

# IBOR Transition Client Briefing Session

## Final Preparations for LIBOR's End

14 and 15 September 2021



standard  
chartered

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# Agenda

1. Introduction
2. RFR adoption
3. RFR capabilities
4. Remediation of existing LIBOR contracts
5. Remediation considerations
6. Term RFRs
7. Credit sensitive rates
8. Market updates
9. Next steps
10. Resources and contacts



# 1. Introduction

Key objectives of this virtual briefing session are to:



Inform you of upcoming LIBOR transition milestones.



Provide an overview of the latest developments on forward-looking term rates, Risk-Free Rate (RFR) market adoption and Standard Chartered's RFR capabilities.



Help ensure you are clear on next steps and the Bank's engagement with you as we move closer to LIBOR's cessation.



# 1. Introduction

## Key upcoming milestones



 Benchmark cessation



# 2. RFR adoption

## Increasing liquidity in RFR derivatives markets



Interest Rate Derivative (IRD) notional referencing SOFR increased to USD939 billion in Q2 2021.



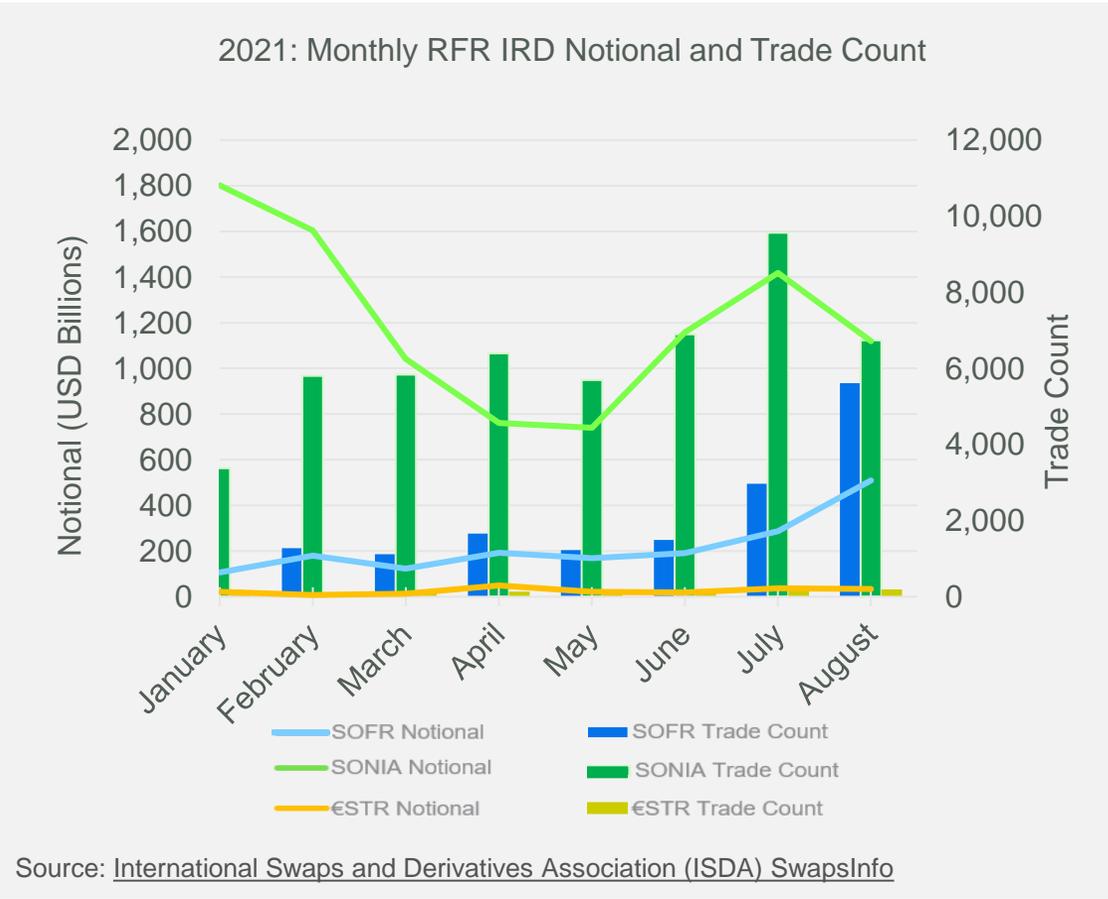
SOFR IRD volumes were up 37% in Q2 2021 and 96% in Q3 2021.



SONIA IRD volumes increased 25% in Q2 2021.



IRD notional referencing LIBOR has decreased 50% for USD and 83% for GBP since January 2021.



## 2. RFR adoption

### Momentum in the SOFR derivatives market



SOFR liquidity **increased significantly** in August 2021, with **IRD notional traded rising 77%**.



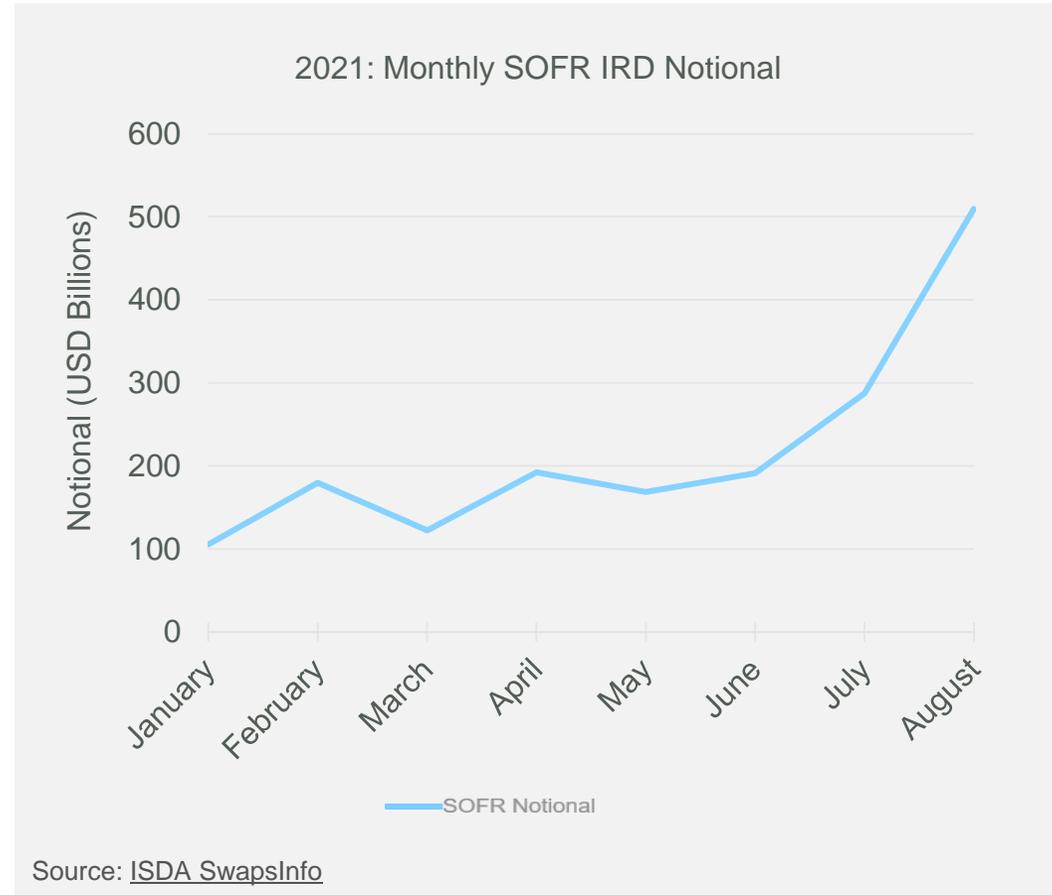
The first phase of the “**SOFR First**” initiative was completed on 26 July 2021.



According to the Alternative Reference Rates Committee (ARRC), this “demonstrates that **derivatives are moving to SOFR**”.



ARRC formally recommended **CME Term SOFR** on 29 July 2021.



## 3. RFR capabilities

### Transaction Banking

#### Transaction Banking

The Bank has a full suite of RFR product capabilities in cash and trade banking:

- **GBP** – SONIA Overnight Index Swap/SONIA IRS.
- **JPY** – Overnight TONA.
- **USD** – LIBOR pricing for new contracts will be offered until the end of 2021. Alternate pricing includes SOFR Overnight Index Swap/SOFR IRS and Overnight SOFR.
- **EUR** – transactions continue to be based on **EURIBOR**.

We will extend our offerings to include Term RFR based pricing starting Q4 2021.



# 3. RFR capabilities

## Lending and derivatives

### Lending

The Bank can offer RFR lending facilities bilaterally, through syndications or as an agent across all active RFR markets:

- **RFR pricing** as an alternative to **EUR, GBP, JPY** and **USD LIBOR**, and for **SGD SOR** and **THB THBFIX**.
- Overnight RFR rates can be booked out of **21 locations**.
- Products in other benchmarks can be provided on a case-by-case basis.

### Derivatives

The Bank can offer a full suite of derivative products across all active RFR markets:

- Swaps: RFR interest rate swaps (**IRS**), basis swaps and cross currency swaps (**CCS**).
- Options on Compounded RFR\*: **swaptions, vanilla caps and floors** and **digital caps and floors**.
- Currencies: **USD, EUR, GBP, JPY, CHF, SGD, HKD** and **THB**.
- Tenor\*\*: **up to 30 years**.

\* Options on CHF, HKD and THB RFRs can be provided on a case-by-case basis

\*\* Max tenor of the swaps or options varies depending on the currency.



## 4. Remediation of existing LIBOR contracts

### Different remediation approaches

Clients should **formulate their own views** on the advantages and disadvantages of active conversion and fallbacks, **seeking independent advice where necessary**.

#### Active contract conversion to RFRs

Amendment of LIBOR contracts to reference an RFR with **immediate effect** or **at a pre-determined future date**.

Working groups\* recommend active conversion:

- ✓ **Timing of the transition** can be set to suit the client and hedges can be renegotiated at the same time.
- ✓ Provides **economic certainty** for remediation.
- ✓ **Mitigates risks** of reduction in LIBOR liquidity.

\* Such as the Sterling Risk-Free Rate Working Group (RFRWG) and the Steering Committee for SOR and SIBOR Transition to SORA (SC-STs)

#### Fallbacks

Fallbacks enable LIBOR contracts to reference an alternate rate **upon LIBOR cessation**, specifying the rate and mechanism.

Fallbacks:

- ✓ Provide a **safety net** in case active conversion cannot be completed prior to cessation date.
- ✓ Can be an **alternative or addition to active conversion**.

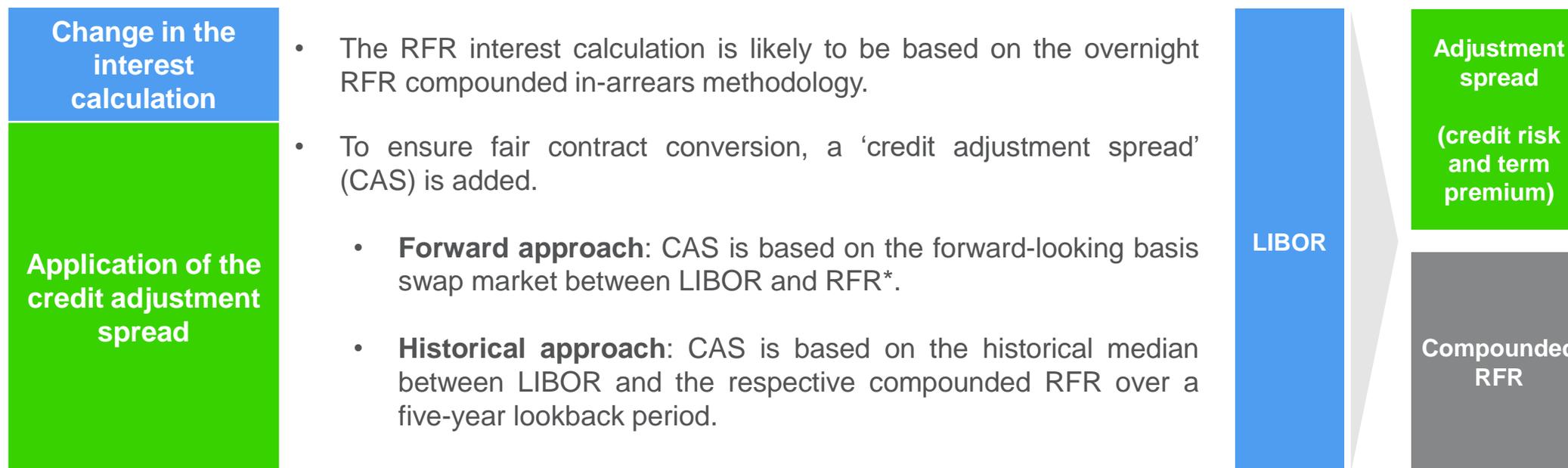


## 4. Remediation of existing LIBOR contracts

### Approach to active conversion

**Active conversion requires bilateral negotiation** between contractual parties.

There are **two principal changes** when converting LIBOR contracts to their RFR equivalents.



\* While LIBOR rates continue to be published



## 4. Remediation of existing LIBOR contracts

### Lending fallback language

The adoption of revised fallbacks in existing **LIBOR lending agreements** will require **bilateral amendment at an individual contract level**.

#### Fallback Methodology

Industry bodies and official sector working groups, including the Loan Markets Association (LMA) in the UK and ARRC in the US, have published **robust fallbacks** for use in **LIBOR loan agreements**.

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#### Fallback Adoption

The Bank has updated its **bilateral client documentation** to include LIBOR transition related **amendments and hardwired fallbacks**.

Client documentation for new transactions reference these amendments.

Agreement through **bilateral negotiations** will be required to include fallbacks in **existing documentation**.

Industry bodies expect market participants to **minimise deviation from published guidance** where possible, such as the [LMA RFR Facility Documentation](#).



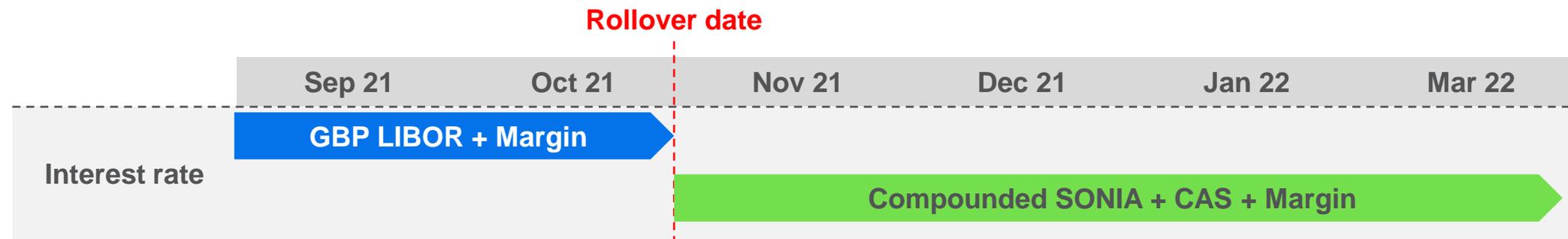
## 4. Remediation of existing LIBOR contracts

### Undrawn facilities

Clients with **LIBOR-linked undrawn facilities** will be impacted by the benchmark's cessation.

- The following facilities (including those undrawn) would **require remediation by 31 December 2021**:
  - **All** existing **non-USD LIBOR** facilities.
  - **1W** and **2M USD LIBOR** facilities.
- Any **subsequent drawdowns** would need to be made against an **alternative reference rate**.
- Facilities linked to the **remaining USD LIBOR tenors** will **require remediation by 30 June 2023**.

*Illustrative example of undrawn GBP LIBOR facility with rollover*



## 4. Remediation of existing LIBOR contracts

### Derivative fallback language

	ISDA IBOR Fallbacks Protocol	Bilateral fallbacks
<b>How it works</b>	The Protocol allows firms to <b>incorporate the ISDA fallbacks multilaterally</b> .	<b>Bilateral negotiation</b> is required which may <b>involve multiple counterparties</b> and be <b>time-consuming</b> .
<b>The Bank's position</b>	All Standard Chartered trading entities have <b>adhered</b> to the <b>Protocol</b> .	The Bank may leverage <b>standardised industry templates*</b> to incorporate <b>ISDA IBOR fallbacks</b> or negotiate bespoke <b>bilateral fallbacks</b> .
<b>Next steps</b>	The Protocol <b>remains open for adherence</b> at a cost of USD500.	Please <b>reach out to your Relationship Managers</b> if you would like to engage in bilateral negotiations.

\* ISDA has published two main template forms: (i) a short form template that enables parties to amend the relevant legacy agreements to include the new IBOR fallbacks and triggers by referencing the terms of the Protocol, (ii) a long form template that includes the text of the Attachment to the IBOR Fallbacks Protocol in full.



## 5. Remediation considerations

### Credit Support Annex agreements

Clients with **LIBOR-linked Credit Support Annex (CSA)** documentation and related agreements **will need to remediate** their contracts in advance of LIBOR cessation.

#### What does this mean for you?

- **Non-USD LIBOR CSAs** and other similar agreements will need to be remediated prior to **31 December 2021**.
- In addition, **EONIA CSAs** and other similar agreements will need to be remediated prior to **3 January 2022**.
- **USD LIBOR-linked CSAs** do not need to be remediated until **30 June 2023**. Clients however, may elect to switch prior to this so that their USD SOFR positions are aligned.

#### What should you do next?

- Review your portfolio to **identify any CSA contracts** that might be impacted.
- Consider adhering to the ISDA 2020 IBOR Fallbacks Protocol or EONIA Collateral Agreement Fallbacks Protocol to **remediate eligible agreements multilaterally**.
- Alternatively, **commence bilateral negotiations** with the Bank. ISDA has published templates to support bilateral amendments.



## 5. Remediation considerations

### Loans versus swaps – mismatching hedges

The **standard conventions** for RFR loans and legacy LIBOR swaps falling back to RFRs are **different** which could cause the **misalignment of hedges**.

Parameters	Standard convention		Potential alignment	
	Loan*	Swap**	Loan	Swap
Interest type	Compounded in arrears		Compounded in arrears	
Lookback	Yes	Yes	Yes	Yes
Lag days	5 RFR Business Days (BD)	2 BDs	Up to 5 RFR BDs	Up to 5 RFR BDs
Obs. period shift	No	Yes	No Yes	No Yes
Payment delay	0 BD	0 BD	0 BD	0 BD
Floor (if applicable)	On daily RFR	On compounded RFR	On daily RFR	On compounded RFR
Credit Adjustment Spread (CAS)***	ISDA CAS (fixed 5 March 2021)		ISDA CAS (fixed 5 March 2021)	

\*Based on the Bank's preferred convention.

\*\*Based on standard ISDA fallback protocol (standard conventions are currency specific).

\*\*\*Assume that the IBOR to RFR conversion is effective post-cessation date on the loan.

### Key implications

- Clients may prefer to align the parameters to ensure cashflow matching.
- Such alignment will be considered by the Bank on a case-by-case basis.
- There may be additional costs involved, this may be borne by client.



## 5. Remediation considerations

### Loans versus swaps – case study

Illustrative example of an existing LIBOR loan and swap

Contract terms	Loan	Swap
Loan amount	USD10 million	
Interest rate p.a (quarterly)	USD 3M LIBOR + 1.00%	Floating: USD 3M LIBOR + 1.00% Fixed : 2.50%
Maturity	15 Aug 2024	
Interest dates	15 Feb, 15 May, 15, Aug, 15 Nov on each year	

LIBOR fixing dates			
13 Aug 21	13 May 22	13 Feb 23	13 Nov 23
13 Nov 21	13 Aug 22	13 May 23	13 Feb 23
13 Feb 22	13 Nov 22	13 Aug 23	13 May 24

LIBOR fixings not impacted by discontinuation
  LIBOR fixings impacted by discontinuation

### Possible conversion approaches

Approach A
Conversion to take effect immediately
Loan : SOFR Compound 3M + 1.16%  Swap*: SOFR Compound 3M + 1.16% <i>against</i> 2.50%

The spread of 1.16% is priced based on the prevailing LIBOR-SOFR basis swap market.

Approach B
Conversion to take effect on or after cessation date
<u><b>Before actual cessation date</b></u> Loan : LIBOR + 1.00% Swap: LIBOR + 1.00% <i>against</i> 2.50% <u><b>After actual cessation date</b></u> Loan : SOFR Compound 3M + 1.26161% Swap*: SOFR Compound 3M + 1.26161% <i>against</i> 2.50%

The fixed rate of the swap is repriced to incorporate the pricing adjustment based on forward starting basis swap and the loan convention matching.

The spread of 1.26161% is derived from the existing margin of the loan + CAS based on ISDA fallback for USD 3M LIBOR (26.161 bps).

*\*Additional cost may be applicable for swap alignment to the loan.*



## 5. Remediation considerations

### Multi-currency legs in swaps

LIBOR cessation will **not** occur simultaneously for all products within a given facility nor even within a given trade in the case of **cross-currency swaps**.

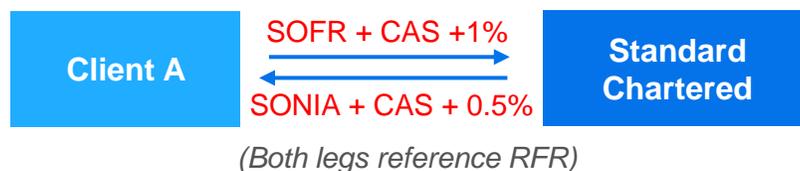
#### Phase A (before 1 January 2022)



#### Phase B (from 1 January 2022 to 30 June 2023)



#### Phase C (after 30 June 2023)



#### The multi-currency issue

For cross-currency swaps, there could be a period when one leg is based on LIBOR, and the other based on RFR.

This could lead to **additional complexity in risk management** and an **increase in operational risk**.

#### Key implications

**Active conversion** ensures client portfolios **continue to operate** as intended.

This provides **certainty for the economics and timing** of transition.

Cliff edge cessation risks may also be avoided by incorporating **fallback language** into LIBOR contracts.



## 5. Remediation considerations

### Example of applications

	FM's offering	Description
Existing IBOR-linked loans	Restructuring of IBOR swap to RFR swap	<ul style="list-style-type: none"> <li>• Clients with existing IBOR swaps on the back of an IBOR loan need to transition to RFR.</li> <li>• The Bank can help to facilitate the IBOR to RFR conversion by <b>restructure the IBOR swap to RFR swap</b>.</li> <li>• Interest rate calculation method of the swap <b>aligned</b> to the RFR loan.</li> </ul>
New RFR-linked loans	RFR swaps	<ul style="list-style-type: none"> <li>• <b>Vanilla RFR swaps</b> allow clients to hedge RFR interest to fixed rate.</li> <li>• To <b>reduce the cash flow mismatch</b> and <b>provide operational efficiency</b>, the swap can be customised <b>to align the interest rate calculation method</b> with that of the RFR loan.</li> </ul>
	RFR structured swaps (options)	<ul style="list-style-type: none"> <li>• Alternate hedging instruments include <b>RFR caps, RFR swaptions</b> or <b>RFR collars</b>, for clients who need tailored risk-reward profile product.</li> </ul>
	RFR CCS	<ul style="list-style-type: none"> <li>• Variations include <b>RFR to fixed CCS</b> and <b>RFR to RFR CCS</b>.</li> <li>• Interest rate calculation method of the CCS <b>aligned</b> to the RFR loan.</li> <li>• Clients can <b>face a Bank onshore location</b> if required.</li> </ul>



## 6. Term RFRs

### Term RFR overview

Forward-looking Term Rates are published and available for use for SOFR, SONIA and TORF in different tenors.

Term RFR	Publication Date	Vendor	Comment
 <b>SOFR</b>	21 April 2021	<ul style="list-style-type: none"> <li>CME Group</li> </ul>	<ul style="list-style-type: none"> <li>Term SOFR is ready for use in cash market products in <b>1M, 3M</b> and <b>6M tenors</b>.</li> </ul>
 <b>SONIA</b>	11 January 2021	<ul style="list-style-type: none"> <li>IBA</li> <li>Refinitiv</li> </ul>	<ul style="list-style-type: none"> <li>Term SONIA is available in <b>1M, 3M, 6M</b> and <b>12M tenors</b> from both the IBA and Refinitiv.</li> </ul>
 <b>TORF</b>	26 April 2021	<ul style="list-style-type: none"> <li>Quick Corp.</li> </ul>	<ul style="list-style-type: none"> <li>Term TORF is available in <b>1M, 3M</b> and <b>6M tenors</b>.</li> </ul>
 <b>€STR</b>	TBC		<ul style="list-style-type: none"> <li><b>Vendors under consideration</b> including: IHS Markit, European Money Markets Institute, IBA, Refinitiv and FTSE Russell.</li> </ul>
 <b>SARON</b>	N/A		<ul style="list-style-type: none"> <li>The National Working Group on Swiss Franc Reference Rates <b>does not intend to publish a Term SARON</b> due to a lack of liquidity in the underlying SARON derivative market.</li> </ul>



## 6. Term RFRs

### Industry standards and the Bank's perspective

Term RFRs will be available in **certain currencies** from Q4 2021 for **both** hedging and lending purposes, in line with local regulatory guidance. For more information, speak to your Relationship Managers.

Term Rate	Industry guidance	The Bank's perspective
Term SOFR	<p>ARRC recommends the use of term SOFR for:</p> <ul style="list-style-type: none"> <li>• <b>Cash products:</b> <ul style="list-style-type: none"> <li>• Multi-lender facilities.</li> <li>• Middle market.</li> <li>• Trade finance loans.</li> <li>• Certain securitisations.</li> </ul> </li> <li>• <b>Derivatives – for end-user hedging purposes.</b></li> </ul>	<ul style="list-style-type: none"> <li>• The Bank's preferred rate for lending is <b>Overnight SOFR, with 5 BDs Lookback.</b></li> <li>• Alternate rates will be <b>considered on a case-by-case basis.</b></li> <li>• It is expected that Term SOFR will be used more widely in the lending market than Term SONIA.</li> </ul>
Term SONIA	<p>FICC Markets Standards Board (FMSB) has <u>published</u> a standard on the use of TSRR, highlighting use cases:</p> <ul style="list-style-type: none"> <li>• <b>Loans – for limited set of products:</b> <ul style="list-style-type: none"> <li>• Trade and working capital.</li> <li>• Islamic finance products.</li> <li>• Corporates/retail.</li> <li>• Export finance.</li> <li>• Emerging markets.</li> </ul> </li> <li>• <b>Derivatives – for end-user hedging purposes.</b></li> </ul>	<ul style="list-style-type: none"> <li>• The Bank will <b>follow</b> the <b>FMSB guidance</b>, and the <b>use of Term SONIA will be restricted.</b></li> <li>• TSRR is offered by two administrators – IBA and Refinitiv. The Bank will continue to monitor market developments to determine which rate(s) we will offer.</li> </ul>



## 7. Credit sensitive rates

### Overview of credit sensitive term rates

Standard Chartered supports the adoption of RFRs as the preferred alternate rate. The Bank has no plans to offer credit sensitive rates at present but we will continue to monitor industry developments.

Alternative Rate	Administrator	BMR compliant*?
AMERIBOR	American Financial Exchange (AFX)	No
BSBY	Bloomberg	No <i>(but have announced plans to be compliant)</i>
Bank Yield Index	ICE	
CRITR	IHS Markit	

#### Are these rates approved by regulators?

**“Replacement indices ... (have) many of the same flaws as LIBOR. They both rely on a relatively thin market that tends to disappear in times of stress.”**

– Gary Gensler, SEC Chair

**“We don’t want to see transition to new so-called ‘credit sensitive’ rates.”**

– Edwin Schooling Latter, FCA Director of Markets and Wholesale Policy

\* The Benchmark Regulation (BMR) defines where an index may be considered a benchmark. To be deemed compliant, the index must be used for determining the amount payable under a financial contract, the value of a financial instrument or the performance of an investment fund.



## 8. Market updates

### Key developments

#### Singapore



- SC-STS market guidance document on transition of legacy SOR contracts published on 29 July 2021.
- **Clients with SOR-linked exposures** (i.e., loans and derivatives) will receive Corporate Engagement Letters on **active conversion to SORA**.

#### India



- The Bank will **cease new issuances** of the Mumbai Interbank Forward Offer Rate (**MIFOR**) by the **end of 2021**, in line with the RBI-issued roadmap.
- **New contracts** will be offered by the Bank on **Modified MIFOR** benchmarks.
- **Existing contracts** will need to be remediated to **Daily Adjusted MIFOR** benchmarks.

#### Hong Kong



- The HKMA confirmed that there are **no plans to discontinue** the Hong Kong Interbank Offered Rate (**HIBOR**).
- The Hong Kong Dollar Overnight Index Average (**HONIA**) has been **identified as the alternative RFR** to HIBOR.
- Clients can choose from **either rate** to suit their circumstances.



## 8. Market updates

### Key developments

#### Philippines



- The Philippines Interbank Reference Rate (**PHIREF**) will **cease to be published** upon the permanent cessation of USD LIBOR after **30 June 2023**.
- Bloomberg will publish **PHIREF fallback rates** by **Q4 2021**.
- PHIREF fallback rates will only be available in **O/N, 1M, 3M and 6M tenors after 30 June 2023**.

#### Thailand



- The Thai Baht Interest Rate Fixing (**THBFIX**) will be **discontinued** from **1 July 2023**.
- The Thai Overnight Repurchase Rate (**THOR**), based on overnight interbank repo market, has been identified as **THBFIX replacement**.
- THBFIX fallback rates established as a stop-gap to address legacy THBFIX contracts will cease publication 31 December 2025.



## 9. Next steps

### Key takeaways

#### Time is running out for USD LIBOR

- **No new USD LIBOR transactions after 31 December 2021\***.
- **USD LIBOR liquidity is decreasing**, clients should expect **increased volatility** as cessation nears.

#### Switch to RFRs for new transactions

- Clients should **switch to RFRs as soon as practicable**.
- The Bank has developed **a full suite of RFR capabilities**.
- **Reach out to your Relationship Managers** if you would like to learn more about the Bank's offerings.

#### Act now to remediate existing LIBOR contracts

- For the **non-USD\*\* LIBOR tenors ceasing this year**, it is imperative to **act now**.
- Clients should **commence active conversion or include fallbacks** for outstanding LIBOR-linked contracts.
- The Bank will begin remediation of outstanding USD LIBOR contracts in 2022, we are **ready to support you** if you wish to remediate your contracts sooner.

\* *Except for risk management purposes.*

\*\* *as well as 1W and 2M USD LIBOR.*



## 9. Next steps

### What to expect from us



We will engage with you to discuss any of your outstanding contracts that are impacted by LIBOR cessation on 31 December 2021.



If you are ready to commence remediation of your LIBOR contracts impacted by the 31 December 2021 cessation, we will discuss your options with you.



If you are not ready to transition, we will continue our engagement with you on this topic to help you prepare.



For remediation of USD LIBOR-linked contracts maturing beyond the 30 June 2023 USD LIBOR cessation date, we will engage with you in due course.



# 10. Resources and contacts

## Additional materials

If you have **additional queries** on the transition, please reach out to your respective Standard Chartered point of contact or email [IBOR.Transition@sc.com](mailto:IBOR.Transition@sc.com).

### Standard Chartered Resources

- [LIBOR Transition webpage](#)
- [LIBOR Events webpage](#)
- [‘Checklist for Success’](#)
- [IBOR Transition FAQs](#)
- [RFR capabilities](#)

### Industry Resources

- ISDA [Benchmark Reform at a Glance](#) and Fallbacks [Supplement](#) and [Protocol](#)
- ARRC’s [Recommended Best Practices](#), [Paced Transition Plan](#) and [Best Practice Recommendations Related to Scope of Use of the Term Rate](#)
- RFRWG’s [Priorities and Milestones](#) and IHS Markit [RFR calculator](#)
- FMSB’s [Standard on use of Term SONIA reference rates](#)
- LMA’s [Glossary of Terms](#) and [Guidelines](#)
- QUICK Corp.’s [Tokyo Term Risk Free Rate page](#)



# Q&A



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