement can be incorporated by parties into the terms of their transactions and it provides a methodology for the parties to a transaction to determine a replacement rate if an IBOR is discontinued or if it one of the parties ceases to be permitted to use the relevant IBOR under any applicable law or regulation.

ISDA is also in the process of updating the 2006 ISDA Definitions through a public consultation process which will result in the publication of a supplement to the 2006 ISDA Definitions incorporating new fallback provisions (which will apply to new transactions) and a protocol (which parties will be able to adhere to in order to incorporate the fallback provisions into their existing transactions). This supplement and protocol will provide a methodology for a replacement rate to be determined for IBOR-linked products upon permanent cessation of an IBOR and they will also include a pre-cessation replacement trigger (which may apply on an opt-in basis).

ISDA has not yet confirmed when the supplement and fallback protocol will be published. If you transact derivatives with ICBC London, you should monitor the ISDA website (https://www.isda.org/2020/01/10/benchmark-fallback-consultations/), which contains further information on the latest developments. You should consider whether it would be appropriate for you to adopt any of these fallback supplements or the protocol, taking independent professional legal, financial or other advice, if necessary.

Loans and other products referencing IBORs

Standard form LMA documentation will typically contain fallback wording, which will usually lead to reference banks quotes and, finally, cost of funds. For bonds, the fallback wording typically results in the bonds reverting to a fixed rate, as the final fallback option is usually the rate last determined for the prior interest period.

With LIBOR transition in contemplation, the LMA has published a revised version of its "Replacement of Screen Rate" clause which, if included in documentation, provides flexibility by allowing changes to the benchmark rate to be made with a lower consent threshold. The LMA has published exposure drafts of compounded SONIA and SOFR based term and revolving facilities agreements which highlight conventions which the markets need to settle before the LMA can publish recommended forms. Although the market is looking to transition away from LIBOR in particular, the proposals for each LIBOR currency are at different stages. For Sterling LIBOR, the FCA and Bank of England's priority is for the market to cease issuance of Sterling LIBOR cash products maturing beyond 2021 by the end of Q3 2020.

In the capital markets, adjusted fallbacks (which address the possible cessation of a benchmark rate) began to be included in documentation from July 2017 onwards. In addition, issuance of IBOR linked FRNs has decreased as more issuances are made on the basis of risk free rates (and this is becoming the norm for some currencies such as sterling).

The LMA and the International Capital Markets Association ("**ICMA**") continue to work with the market, other trade associations and the regulators in relation to IBOR transition. More information can be found on the respective websites (https://www.lma.eu.com/libor) and (https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/benchmark-reform/)

New IBOR-Linked Products With ICBC London

For new IBOR-linked products you enter into with ICBC London, there is no guarantee that the applicable IBOR will continue to be published in the same form, or at all, for the full term of the product. This might mean that fallback wording becomes operative, that the reference rate changes and/or that changes to the terms of the product may need to be made. As set out above, this might have adverse economic, accounting or operational consequences, such as changes to the amounts you have to pay, or a mismatch in the applicable rate across linked products, such as a loan and an interest rate swap intended as a hedge. You should therefore consider whether it remains appropriate for you to enter into new IBOR-linked products, or whether new products should instead reference an alternative rate, taking independent professional legal, financial or other advice, if necessary.

By entering into any new IBOR-linked products with ICBC London, you confirm that you:

1. understand that, during the lifetime of the product, the applicable IBOR may cease to be appropriate in a number of different ways and/or for a variety of reasons;

2. understand how the fallback provisions of the product would operate and have reviewed the terms of your other IBOR-linked products to establish whether changes in reference rates could directly or indirectly result in a mismatch in the rates that apply across your portfolio;

3. have considered whether you need to obtain professional independent legal, financial or other advice, prior to entering into the product; and

4. accept that ICBC London does not owe you any duties, nor have any liability to you, in relation to IBOR transition.

If you have any questions, please get in touch with your usual ICBC London contact or seek independent professional advice.