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ICBC (LONDON) PLC AND ICBC LONDON BRANCH: TRANSITION TO RISK-FREE RATES

Background

Interbank offered rates ("**IBORs**") such as LIBOR and EURIBOR are benchmarks that have been 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. In March 2021 the Bank of England released a joint statement with the Financial Conduct Authority (FCA), alongside the announcement of end dates on which panel bank submissions for all LIBOR settings will cease. ISDA has also issued a statement stating the FCA announcement also constitutes an index cessation event and locks in the benchmark's fallback spread calculations. The fallbacks (to the adjusted risk-free rate plus spread) will automatically occur for outstanding securities that incorporate IBOR Fallback language from the respective Libor cessation dates, which for USD Libor will be added to the Secured Overnight financing Rate ("SOFR").

The FCA has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all Sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings

Based on undertakings received from the panel banks, the FCA does not expect that any LIBOR settings will become unrepresentative before the relevant dates set out above. Representative LIBOR rates will not, however, be available beyond the dates set out above. Publication of most of the LIBOR settings will cease immediately after these dates.

Transition to new replacement rates is underway, and certain "risk-free" rates ("**RFRs**") have been identified as 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. EURIBOR is expected to continue alongside €STR beyond 2021 and

		there is no current indication it will cease at the time of this publication. However, the ECB recommends using €STR as the primary basis for a fallback rate (where appropriate).
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.

As RFRs are structurally different to IBORs, transitioning to the new rates will be a demanding and complex process. Global regulators also continue to seek market consensus regarding fallback language for cash securities as they transition from LIBOR to these new rates. ICBC London will follow ISDA guidance in reference to the transition methodology published by Bloomberg https://www.bloomberg.com/professional/solution/libor-transition/ as officially designated data vendor by ISDA

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.

On 25 January 2021 the ISDA 2020 IBOR Fallbacks Protocol became effective (the **IBOR Fallbacks Supplement**) and ICBC London Branch is listed, as one of the adhering parties. It enables adhering parties to amend the terms of each Protocol Covered Document which references a rate, as defined in the Covered ISDA Definitions Booklet and include new fallbacks for IBOR. ICBC London is seeking corporate clients' confirmation on their preferred route as per ISDA guidance, and advice what would be their chosen method of transition for existing Interest Rate Swap transactions with the bank.

If you transact derivatives with ICBC London, you should monitor the ISDA website (https://www.isda.org/protocol/isda-2020-ibor-fallbacks-protocol/), 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.

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/)

Non-Reliance

For all existing IBOR-linked products, which you entered 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 is appropriate for you to remain as a counterparty to IBOR-linked products by seeking 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 whilst ICBC London will follow regulatory guidance and market practice, 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.