बैंक ऑफ़ इंडिया Bank of India BOI

International Division

Date: 06.09.2021

INFORMATION TO OUR CUSTOMER ON LIBOR TRANSITION

This Notice is to reach out to our existing domestic/overseas customers who have entered into contracts with Bank of India (BOI) using LIBOR as the benchmark reference rate and as a guidance note on Libor transitioning to all our valuable customers. The note is to bring broad oversight on the recent developments on Libor Transition and various Regulatory Guidelines.

History:

The London Interbank Offer Rate (LIBOR) is a benchmark interest rate at which major global banks lend to one another in the international inter-bank market for short term loans. It serves as a globally accepted key benchmark interest rate that indicates borrowing costs between banks. The rate is calculated and published each day by the Intercontinental Exchange (ICE). LIBOR is currently available in seven tenors (overnight / spot next, one week, one month, two months, three months, six months and 12 months) across five currencies (USD, Euro, CHK, JPY and GBP) and is based on submissions provided by a panel of 20 banks. These submission are intended to reflect the interest rate at which banks could borrow money on unsecured terms in wholesale markets. LIBOR is administered by ICE benchmark administration (IBA), which is regulated by the UK's Financial Conduct Authority (FCA).

End of LIBOR:

While LIBOR has been a long established global benchmark standard for interest rate, due to its submissive nature of the rate instead of an actual transaction based approach, many global regulators initiated the process to transition away from LIBOR.

The reasons noted above ultimately led the FCA to announce in July 2017 that the continued publication of LIBOR could not be guaranteed beyond the end of 2021

On March 05, 2021, ICE Benchmark Administration (IBA) stated that, it would have to cease publication of all 35 LIBOR settings, in stages. Accordingly, the publication of Libor will be ceased as below:

- 31/12/2021 : All GBP, EUR, CHF and JPY LIBOR settings & USD 1 Week/2 Month LIBOR settings.
- 30/06/2023 : USD LIBOR settings (Overnight and 1, 3, 6 and 12-months)

Impact:

LIBOR is widely used in a variety of loans and financial instruments, including consumer and syndicated loans, structured products, securitizations, short term instruments, bonds such as floating rate notes, over-the-counter derivatives and exchange-trade derivatives, as well as in corporate contracts, accounting, Tax and valuation methods.

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Considering the exposure of Indian markets to LIBOR, Transition from LIBOR to Alternative Reference Rates (ARRs) will be a great significance and challenge to Indian Banks. But, Bank of India is committed to provide all assistance and guidance to all of its clients for smooth transitioning from Libor to ARRs and bank will ensure that its clients are treated fairly as per Regulatory Guidelines.

Various regulators/Working committees have come up with Alternate Reference Rates in place of LIBOR viz. SOFR, SONIA etc. Detailed below:

Alternative Reference Rates (ARRs):

Alternative Reference Rates (ARRs) are nearly Risk Free Rates (RFRs) published by various authorities. Risk Free Rates are Overnight rates and based on significant transaction volumes compared to the underlying market used in the LIBOR calculation. The various RFR rates are published across different time zone with different times. The details of RFRs are given below:

Risk Free Reference Rates	Replacing present Rate	Regulator for the RFR	Publication Timing
SOFR	USD LIBOR	Federal Reserve Bank of New York	Around 8 AM Eastern Time, the next business day
SONIA	GBP LIBOR	Bank of England (BoE)	At 9 AM London Time, the next business day
TONAR	JPY LIBOR	Bank of Japan (BOJ)	at 10 AM Tokyo Time, the next business day
ESTR	EUR LIBOR	European Central Bank (ECB)	by 9 AM Central European Time, the next business day
SARON	CHF LIBOR	SIX Swiss Exchange	at 6 PM Central European Time, the same business day

Difference between LIBOR and ARRs:

While LIBORs are forward looking term rates, ARRs are overnight interest rates. ARRs are overnight rates which are published at the end of the overnight borrowing period making it "**Backward-looking**" rates. LIBOR rates are set at the beginning of an interest period while in case of ARRs final rate will not be known until the end of the coupon period i.e. interest will be known a few days before payment is due.

LIBORs include a credit spread and Term Premium, while Alternative Reference Rates include no credit risk, as they are overnight rates (in some cases secured for e.g. SOFR, SARON) and are based on significant transaction volumes.

To address the Credit Spread, certain spread adjustments have been advised by working groups to preserve the economic value of the contracts. The Alternative Reference Rate Committee (ARRC), working group for SOFR, has recommended that, fixed spread adjustment will be the average difference between five-year historical median difference between LIBOR and SOFR. The International Swaps and Derivative Association (ISDA) on March 5, 2021, set the fixed Spread adjustment for fallback rates for all the 5 currencies. On August 11, 2021, ARRC recommended Refinitiv's prototype publication for spread adjustments and spread adjusted rates for cash products were launched.

TERM Rates:

Many working groups have recommended/proposed forward looking Term rates "or" considering for term versions of the ARRs. Some working group recommendations are:

- The Alternative Reference Rates Committee (ARRC), working group for SOFR has recommended Term SOFR for its use in cash products.
- The Working Group on Sterling Risk-Free Reference Rates has recommended for "Term SONIA reference rate" (TSRR) for contracts upto GBP 25 Mn.
- The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks recommended QUICK Benchmarks Inc. began publishing production rates for Term Reference Rates (the Tokyo Term Risk Free Rate "TORF")

How will the LIBOR Transition impact Customers?

Libor transition may impact existing products as well any future contracts using LIBOR as a reference rate. Transition from LIBOR to ARRs will depend on the terms of the contract. For smooth transitioning, all the libor linked exposures must have robust fallback language.

Fallbacks are the contractual provisions that determine what rate counterparties should use in the event that the initially agreed upon benchmark rate is not available. Fallbacks may differ across different financial product types and asset classes. For existing contracts with no fallback language or with fallback language that does not contemplate the expected permanent discontinuation of LIBOR, need to be suitably amended to incorporate appropriate fallback language or to be Determined if these contracts can be renegotiated, terminated or closed out prior to the Libor cessation dates.

For existing/Legacy loans, Fallbacks will result in the application of a new benchmark (ARRs) in place of LIBOR as mutually decided by Bank and client. Depending on new benchmark, new rate will be reset for the contract which may be more or may be less or the previous contractual rate.

Alternative reference rates (ARRs) may vary depending on the transaction, products or the jurisdiction. Since the transition from LIBOR to ARRs might lead to risks in terms of Infrastructure, taxation, accounting, legal and operational aspects, the effect of the potential discrepancies must carefully be examined. We advise our valued customers to make an assessment of Libor transition on taxation, legislations, accounting or other aspects.

For further information related to your existing exposures and on specific products and services, please contact your respective Branches/Relationship Managers.

Disclaimer:

While, we have put our best effort to bring out accurate and up-to-date information of libor Transition, Bank of India (BOI) will not be liable for any loss or damage caused to any entity/person.

This letter has been provided to you for general information only and on a strictly non-advised basis. It does not constitute any form of advice or recommendation, nor does it represent any impact, particular risk applying to you or any of your contracts.

You may seek guidance from your professional advisors on the possible implications of changes brought out in this letter on your business including financial, legal, accounting and tax impacts.

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