# IBOR Reform:
# Your Transition Away from IBOR Reference Rates

**Overview**

The London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) are two of the most widely used interbank offered rates (IBOR) as interest rate benchmarks by financial markets globally. These IBORs underpin an estimated USD 350 trillion[1] of contracts for financial products, including loans, fixed income securities, derivatives, and structured products globally. However, over the years, global regulators have expressed the need to reform IBORs and switch to alternative risk-free rates.

In July 2017, the United Kingdom's (UK) Financial Conduct Authority (FCA) announced that it would no longer compel banks to submit the rates required to calculate LIBOR from 31 December 2021. On 5 March 2021, the FCA and the Intercontinental Exchange (ICE) Benchmark Administration (IBA) confirmed that LIBOR settings for the British pound sterling, euro, Swiss franc, Japanese yen for all tenors and, 1-week and 2-month USD settings would no longer be published after 31 December 2021, and the overnight and 1, 3, 6 and 12-month USD LIBOR settings, after 30 June 2023.[2]

The IBOR reform is expected to change the way existing IBORs operate or in some instances, cease to exist entirely. The changes will impact some or all of the products and services currently offered and those that may be offered in the future by the Eastern and Southern African Trade and Development Bank, its affiliates and subsidiaries ("TDB"). TDB's main transacting currencies are USD and EUR.

**Why discontinue IBORs?**

Volumes in the unsecured interbank lending market, which IBORs are based on, have declined significantly since the global financial crisis due to changes in capital regulatory requirements. Without adequate transactional data, IBOR submissions by panel banks have gradually become increasingly open to subjectivity, thereby increasing their risk of manipulation.

In 2012, due to the continued extensive use of LIBOR as a reference rate, and an increasingly widespread understanding of its susceptibility to manipulation,

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[1] Louise Bowman, "Libor transition: Are markets ready for a $350 trillion white-knuckle ride?," *Euromoney*, September 10, 2019, https://www.euromoney.com/article/b1h2rksb5rjr9j/libor-transition-are-markets-ready-for-a-350-trillion-white-knuckle-ride

[2] Intercontinental Exchange (ICE), "ICE Benchmark Administration Publishes Feedback Statement for the Consultation on Its Intention to Cease the Publication of LIBOR® Settings," News Release, March 5, 2021, https://ir.theice.com/press/news-details/2021/ICE-Benchmark-Administration-Publishes-Feedback-Statement-for-the-Consultation-on-Its-Intention-to-Cease-the-Publication-of-LIBOR-Settings/default.aspx

regulators, globally, launched transition programmes to establish and implement new credible and robust benchmarks. Furthermore, due to the element of subjectivity in the determination of IBOR, panel banks had also increasingly been expressing discomfort with regards to their continued submissions.

**Which IBORs are affected and what will replace them?**
In 2014, the UK Financial Stability Board (FSC) made several recommendations identifying risk-free rates (RFRs) as credible alternative benchmarks to IBORs and began encouraging market participants to transition new contracts to an appropriate RFR, so as to make the interbank lending market sufficiently active and liquid.

Global working groups convened by regulators for the most used IBOR currencies have already converged on alternative RFRs that will replace IBORs, although different jurisdictions are at varying stages of reform. The RFRs identified address the lack of depth and liquidity of underlying transactions in IBOR determination by being based on actual transactions in underlying markets.

The working group for the USD LIBOR is the Alternative Reference Rates Committee (ARRC), which is administered by the Federal Reserve Bank of New York and has recommended the Secured Overnight Financing Rate (SOFR) to replace the USD LIBOR.

EURIBOR underwent reform in 2019 in compliance with the European Union Benchmark Regulation that will allow its continued use post 2021. For consistency however, a backward-looking overnight RFR rate, euro short-term rate (€STR) will exist alongside EURIBOR.

Summary of the key features of the USD and EURO RFR[3]:

| **Currency** | **USD** | **EUR** |
|---|---|---|
| **Current IBOR** | USD LIBOR | EURIBOR |
| **Date of current IBOR discontinuation** | 31 December 2021- 1 week, 2 months<br>30 June 2023 – all tenors[4] | EURIBOR has been reformed and will not be discontinued |
| **Alternative RFR** | Secured Overnight Financing Rate (SOFR) | Euro short term rate (€STR) |
| **RFR Working Group** | Alternative Reference Rates Committee | Working Group on Risk-Free Reference Rate for the Euro Area |
| **RFR Administrator** | Federal Reserve Bank of New York | European Central Bank |

[3] Other IBORs affected include: Canadian dollar, Swiss franc, British pound sterling, Japanese yen
[4] Based on the IBA announcement of its intentions to cease the publication of the indicated LIBOR tenors.

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| **Date from which Alternative RFR has been published** | Since 3 April 2018 | Since 2 October 2019 |
| **Overview of the RFR** | • Secured;<br>• Based on overnight rates;<br>• Encompassing multiple repo market segments;<br>• Backward-looking;<br>• Near risk-free;<br>• Based on actual historical robust liquid transactions. | • Unsecured;<br>• Overnight rate that reflects overnight unsecured fixed rate deposits of euro area banks;<br>• Backward-looking;<br>• Based on actual historical robust liquid transactions. |

**How is TDB preparing for the transition?**
TDB recognizes the impact the IBOR transition will have on agreements with its clients and its products and services. To manage the transition, TDB has set-up a dedicated IBOR transition team to enable the Bank to adequately assess its impact on the latter, and ensure an orderly transition to new alternative reference rates.

TDB is also monitoring developments of the various RFR working groups and loan industry bodies that are aiming to achieve continuity for benchmark-based products and develop international best practices on the subject.

TDB will continue to communicate with its clients regarding transition timelines and any change which may be necessary to their agreements with the Bank.

**What should TDB clients do to prepare for the transition?**
TDB clients should assess the exposure of their contracts, products and services to IBOR, especially those which are expected to mature beyond December 2021. TDB will be in contact with you to discuss the impact the transition will have on existing contracts.

Please contact us on tdblibortransition@tdbgroup.org or speak to your coverage banker if you would like to discuss how the transition may affect you.

Please see important reference links to working groups and industry bodies actively involved in the LIBOR transition below:

- Alternative Reference Rates Committee (newyorkfed.org)
- Loan Market Association - the future of LIBOR (lma.eu.com)
- Announcements on the end of LIBOR | FCA
- Transition from LIBOR to risk-free rates | Bank of England
- Working group on euro risk-free rates (europa.eu)