FREQUENTLY ASKED QUESTIONS – LIBOR TRANSITION

Q: What is LIBOR?

A: LIBOR stands for London Inter-Bank Offered Rate which is the benchmark interest rate at which banks lend to and borrow from one another in the interbank market. Essentially, it's the rate for unsecured short-term borrowing in the interbank market. It is administered by the Intercontinental Exchange (ICE), which calculates the rates on the basis of submissions by panel banks using available transaction data and their expert judgment. It is published daily across five currencies including the US dollar, the Euro, the British pound, the Japanese yen, and the Swiss franc, with seven different maturities namely overnight, 1 week, 1 month, 2 months, 3 months, 6 months and 12 months. It is used as a key interest rate benchmark across a number of derivatives, bonds, loans, securitizations, deposits and other products.

Q: Why is LIBOR being replaced?

A: LIBOR as a benchmark should indicate the average rate at which banks borrow unsecured funds in the interbank market, however, with significant decline in the underlying transactions LIBOR may cease to be representative. Furthermore, considering LIBOR relies upon submissions from panel banks there have been allegations of manipulations and irregularities, as a result global financial regulators have recommended to replace LIBOR with an alternate risk-free rate.

Q: What is the timeline for LIBOR cessation?

A: The UK Financial Conduct Authority(FCA) which regulates ICE had announced in July, 2017 that panel banks shall not be compelled to make submissions for LIBOR computation after 2021 and accordingly LIBOR was expected to cease by December 31, 2021. However, on November 30, 2020, ICE announced that USD LIBOR may continue to be published till June 30, 2023. While the cessation date has been extended banks and financial institutions are likely to cease entering into new LIBOR linked contracts by December 31, 2021.

Q: What rates shall replace LIBOR?

A: In light of the allegations against LIBOR financial regulators across the globe have initiated efforts to identify a credible and robust alternate risk free rates("**RFR**"). Pursuant to above the following RFRs have been identified to replace the currently published IBORs, more details in the table below:

Jurisdiction	Currency	Alternative rate	Administrator	Secured/ Unsecured
United States	USD	SOFR (Secured Overnight Financing rate)	Federal Reserve Bank of New York	Secured (US Treasuries as underlying)
Singapore	SGD	SORA (Singapore Overnight Average Rate)	Monetary Authority of Singapore	Unsecured
United Kingdom	GBP	SONIA (Sterling Overnight Index Average)	Bank of England	Unsecured
Euro area	EUR	ESTR (Euro Short-term Rate)	European Central Bank	Unsecured
Switzerland	CHF	SARON (Swiss Average overnight rate)	SIX Swiss Exchange	Secured

Japan	JPY	TONAR (Tokyo overnight average rate)	Bank of Japan	Unsecured

Q: What is the difference between RFRs and IBORs?

A: Unlike IBORs, RFRs are backward looking overnight rates derived upon a broader range of transactions (secured and unsecured). Further, RFRs do not include any credit risk element or liquidity premium related to the tenor of interest period and therefore require spread adjustments to be incorporated.

Q: What are fallbacks?

A: IBOR Fallbacks are contractual provisions that specify trigger events for a transition from a referenced IBOR to a replacement rate along with spread adjustments.

Q: What is the IBOR Fallbacks Supplement?

A: The IBOR Fallbacks Supplement amends the definitions applicable to various interbank offered rates (Section 7.1 Rate Options) under the 2006 ISDA Definitions and covered ISDA definitional booklets. The effective date of the Supplement is January 25, 2021 and all transactions entered into thereafter referencing either the 2006 ISDA Definitions or a covered ISDA definitional booklet shall automatically incorporate the revised definitions set out under the Supplement.

Q: What is the ISDA 2020 IBOR Fallbacks Protocol?

A: On October 23, 2020, ISDA published the ISDA 2020 IBOR Fallbacks Protocol ("Protocol") which enables market participants to incorporate revised 'floating rate definitions' as published by ISDA in the Supplement to the ISDA 2006 Definitions into their legacy non-cleared derivatives trades with other adhering counterparties. The effective date of the Protocol is January 25, 2021.

Q: Who can adhere to ISDA 2020 IBOR Fallbacks Protocol?

A: The Protocol is open for adherence by any entity regardless of where it may be domiciled. Entities may adhere either individually or as agents on behalf of their clients.

Q: How to adhere to ISDA 2020 IBOR Fallbacks Protocol?

A: Entities may adhere to the Protocol through ISDA's website (www.isda.org) by submitting an adherence letter on behalf of the adhering entity duly signed by an authorized signatory. The Protocol may be adhered to free of cost for non-ISDA Primary Members till January 25, 2021 thereafter, a fee of shall be levied per entity.

Q: How will LIBOR cessation affect a hedged LIBOR/IBOR linked borrowings?

A: While ISDA has published the Protocol and the Supplement setting out the path for transition of derivative transactions and contracts, the transition framework for underlying loan documents are still in process of being standardized. potential differences in fallback methodology between different product types may complicate the transition. Due to this aspect, entities will have to carefully consider the impact of a transition of any products that are linked (such as a loan and hedge).

Q: How will LIBOR cessation affect LIBOR/IBOR linked borrowings?

A: LIBOR/IBOR linked loans will require to be transitioned to a replacement rate upon permanent cessation of LIBOR/IBOR or a specific tenor. To ensure smooth transition to an alternate RFR, the existing loan documents will require certain amendment to incorporate suitable fallback language. However, the fallback and the mechanism to incorporate them into existing loan documents is still in the process of being standardized.

Q: How will I know what the derivatives spread adjustment is for a particular currency?

A: Bloomberg Index Services Limited (BISL) has been selected by ISDA as a calculating agent to calculate and publish the spread adjustment for derivatives. Bloomberg will publish the RFR, the spread adjustment, and the all-in fallback rate for selected tenors.

Q: How will the change from LIBOR to new RFRs impact cash flow forecasts?

A: LIBOR is a forward-looking rate (i.e. the interest rate and the interest amount due are known at the start of the loan period but the interest payment is made at the end of the period). So borrowers are aware of the cash outflows in advance and can keep funds available accordingly.

However, RFRs are backward looking rates. Hence, the applicable daily fixings for the entire interest period will be known only at the end of the interest period, resulting in the final interest amount being calculated only at the end of the tenor. While transparency is an advantage of the new regime, the disadvantage is that borrowers will not know the interest payable on the due date at the beginning of the interest period, leading to cash flow related uncertainty compared to the Libor regime.

The industry bodies are currently considering various options like backward shifting of the observation period for a certain number of business days for the calculation of interest.

In case of any further information/clarification, kindly write to your relationship manager at the Bank and copy singaporetreasury@icicibank.com