IBOR Reform Frequently Asked Questions

NEDBANK

Background

The London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) are two of several interbank-offered rates (IBORs) that are used extensively as benchmark rates in global financial markets.

A wide range of financial products use IBORs as benchmarks, including:

- 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 financial regulators indicated that banks and other financial market participants 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 announced the future cessation and loss of representativeness of the LIBOR benchmarks. The announcement concerns all currencies and tenors, albeit with different time frames and considerations on the use of synthetic (non-representative) LIBORs.

In many jurisdictions, regulators and public and private sector groups are working tirelessly to develop RFRs to serve as suitable replacements for the existing IBOR reference rates and to enhance the underlying stability and efficiency of financial markets.

This reform is expected to impact existing IBORs, as they may perform differently from how they currently do or stop completely, as many IBORs are expected to be phased out by the end of 2021.

This process of migration from IBOR to RFRs is known as IBOR benchmark rate reform or IBOR benchmark rate transition and covers the significant effort and industry processes needed to move both new and legacy transactions away from IBOR towards the newer RFRs.

This reform may also impact the products and services that we (Nedbank Group, Nedbank Limited or any of our affiliates or branches) currently offer and may offer in future.

Contents

Acronyms

EURIBOR	Euro Interbank Offered Rate
FCA	Financial Conduct Authority
FSB	Financial Stability Board
IBOR	Interbank Offered Rate
IFRS 9	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association
LIBOR	London Interbank Offered Rate
LMA	Loan Market Association
RFR	Risk Free Rate
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Indexed Average
UK	United Kingdom
US	United States

Scope of IBOR reform change

- 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:

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.

Difference in rates explained

- 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.	They are based on actual historic transactions.
They are based on estimated from a narrow range of contributor banks.	They are based on robust, very liquid underlying transactions.

What does IBOR reform mean for Nedbank 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 that no longer serve the purpose 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 currently reference the same IBOR.
- An impact on the pricing or cost of our products or services (for example the transition of existing contracts from IBORs to RFRs may need adjustments for credit spread and term differences).
- Accounting and tax issues, for example where IBORs are used for valuation purposes.
- Operational implications, for example changes to systems or processes (the impact of moving from backward-looking to forward-looking rates).

More specifically for Nedbank clients, the following is expected:

- **By the end of 2021 we will no longer offer products referencing legacy IBOR benchmark rates** in anticipation of regulatory guidance to stop publishing these rates in 2022.
- **We will engage with clients to migrate existing transactions** that may reference IBOR rates and look towards the equitable transition to the new RFRs in anticipation of IBOR rates being discontinued towards the end of 2021.

Authorities and RFR working groups are still 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. We will continue to monitor these developments and adjust our IBOR reform plans accordingly.

The ISDA fallback supplement and protocol

In response to the IBOR reform, the International Swaps and Derivatives Association (ISDA) conducted an industrywide initiative, which led to **ISDA 2020 IBOR Fallbacks Protocol** (the ISDA Protocol). The ISDA Protocol is a major step towards simplifying and harmonising the financial industry's migration away from IBORs towards RFRs for any transaction **concluded under a Master ISDA agreement**.

The ISDA Protocol is a multilateral, predefined, industry-wide agreed process towards the migration of derivative and other relevant contracts concluded under the necessary legal arrangements in a standardised process. Most banks and other financial market participants and their clients globally have adhered to the ISDA Protocol. **The ISDA Protocol is applicable only to participants who have adhered to the ISDA Protocol, and we encourage you to adhere to the ISDA Protocol as well.** We can confirm that Nedbank has adhered to the ISDA Protocol.

Where both parties to any relevant transaction have adhered to the ISDA Protocol, all existing derivative transactions concluded between them before 25 January 2021 are covered by the ISDA Protocol. Whether or not our clients have adhered to the ISDA Protocol, all relevant transactions between us and any of our clients concluded on or after 25 January 2021 will include the IBOR fallbacks addressed by the ISDA Protocol. In addition, we might engage bilaterally with certain clients to address certain transactions.

For more information on the ISDA Protocol, please refer to the following website:

https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/

JIBAR-linked transactions

Nedbank has a significant product offering referencing the Johannesburg Interbank Average Rate (JIBAR) used in ZAR-based transactions, and as a Nedbank client, you may have existing transaction(s) that refer to JIBAR.

JIBAR is expected to undergo similar benchmark reference rate reform towards an anticipated new local RFR, and transactions linked to JIBAR are expected to follow a South African industry rate reform agenda. However, JIBAR reform, compared to IBOR reform, is still in the early stages, with local regulatory bodies and financial participants engaged in working groups to assess the impact and determine the RFR replacement rate for JIBAR.

Nedbank expects JIBAR reform to follow the more pressing IBOR reform in a few years. JIBAR products are not considered in the scope of IBOR reform.

Clients' next steps

There are several steps that clients can now take relating to IBOR reform, 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.

Further information

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

- 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

IBOR regulatory events affecting Nedbank and our clients

The following are the critical regulatory prescribed dates and requirements that we intend to adhere to:

- In accordance with the UK PRA/FCA regulatory authorities, we will not issue new sterling LIBOR-linked products to clients after the 1Q of 2021. New deals will be required to be executed against a sterling-linked rate referencing SONIA.
- The second major obligation pertains to US dollar products according to the US regulatory authorities. The formal regulatory requirement is for us to no longer issue new USD LIBOR-linked products to clients after 31 December 2021. Nedbank is looking to offer SOFR-linked products before this date, however, to ease the transition for new transactions ahead of this deadline.
- The regulatory deadline of 31 December 2021 also similarly applies to euro LIBOR deals and Nedbank is required to have transitioned to a new euro-linked risk-free rate by then. It is our intention to offer euro-based products linked to both EURIBOR as well as ESTR.

Overnight rates vs forward-looking rates

One of the key changes with current IBOR reform is that traditional IBOR reference rates, which were forward rates quoted with certainty for a given period upfront, are being replaced by overnight RFRs that are compounded for a similar term and do not offer certainty on the final interest rate until the end of the respective accrual period.

This has resulted in several new potential conventions being considered by the financial industry in order to allow for the operational settlement and calculation of interest with a period before payment.

One of the key remaining discussion points pertaining to IBOR reform is around the potential development of forward interest rates based on the new overnight RFRs in order to offer a similar amount of cashflow certainty that IBOR rates previously offered.

In line with regulatory guidance in this regard, we are preparing for the transition to overnight compounded interest rate conventions and offering products tied to such rates as the likelihood of forward rate markets being fully developed before the regulatory deadlines for IBOR reform is low.

We will monitor developments, however, in this regard and should forward interest rate markets tied to RFRs develop, the bank expects to offer products tied to such interest rates in the future.

How will we support you during the transition?

Given the range of products and services that we offer, we recognise the impact that the IBOR transition will have on you. We aim to continue engaging with you, providing relevant support during this process.

We are busy preparing our internal systems and processes to support the offering of products referencing the RFRs during 2021 and to do the necessary migration of existing impacted transactions.

We are also tracking industry and regulatory developments relating to IBOR reform closely to ensure the successful migration of new and legacy transactions in line with best practice.

In the meantime, if you need more information, please contact your relationship manager directly or send us an email at CIB_IBOR_Queries@nedbank.co.za.

Disclaimer:
This document explains our current understanding of the interbank-offered rate (IBOR) reform agenda at February 2021. It is not research and is intended for information purposes only, as many factors are still uncertain and there may have been further developments since the last update.

The information is therefore general and not complete or exhaustive. It is also not advice or a recommendation and does not consider the specific investment requirements or needs of any individual. Please contact your financial, legal, tax or other professional advisors to discuss the possible implications of the IBOR reform and transition to near-risk-free rates relevant to your circumstances.

We (Nedbank, our affiliates, related bodies corporate, associated entities or branches) do not make any representation about or give any warranty (in each case, whether express or implied) for the information in this document, including the accuracy, validity or completeness thereof. This document also includes information from third parties, but we do not guarantee the accuracy of the information, and you should not rely on it as a representation or warranty. We are not obliged to inform you of any change or update to the information.

We (including our directors, employees, representatives or agents) accept no responsibility or liability (whether in delict, contract, tort, negligence or otherwise) for any loss, damage, cost, claim, suit, action or expense, including, without limitation, loss of profit (whether actual, anticipated, direct or indirect), loss of business or loss of opportunity (whether direct, indirect, consequential or foreseeable) arising from your use of or reliance on the information.

Nothing in this disclaimer exclude our liability to the extent that our responsibility or liability cannot be legally disclaimed. Our responsibility or liability is limited to the maximum extent permitted by law.