

IBOR Transition FAQs



What is IBOR transition and Risk Free Rate reform?

Global regulators have mandated the cessation of Interbank Offered Rates (“IBORs”), including the London Interbank Offer Rate (“LIBOR”) and the transition to alternative “risk free” reference rates (referred to as “RFRs” or “ARRs”).

RFR reform covers: (i) the transition of all existing IBOR referencing transactions to alternative RFRs by the appropriate cessation date; and (ii) all new transactions from Q2/Q3 2021 starting to reference RFRs instead of traditional IBOR rates.

Due to the extensive use of IBORs as interest rate benchmarks across the global financial system, IBOR transition is a significant regulatory initiative which you should be aware of.

Why the transition?

In recent years, there has been a shift away from the use of the interbank market as a source of funding by major banks. This reduced activity in the underlying interbank market has diluted the relevance of IBORs and, in conjunction with the LIBOR fixing scandals first brought to light in 2012, has led regulators and the financial industry to move towards more robust and reliable interest rate benchmarks.

What are IBORs transitioning to?

IBORs are transitioning to new alternative “risk free” rates. These new RFRs have been identified by industry working groups convened by relevant regulators across key currency jurisdictions.

In the UK, the Working Group on Sterling Risk-Free Reference Rates chose the Sterling Overnight Indexed Average (“SONIA”) as its preferred alternative RFR for LIBOR. Working groups continue to consult on market conventions and transition approaches.

RFRs are structurally different from IBORs which means that a RFR cannot be directly substituted for a discontinued IBOR. While IBORs are forward looking term rates, RFRs are backward looking overnight rates, derived from overnight transactions.¹

Additionally, IBORs incorporate term bank credit risk whereas RFRs, as the term “risk free” suggests, do not generally factor in credit risk. These fundamental differences mean that adjustments are required when transitioning from a discontinued IBOR to a new RFR, and transitioning existing contracts from IBORs to RFRs may involve incorporating a spread on the RFR.

Which IBORs are transitioning?

The following table sets out the most significant IBORs across major currencies for ICBC Standard Bank (“ICBCS”) and the preferred alternative RFRs for each of these IBORs:

CCY	IBOR	RFR	Additional Information by Authority
GBP	GBP LIBOR	Reformed SONIA	Bank of England Transition Information
USD	USD LIBOR	SOFR	Federal Reserve Transition Information
EUR	EURIBOR	Reformed EURIBOR	European Central Bank EURIBOR Transition Information

¹ There are several proposals for methodologies to calculate forward-looking RFRs (“Term RFRs”) in order to more closely replicate the mechanics of IBOR cash flows. However, at this time, there are no officially endorsed Term RFR benchmarks being published.

	EONIA	ESTR	European Central Bank ESTR Information
SGD	SIBOR	Adjusted SOR (ABS) SORA (MAS)	Association of Banks Singapore Adjusted SOR Transition Monetary Authority of Singapore SORA Transition Information
CHF	CHF LIBOR	SARON	Swiss National Bank SARON Transition Information
JPY	JPY LIBOR JPY TIBOR JPY Euroyen TIBOR	TONAR	Japanese Central Bank Rates Transition Information

A more comprehensive list of IBORs to be discontinued is set out in the IBOR Discontinuation Timeline table at the end of this document.

When will IBOR transition occur?

IBOR transition is an iterative process which will take place over the next few years as IBORs cease to be published and are phased out of use in new and legacy transactions. While the dates for the cessation of certain IBORs are set, others are still to be determined.

The table below sets out the dates of key milestones in the IBOR transition timeline.

Event	Date
LCH discounting for EUR trades moved to ESTR.	27-Jul-2020
LCH discounting for USD trades moved to SOFR.	19-Oct-2020
No new FRNs issuance using USD LIBOR & maturing after 2021.	31-Dec-2020
US Dealers should amend interdealer CSAs to SOFR.	31-Dec-2020
Fallbacks Supplement applies to all new ISDA trades.	25-Jan-2021
Dealers should change market convention for quoting USD derivatives from LIBOR to SOFR.	31-Mar-2021
No new GBP LIBOR linked linear derivatives expiring after 2021 except for risk management of existing positions.	31-Mar-2021
No new issuance of GBP LIBOR-referencing Loans or FRNs maturing after 2021.	31-Mar-2021
No new USD LIBOR business loans, floating rate securitisations or derivative trades that increase USD LIBOR risk.	30-Jun-2021
ARRC will seek to recommend a Term SOFR rate.	30-Jun-2021
No new USD LIBOR CLOs.	30-Sep-2021
No new GBP LIBOR linked non-linear derivatives and cross-currency derivatives containing a GBP leg, except for risk management of existing positions.	30-Sep-2021
Complete active conversion of GBP LIBOR-referencing FRNs and Loans where viable; ensure robust fallbacks in place where active conversion not possible.	30-Sep-2021
Discontinuation of GBP, EUR, JPY, CHF LIBORs, 1W USD LIBOR, 2M USD LIBOR and EONIA.	31-Dec-2021
Discontinuation of 6M SGD SIBOR	31-Mar-22

Which instruments/transactions are affected by IBOR transition?

Any instrument or transaction which has a dependency on an IBOR will be affected by the IBOR transition.

Examples of transactions that would be affected include:

- Transactions with pay-outs dependant on an IBOR such as interest rate derivatives, floating rate notes, loans and deposits.
- Transactions which are collateralised depending on an IBOR e.g. under a Credit Support Annex with IBOR-linked interest or repos collateralised with IBOR-linked floating rate notes.
- Transactions which have IBORs as fallbacks to other reference rates.

The scope of impacted instruments/transactions is wider than just G7 interest rate products; many commodity and non-G7 transactions will be affected as well.

How will existing transactions be affected by IBOR transition?

In order to prepare for the discontinuation or loss of representativeness of IBORs, all existing transactions referencing an IBOR need to be transitioned. There are two primary methods of transitioning existing transactions referencing IBORs:

- 1 Negotiations between counterparties to agree the conversion of IBORs to RFRs; or
- 2 Reliance on robust “fallback mechanisms” in the documentation.²

ICBCS will seek to transition existing transactions referencing IBORs through bilateral negotiations with counterparties in the first instance.

What will IBOR transition negotiations involve?

It is anticipated that IBOR transition negotiations will be bilateral discussions between ICBCS and relevant counterparties. In the course of these discussions, we will seek to identify and agree:

- 1 Which transactions are affected;
- 2 How IBORs will be converted to RFRs; and
- 3 The valuation effect caused by conversion.

Once these factors are agreed, we will be able to effect the transition, with one party compensating the other for the valuation change caused by the conversion.

Points for you to consider

Where relevant we will begin to contact you from Q2/2021 to discuss actively transitioning existing IBOR referencing trades to RFRs.

Changes to IBOR rates may impact the way in which you trades products with ICBCS, including:

² Fallback mechanisms will need to be incorporated into documentation notwithstanding negotiations between counterparties.

- requiring the application of fallback provisions in the contract which provide for an alternative mechanism for calculating the relevant payment amount, such as when IBOR rates are not available, or the amendment of contracts to include fallback provisions;
- potential changes to the interest and other provisions of existing contracts, to provide for the transition to RFRs;
- the potential for material mismatch between products (such as loans and corresponding hedges), which currently refer to the same IBOR rate;
- an impact on the value or pricing or cost to you of the product;
- potential accounting and tax issues, as many businesses use IBORs for derivative and other valuation purposes; and
- potential operational implications, such as changes to systems or processes (such as the impact on cashflow forecasting, when moving from backward looking to forward looking rates).

You should consider whether you require independent professional advice (whether legal, accountancy, tax or other advice), with respect to the changes, and continue to keep the position under review.

What are “fallback mechanisms”?

“Fallback mechanisms” in the context of IBOR are robust contractual provisions to be relied on in the event of a permanent discontinuation of a covered IBOR or, in the case of LIBOR, upon the rate being declared non-representative of the underlying market by the regulators. Due to the differences between IBORs and RFRs, it is believed that existing contractual fallback mechanisms will not be sufficiently robust to deal with the discontinuation of an IBOR. As a result, ISDA has developed new IBOR fallback mechanisms based on adjusted versions of RFRs.

These new fallback mechanisms will be incorporated into transaction documentation through the ISDA IBOR Fallbacks Supplement (the “Supplement”) and the ISDA IBOR Fallbacks Protocol (the “Protocol”), both of which became effective on 25 January 2021.

The Supplement updates the ISDA 2006 Definitions booklet to include new RFR fallbacks for derivatives linked to LIBOR or certain other IBOR benchmarks. All new cleared and non-cleared derivatives that reference the ISDA 2006 Definitions from 25 January 2021 incorporate the new RFR fallback mechanism.

The Protocol incorporates new RFR fallback provisions into legacy contracts that reference IBORs. When a relevant IBOR benchmark ceases to be published, contracts that have been amended by the Protocol will apply the applicable adjusted RFRs (with an addition of the applicable spread adjustment) instead of an IBOR. Counterparties must adhere to the Protocol in order for it to apply to legacy contracts. Global regulators are anticipating wide-spread, voluntary adoption of the Protocol by the market in order to mitigate the risks associated with IBOR transition.

Further information regarding fallback mechanisms, the Supplement and the Protocol (including guidance on how to adhere to the Protocol) can found on [ISDA’s website](#).

For transactions where at least one of the parties has not adhered to the Protocol, it will not be possible to rely on fallback mechanisms and bilateral negotiations will be necessary. Similarly, where transactions are not covered by the Supplement or the Protocol (e.g. cash products), bilateral negotiations will also be required.

When will Fallback rates be published?

Bloomberg Index Services Limited (“BISL”) was selected by ISDA as the vendor to calculate and publish RFR adjustments, including the term-adjusted RFR, the spread adjustment and the resulting Fallback Rate (the term-adjusted RFR plus the spread).³

BISL has been publishing these rates on an “indicative” basis since 21 July 2020, showing what the fallback rates, including the spread, would be if a trigger event were to occur. On 5 March 2021, the FCA issued dates for the future cessation or loss of representativeness (when the benchmark will cease to be representative of the underlying market) for the 35 LIBOR benchmarks currently published by ICE Benchmark Administration.⁴ This announcement engaged the “Index Cessation Triggers” under ISDA documentation and prompted the fixing of adjustment spreads by BISL in accordance with the IBOR Fallback Rate Adjustments Rule Book.

Are there ever circumstances where the transaction cannot be amended by the ISDA IBOR Fallbacks Protocol?

The scope of the legacy agreements covered by the Protocol is broad and includes master agreements and confirmations governing derivatives, collateral support annexes, master agreements and confirmations governing repurchase transactions and securities lending transactions. However, there are circumstances where the Protocol cannot be relied on. Examples of these include:

- Syndicated loans where all affected parties (lenders, borrowers, hedging counterparties) will need to come to an agreement on the transition process.
- A change in applicable interest rate which may require consent of a guarantor.
- A floating rate note with no robust fallback language in the issuance documentation. The issuer will have to address the IBOR cessation problem through prescribed mechanisms such as holder consent solicitation, or apply other procedures in order to convert an existing IBOR-linked issuance to an RFR-linked issuance.

If you would like to discuss whether a particular transaction between us can be amended by the Protocol, or have any other queries related to IBOR transition, please contact your Account Executive.

IBOR Discontinuation Timeline⁵

Index	Covered by Fallbacks Supplement	Final Publication Date	Representative Until	Fallback Rate	Adjustment Spread Fixing Date	Adjustment Spread
AUD BBSW 1M	Yes	N/A	N/A	AONIA	N/A	N/A
AUD BBSW 2M	Yes	N/A	N/A	AONIA	N/A	N/A
AUD BBSW 3M	Yes	N/A	N/A	AONIA	N/A	N/A
AUD BBSW 4M	Yes	N/A	N/A	AONIA	N/A	N/A

³ The Rate Adjustment methodology is explained in the IBOR Fallback Rate Adjustments Rule Book published by ISDA and BISL (<http://assets.isda.org/media/34b2ba47/c5347611-pdf/>).

⁴ This announcement available at <https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf>

⁵ As at April 2021

AUD BBSW 5M	Yes	N/A	N/A	AONIA	N/A	N/A
AUD BBSW 6M	Yes	N/A	N/A	AONIA	N/A	N/A
CAD CDOR 1M	Yes	N/A	N/A	CORRA	N/A	N/A
CAD CDOR 2M	Yes	N/A	N/A	CORRA	N/A	N/A
CAD CDOR 3M	Yes	N/A	N/A	CORRA	N/A	N/A
CAD CDOR 6M	Yes	14-May-21	14-May-21	CORRA	N/A	N/A
CAD CDOR 12M	Yes	14-May-21	14-May-21	CORRA	N/A	N/A
CHF LIBOR S/N	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	-0.05510%
CHF LIBOR 1M	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	-0.05710%
CHF LIBOR 1W	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	-0.07050%
CHF LIBOR 2M	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	-0.02310%
CHF LIBOR 3M	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	0.00310%
CHF LIBOR 6M	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	0.07410%
CHF LIBOR 12M	Yes	31-Dec-21	31-Dec-21	SARON	05-Mar-21	0.20480%
EUR EONIA	No	31-Dec-21	31-Dec-21	(ESTR)	N/A	N/A
EUR EURIBOR 1M	Yes	N/A	N/A	ESTR	N/A	N/A
EUR EURIBOR 1W	Yes	N/A	N/A	ESTR	N/A	N/A
EUR EURIBOR 3M	Yes	N/A	N/A	ESTR	N/A	N/A
EUR EURIBOR 6M	Yes	N/A	N/A	ESTR	N/A	N/A
EUR EURIBOR 12M	Yes	N/A	N/A	ESTR	N/A	N/A
EUR LIBOR O/N	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.00170%
EUR LIBOR 1M	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.04560%
EUR LIBOR 1W	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.02430%
EUR LIBOR 2M	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.07530%
EUR LIBOR 3M	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.09620%
EUR LIBOR 6M	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.15370%
EUR LIBOR 12M	Yes	31-Dec-21	31-Dec-21	ESTR	05-Mar-21	0.29930%
GBP LIBOR O/N	Yes	31-Dec-21	31-Dec-21	SONIA	05-Mar-21	-0.00240%
GBP LIBOR 1M	Yes	N/A	31-Dec-21	SONIA	05-Mar-21	0.03260%
GBP LIBOR 1W	Yes	31-Dec-21	31-Dec-21	SONIA	05-Mar-21	0.01680%
GBP LIBOR 2M	Yes	31-Dec-21	31-Dec-21	SONIA	05-Mar-21	0.06330%
GBP LIBOR 3M	Yes	N/A	31-Dec-21	SONIA	05-Mar-21	0.11930%
GBP LIBOR 6M	Yes	N/A	31-Dec-21	SONIA	05-Mar-21	0.27660%
GBP LIBOR 12M	Yes	31-Dec-21	31-Dec-21	SONIA	05-Mar-21	0.46440%
HKD HIBOR O/N	Yes	N/A	N/A	HONIA	N/A	N/A

HKD HIBOR 1M	Yes	N/A	N/A	HONIA	N/A	N/A
HKD HIBOR 1W	Yes	N/A	N/A	HONIA	N/A	N/A
HKD HIBOR 2M	Yes	N/A	N/A	HONIA	N/A	N/A
HKD HIBOR 2W	Yes	N/A	N/A	HONIA	N/A	N/A
HKD HIBOR 3M	Yes	N/A	N/A	HONIA	N/A	N/A
HKD HIBOR 6M	Yes	N/A	N/A	HONIA	N/A	N/A
HKD HIBOR 12M	Yes	N/A	N/A	HONIA	N/A	N/A
JPY Euroyen TIBOR 1M	Yes	N/A	N/A	TONA	N/A	N/A
JPY Euroyen TIBOR 1W	Yes	N/A	N/A	TONA	N/A	N/A
JPY Euroyen TIBOR 3M	Yes	N/A	N/A	TONA	N/A	N/A
JPY Euroyen TIBOR 6M	Yes	N/A	N/A	TONA	N/A	N/A
JPY Euroyen TIBOR 12M	Yes	N/A	N/A	TONA	N/A	N/A
JPY LIBOR S/N	Yes	31-Dec-21	31-Dec-21	TONA	05-Mar-21	-0.01839%
JPY LIBOR 1M	Yes	N/A	31-Dec-21	TONA	05-Mar-21	-0.02923%
JPY LIBOR 1W	Yes	31-Dec-21	31-Dec-21	TONA	05-Mar-21	-0.01981%
JPY LIBOR 2M	Yes	31-Dec-21	31-Dec-21	TONA	05-Mar-21	-0.00449%
JPY LIBOR 3M	Yes	N/A	31-Dec-21	TONA	05-Mar-21	0.00835%
JPY LIBOR 6M	Yes	N/A	31-Dec-21	TONA	05-Mar-21	0.05809%
JPY LIBOR 12M	Yes	31-Dec-21	31-Dec-21	TONA	05-Mar-21	0.16600%
JPY TIBOR 1M	Yes	N/A	N/A	TONA	N/A	N/A
JPY TIBOR 1W	Yes	N/A	N/A	TONA	N/A	N/A
JPY TIBOR 3M	Yes	N/A	N/A	TONA	N/A	N/A
JPY TIBOR 6M	Yes	N/A	N/A	TONA	N/A	N/A
JPY TIBOR 12M	Yes	N/A	N/A	TONA	N/A	N/A
SGD SIBOR 1M	No	31-Dec-24	31-Dec-24	(SORA)	N/A	N/A
SGD SIBOR 3M	No	31-Dec-24	31-Dec-24	(SORA)	N/A	N/A
SGD SIBOR 6M	No	31-Mar-22	31-Mar-22	(SORA)	N/A	N/A
SGD SIBOR 12M	No	31-Dec-20	31-Dec-20	(SORA)	N/A	N/A
SGD SOR O/N	Yes	30-Jun-23	30-Jun-23	SORA	N/A	N/A
SGD SOR 1M	Yes	30-Jun-23	30-Jun-23	SORA	N/A	N/A
SGD SOR 3M	Yes	30-Jun-23	30-Jun-23	SORA	N/A	N/A
SGD SOR 6M	Yes	31-Mar22	31-Mar-22	SORA	N/A	N/A
THB THBFX O/N	Yes	31-Dec-24	31-Dec-21	THOR	N/A	N/A
THB THBFX 1M	Yes	31-Dec-24	31-Dec-21	THOR	N/A	N/A
THB THBFX 1W	Yes	31-Dec-24	31-Dec-21	THOR	N/A	N/A

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THB THBFIX 3M	Yes	31-Dec-24	31-Dec-21	THOR	N/A	N/A
THB THBFIX 6M	Yes	31-Dec-24	31-Dec-21	THOR	N/A	N/A
THB THBFIX 12M	Yes	31-Dec-24	31-Dec-21	THOR	N/A	N/A
USD EFR (Fed Funds)	No	N/A	N/A	N/A	N/A	N/A
USD LIBOR 0/N	Yes	30-Jun-23	30-Jun-23	SOFR	05-Mar-21	0.00644%
USD LIBOR 1M	Yes	N/A	30-Jun-23	SOFR	05-Mar-21	0.11448%
USD LIBOR 1W	Yes	31-Dec-21	31-Dec-21	SOFR	05-Mar-21	0.03839%
USD LIBOR 2M	Yes	31-Dec-21	31-Dec-21	SOFR	05-Mar-21	0.18456%
USD LIBOR 3M	Yes	N/A	30-Jun-23	SOFR	05-Mar-21	0.26161%
USD LIBOR 6M	Yes	N/A	30-Jun-23	SOFR	05-Mar-21	0.42826%
USD LIBOR 12M	Yes	30-Jun-23	30-Jun-23	SOFR	05-Mar-21	0.71513%

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