Ibor reform

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Background

The London Interbank Offered Rate (Libor) and Euro Interbank Offered Rate (Euribor) are two of several interbank offered rates (Ibors) that are used as benchmark rates in global financial markets.

A wide range of financial products use Ibors as benchmarks. These include loans and other credit facilities, derivatives (including over-the-counter derivatives such as swaps) and exchange-traded derivatives (such as options and futures), bonds and floating-rate notes, securitised products (such as asset-backed securities and collateralised loan obligations) and short-term instruments [such as repurchase agreements (repos) and commercial paper].

Global regulators have indicated that banks should start moving away from using Ibors and switch to alternative near-risk-free rates (RFRs):

- In 2014 the Financial Stability Board (FSB) made several recommendations identifying RFRs and encouraging market participants to transition new contracts to an appropriate RFR so that the interbank lending market is sufficiently active and liquid.
- The UK Financial Conduct Authority (FCA) has stated that after 2021 it will no longer require banks to submit rates used for the calculation of Libor. This means Libor is expected to be discontinued, most likely after 2021.

Much work is being done by regulators and public and private sector working groups in many jurisdictions to develop RFRs (RFR working groups).

This reform is expected to impact existing Ibors as they may perform differently from the way that they currently do or cease entirely, as many Ibors are expected to be phased out by the end of 2021.

This reform may also impact the products and services currently offered and those that may be offered in the future by Nedbank Group Limited, Nedbank Limited or any of their respective subsidiaries, related bodies corporate, associated entities or branches (collectively ‘Nedbank’).

Which Ibors are being reformed and which RFRs will replace them?

RFR working groups have identified replacement benchmarks and started developing strategies for the replacement of the existing benchmark reference rates. Below are examples of Ibors that are being replaced and some information on the RFRs that are intended to replace them:

Ibor reform

Currency	Current Ibor	Expected date of discontinuation	RFR	RFR working group	RFR in use (Y/N) and date first published	RFR administrator	Key features of the RFR
Australian dollar (AUD)	Bank Bill Swap Rates (BBSW)	BBSW's new methodology became effective on 21 May 2018. The cash rate, also known as Aonia, is a pre-existing rate that will become an RFR for the AUD.	Reserve Bank of Australia (RBA) cash rate (Aonia)	Reserve Bank of Australia Interest Rate Benchmark Reform Page	Yes – the current methodology was introduced in May 2016.	RBA	• Based on cash market transactions. • Overnight. • Unsecured.
Canadian dollar (CAD)	Canadian Dollar Offered Rate (CDOR)	Unlikely to be discontinued – may just be enhanced.	Canadian Overnight Repo Rate (Corra)	Canadian Alternative Reference Rate Working Group (CARR)	No – it is expected to be published in June 2020.	Refinitiv Financial Solutions transferring to Bank of Canada in 2020.	• Based on the volume-weighted average of overnight repo transactions. • Overnight. • Secured.
Swiss franc (CHF)	CHF Libor	By the end of 2021	Swiss Average Overnight Rate (Saron)	National Working Group on Swiss Franc Reference Rates	Yes – August 2009	SIX Swiss Exchange	• Based on transactions and quotes published in the Swiss repo market. • Overnight. • Secured.
Euro (EUR)	• Euribor • Euro Overnight Index Average (Eonia)	By January 2022	Reformed Euribor Euro Short-term Rate (€STR)	Working Group on Euro Risk-free Rates	€STR: Yes – October 2019	European Central Bank	• Based on overnight unsecured fixed-rate deposits. • Overnight. • Unsecured.
British pound sterling (GBP)	GBP Libor	By the end of 2021	Sterling Overnight Interbank Average Rate (Sonia)	Working Group on Sterling Risk-free Reference Rates	Yes – April 2018	Bank of England	• Based on the weighted average of unsecured overnight sterling transactions. • Overnight. • Unsecured.
Hong Kong dollar (HKD)	Hong Kong Interbank Offered Rate (Hibor)	Unlikely to be discontinued. Expected to continue alongside the Hong Kong Overnight Index Average (Honia).	Honia	Hong Kong Treasury Markets Association Working Group on Alternative Reference Rates	No – the enhanced Honia has yet to be published.	Hong Kong Treasury Markets Association	• Based on the volume-weighted average of contributing brokers' Hong Kong dollars unsecured overnight interbank deals on the relevant business day. • Overnight. • Unsecured.
Japanese yen (JPY)	• JPY Libor • JPY Tokyo Interbank Offered Rate (Tibor)	• JPY Libor: by the end of 2021. • JPY Tibor: completed 2017.	Tokyo Overnight Average Rate (Tonar)	Cross-industry Committee on Japanese Yen Interest Rate Benchmarks	Yes – 1985	Bank of Japan (BoJ)	• Based on volume of weighted average of unsecured deposits. • Overnight. • Unsecured.
United States dollar (USD)	USD Libor	By the end of 2021	Secured Overnight Financing Rate (SOFR)	Alternative Reference Rates Committee	Yes – April 2018	Federal Reserve Bank of New York	• Based on borrowing rates for treasury-backed deposits and repos. • Overnight. • Secured.

Note: The table above is not exhaustive – there may be other benchmarks that are either being discontinued or the methodologies of which have been or will be changed.

Ibor reform

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What are the key differences between Ibors and RFRs?

Ibors	RFRs
They are forward-looking rates.	They are backward-looking rates.
Term rates are published for different periods at the beginning of the borrowing period.	Overnight rates are published at the end of the overnight borrowing period.
They include the cost of bank credit risk and term liquidity risk.	They are near-risk-free rates.
They are based on unsecured interbank lending rates.	They are based on actual historic transactions.
They are based on estimates from a narrow range of contributor banks.	They are based on robust, very liquid underlying transactions.

What does Ibor reform mean for clients?

The transition to RFRs is likely to impact a range of products and services, including floating-rate loans or credit facilities, deposits and derivatives that have or may have payments linked to affected Ibors.

Examples of potential risks for market participants are the following:

- Products no longer serving the purposes for which they were intended.
- Having to enter into new contracts or amend existing contracts to include RFR provisions or both.
- Mismatches between products (such as loans and corresponding derivatives) that reference the same Ibor rate currently.
- An impact on the pricing or cost of Nedbank's products or services (for example the transition of existing contracts from Ibors to RFRs may require adjustments for credit spread and term differences).
- Accounting and tax issues, such as where Ibors are used for valuation purposes.
- Operational implications, such as changes to systems or processes (for example the impact of moving from backward-looking to forward-looking rates).

Authorities and RFR working groups are working through the implications of the reform, including how best to move new and existing products and transactions to the new RFRs before the end of 2021. Nedbank continues to monitor these developments and adjust its Ibor reform plans accordingly.

Ibor reform

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What can clients do now?

There are a number of steps that clients can take now, for example:

- reviewing information available on Ibor reform (please see examples below of websites with this information);
- evaluating their individual circumstances and reviewing their Libor-linked exposures;
- considering the potential impacts that the discontinuation of Ibors and the transition to RFRs may have on their business; and
- seeking advice from their independent financial, legal and other professional advisors.

Where can clients find more information?

Clients can find general information on Ibor reform on the following websites:

- The relevant RFR working groups included in the table above
- FCA
- Bank of England
- US Commodity Futures and Trading Commission
- Federal Reserve Bank of New York
- US Alternative Reference Rates Committee
- European Central Bank
- FSB
- Loan Markets Association
- International Swaps and Derivatives Association
- Association of Corporate Treasurers

How is Nedbank supporting clients during the transition?

Nedbank recognises the impact that the Ibor transition will have on our clients given the range of products and services that we offer. We aim to continue engaging with our clients and to provide relevant support during this process.

In addition, we are participating in RFR working-group discussions on the Ibor transition. We will continue to update this website periodically and provide information on developments relating to Ibor as the transition evolves.

In the meantime, if you need more information, please contact your relationship manager at Nedbank.