FAQ

TRANSITION AWAY FROM LIBOR

Mauritius Bankers Association Limited ©

September 2021

Transition away from LIBOR: FAQ

01

What is IBOR?

IBOR stands for Inter Bank Offered Rate. It is the interest rate at which banks lend to, and borrow from one another in the interbank market, which is a global market for the trade of currencies, loans, and other financial instruments.

02

What is LIBOR?

LIBOR stands for London Interbank Offered Rate. It is the benchmark interest rate at which major global banks lend to one another. LIBOR is one of a number of IBORs, that is widely used in the financial markets.

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How is LIBOR calculated?

LIBOR is based on submissions from a group of large banks, known as "panel banks", using available "market and transaction data-based expert judgment". LIBOR is currently produced for five currencies (U.S. dollar, the euro, the British pound, the Japanese yen, and the Swiss franc) and seven tenors or time periods (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months, and 12 Months).

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04 How is LIBOR used?

LIBOR is often referenced in consumer loan-related products, derivatives, bonds, securitisations, and deposits, to calculate interest payments under those products. LIBOR should provide an indication of the average rate at which each LIBOR contributor can borrow unsecured funds in the London interbank market for a given period, in a given currency.

04 Why is LIBOR being discontinued?

The two main reasons are:
(a) the underlying market that LIBOR has historically sought to measure – the market for unsecured wholesale term lending to banks - has not been an active market since the financial crisis; and
(b) the financial markets' over-reliance on LIBOR creates systemic risk.

06 When will LIBOR be phased out?

(a) Immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
(b) immediately after 30 June 2023, in the case of the remaining US dollar settings.

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Which rates are likely to replace LIBOR?

Relevant authorities have released a series of alternative Risk-Free Rates (RFRs). RFRs are overnight interest rate benchmarks, which are perceived by the FCA and other regulators to be more representative and reliable than LIBOR.

REGULATORS FOR THE 5 LIBOR CURRENCY JURISDICTIONS HAVE PUBLISHED THEIR PREFERRED ALTERNATIVE REFERENCE RATES AS SHOWN IN THE TABLE BELOW:

Jurisdiction	Current LIBOR-IBOR	Administrator	New Risk-Free Rate	Secured/Unsecured
Euro Area	EONIA EURIBOR EUR LIBOR	European Central Bank (ECB)	€STR (Euro Short-Term Rate)	Unsecured
UK	GBP LIBOR	Bank of England (BoE)	SONIA (Sterling Overnight Index Rate)	Unsecured
USA	USD LIBOR	Federal Reserve Bank of New York (Fed)	SOFR (Secured Overnight Financing Rate)	Secured
Switzerland	CHF LIBOR	SIX Swiss Exchange	SARON (Swiss Average Rate Overnight)	Secured
Japan	JPY LIBOR	Bank of Japan (BoJ)	TONAR (Tokyo Overnight Average Rate)	Unsecured

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How are these Risk-Free Rates (RFRs) different from LIBOR?

The main differences between LIBOR and RFRs relate to, the methodologies being used to calculate the rates, the reference period and the credit risk involved.

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What is a credit adjustment spread and why is it being used?

As LIBOR and RFRs are calculated using separate methodologies, there may be differences between the published rates of the two benchmarks. Thus, to accommodate the differences observed and minimize value transfer to the extent possible, the use of credit adjustment spreads is being recommended.

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What is "fallback language"?

Fallback language refers to document terms, that are intended to provide for a smooth transition to an alternative reference rate in the event LIBOR ceases to exist. The use of "fallback language" in contracts by banks is encouraged, to protect relevant outstanding LIBOR contracts from uncertainty.

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What does it mean for you as a client?

There will be no more new loans based on LIBOR and existing facilities, including Letters of Credit (LCs), Import Loans, will need to be moved to more robust alternative rates.

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What impact will this change have on your contract with a bank?

Your interest rate contracts denominated in LIBOR would need to be amended and expressed in the new RFRs, particularly those that mature after the LIBOR cessation dates. While there may be temporary differences between credit sensitive LIBOR and the new RFRs, the latter will prevail after the LIBOR cessation dates.

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What should you do?

At your earliest convenience, but well before the LIBOR end dates, you may wish to contact your bank(s) to understand which contracts are affected and discuss revised terms with them-if you have not already been contacted.

14 If you have any further questions relating to the discontinuation of LIBOR, who can you contact?

For any queries relating to the discontinuation of LIBOR, please contact your specific bank and /or your Relationship Manager. You may also seek independent advice from professional third parties. For further technical information and methodology, please refer to our detailed FAQ.

DISCLAIMER:

The purpose of this document is to provide information to the customers/public, regarding the likely discontinuation of LIBOR and to outline key aspects of this forthcoming change. The above information is provided for information only and it is not complete or exhaustive nor does it constitute legal or regulatory advice. The author of this note makes no representation as to any matter referred to therein and the reader is advised and remains responsible for taking independent advice, where applicable.