Frequently Asked Questions – Libor Transition

ICICI Bank UK PLC supports the market transition from LIBOR. Client Communication forms an important part in our transition away from LIBOR. In order to ensure our clients remain informed about LIBOR discontinuation after 2021 and to support them in this journey, we have produced these general FAQs below.

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 is 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: Both the FCA and the Bank of England's Financial Policy Committee (FPC) noted in 2017 that it had become increasingly apparent that the absence of active underlying markets and the scarcity of term unsecured deposit transactions raised serious questions about the future sustainability of the LIBOR benchmarks. 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. In a speech by Andrew Bailey, Chief Executive of the FCA, he stated that the FCA expects the LIBOR panels to dwindle or disappear after end-2021 and firms must be able to run their business without LIBOR from this date, and reduce the stock of 'legacy' LIBOR contracts. LIBOR is now expected to be replaced by new Risk-Free Rates (RFRs) across the global financial markets. Based on statements by the FCA, it is noted that the LIBOR will no longer be a credible lending rate after the end of 2021.

Q: What is the timeline for LIBOR cessation?

A: The UK's 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. On November 30, 2020, ICE announced that while one week and two month USD LIBOR settings will cease at end-2021, other USD LIBOR settings may continue to be published till June 30, 2023 allowing legacy LIBOR contracts to run off, subject to consultation.

On March 5, 2021, post successful consultation, the ICE Benchmark Administration (the "IBA"), the administrator of LIBOR, stated that as a result of its not having access to input data necessary to calculate LIBOR settings on a representative basis beyond the intended cessation dates set forth in the table below, it would have to cease publication of all 35 LIBOR settings immediately after such dates.

LIBOR Currency	LIBOR Settings	Date
USD	1-week, 2-month	December 31, 2021
USD	All other settings (i.e., Overnight/ Spot Next, 1-month, 3-month, 6-month and 12-month)	June 30, 2023
GBP, EUR, CHF, JPY	All settings	December 31, 2021

On March 05, 2021, the FCA confirmed that they have completed their assessments of the effect of panel bank departures on LIBOR's ability to represent the underlying market, and of how IBA intends to cease providing LIBOR, as required by the UK Benchmarks Regulation (BMR). They have no intention to use their proposed powers to compel IBA to continue to publish any of the following 26 LIBOR settings as 'synthetic' LIBOR

• Publication of all 7 euro LIBOR settings, all 7 Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12- month sterling LIBOR settings, and the 1-week and 2-month US dollar LIBOR settings will cease immediately after 31 December 2021.

• Publication of the overnight and 12-month US dollar LIBOR settings will cease immediately after 30 June 2023.

You can find IBA's and FCA's public statements as below:

https://www.theice.com/publicdocs/ICE_LIBOR_feedback_statement_on_consultation_on_potential_cessation.pdf

https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf

Q: What rates shall replace LIBOR?

A: In light of LIBOR cessation, the following alternate risk-free rates (RFRs) have been identified to replace the currently published IBORs, more details in the table below:

Currency	IBOR	RFR	Administrator of RFR
USD	USD-LIBOR	SOFR (Secured Overnight Financing Rate)	Federal Reserve Bank of New York
GBP	GBP-LIBOR	SONIA (Sterling Overnight Index Average)	Bank of England
JPY	JPY-LIBOR	TONAR (Tokyo Overnight Average Rate)	Bank of Japan

EUR	EUR-LIBOR	€STR (Euro Short Term Rate)	European Central Bank
CHF	CHF-LIBOR	SARON (Swiss Average Overnight Rate)	SIX Exchange

The Bank of England Base Rate (Bank Rate), has also emerged as an alternative benchmark in the sterling market. The Bank Rate is set by the Bank of England's Monetary Policy Committee (MPC) and has been in use by the Bank of England since 1694.

Q: What is the difference between RFRs and LIBORs?

A: In terms of tenor, LIBOR is currently available in longer than overnight tenors/periods for each of the five currencies. These tenors/periods are 'Overnight/Spot Next', 'One Week', 'One Month', 'Two Months', 'Three Months', 'Six Months' and '12 Months'. For each tenor/period, the LIBOR rate is "forward looking", e.g. in the last example the rate would be fixed in advance for 12 months. These are so called "term rates". Calculation of interest under LIBOR involves using a single interest rate for the number of days in the interest period. Unlike LIBOR, RFRs are backward looking overnight rates derived upon a broader range of transactions (secured and unsecured). Additionally, 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 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 supplement to the 2006 ISDA Definitions introduces new, robust fallbacks for derivatives linked to LIBOR and other key IBORs.

The protocol is a multilateral contractual amendment mechanism that is used to make standard amendments to ISDA documentation among adhering counterparties. Protocols provide an efficient way of implementing industry standard contractual changes to legacy trades with a large number of counterparties, avoiding the need to bilaterally negotiate the same amendments with each party individually. The effective date of the Protocol was January 25, 2021. It may be noted that ICICI Bank UK PLC has adhered to the ISDA Protocol on January 20, 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: All market participants 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 authorised signatory. ISDA members and non-ISDA members may adhere to the IBOR Fallbacks Protocol. Post January 25, 2021, the Protocol may be adhered to for a fee of USD 500 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 execution of certain amendment documentation to incorporate alternate RFR mechanism and suitable fallback language. The Bank, as part of its client outreach, will be contacting its customers to discuss the alternatives available and the consequential changes to the agreements/ loan documents in the coming months.

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 such as The Working Group on Sterling Risk-free Reference Rates, Alternative Reference Rates Committee have considered various options like backward shifting of the observation period for a certain number of business days (ie a 2/5 day lag) for the calculation of interest.

You may refer to the below links

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_SOFR_Synd_Loan_Conventions.pdf

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_SOFR_Synd_Loan_Conventions.pdf

https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/best-practice-guide-for-gbp-loans.pdf?la=en&hash=631B02B7B4D69F7CBCC9A42AD686F263D5422A75

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