ASIFMA VIRTUAL EVENT:
IBOR TRANSITION IN ASIA PACIFIC

THURSDAY, 23 JULY 2020
10:00AM - 11:30AM HK/SIN

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Growing Asia's Markets

ASIFMA Virtual Event: IBOR Transition FAQs

1. **Have any banks reached out to HKMA about the potential delay of operation readiness to issue products RFR by end of this year?**
   - **Arthur Yuen, HKMA:**
     The HKMA so far has not received notice from any bank about not being able to offer products referencing alternative reference rates starting from 1 January 2021. It is worth noting that when setting this and other milestones, the HKMA has taken account of those recommended by industry organisations of the LIBOR jurisdictions. The timeline developed by the HKMA is comparable with those of these industry organisations, and has accommodated for local situations. In addition, the HKMA has consulted the Treasury Markets Association's Working Group on Alternative Reference Rates and the feedback suggested that this milestone should be achievable in principle.

2. **What about the jurisdictions that use USD for their own market reference rates?**
   - **Andrew Ferguson, APLMA:**
     Local regulators would have to make a decision to follow US/ARRC Best Practices. The chances are that said jurisdiction would use SOFR.
   - **Jing Gu, ISDA:**
     Not sure whether the question is meant to ask what would happen to the four Asian FX swap implied benchmarks linked to USD LIBOR. If so, there are national working groups in Thailand and Singapore looking at the local benchmark transition issues. Information about SOR transition can be found on ABS website and information on THBFIX can be found on BOT website https://www.abs.org.sg/benchmark-rates/about-sora)
     and https://www.bot.or.th/Thai/FinancialMarkets/Pages/ReferenceInterestAndEndOfUseLIBOR.aspx
     In India, a working group led by Indian Banks' Association (IBA) has been convened to look at MIFOR transition issue.
     Market participants should contact the relevant national working group for information on the local benchmark transition issue.

3. **Larger international banking groups tend to have more resources and knowledge to achieve a successful transition, compared to smaller banks and corporates. What would you suggest for the latter to prepare and would there be industry tools developed for them to leverage?**

- **Andrew Ferguson, APLMA and Rebecca Weinrauch, ASIFMA**

  Follow the guide recently organized by ASIFMA. (https://www.asifma.org/wp-content/uploads/2020/07/asifma-aplma-icma-isda-ibor-transition-guide-for-asia.pdf)

- **Jing Gu, ISDA:**

  ISDA has a dedicated website (https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/) on interest rate benchmark reforms which include detailed information on LIBOR transition and IBOR fallback for derivatives.

- **Dennis To, Bloomberg:**

  Understand your exposures: identify legacy contracts that matures after 2021, do your valuation analysis to know how your portfolios will be affected by the transition away from LIBOR. Ask about "what-if" scenarios. This means having the relevant fallback data and historical data, ensuring system readiness for the appropriate analytics, trades, and impact assessments.

  Bloomberg has a dedicated LIBOR transition website on fallback data and tools https://www.bloomberg.com/professional/solution/libor-transition/, and a webpage for APAC market participants looking for timely IBOR transition insights and practical resources that are specific for the region (https://www.bloomberg.com/professional/solution/libor-transition/apac-benchmark-reform-resources/)

  Bloomberg offers a comprehensive suite of data, analytics, and portfolio solutions to help market participants assess the impact of the transition to risk free rates and provides transparency and supports adoption for all products across our industry leading platform.

- **Mushtaq Kapasi, ICMA:**

  ICMA maintains a dedicated benchmark portal with a wealth of information on benchmark reform and transition to risk-free rates, including ICMA analysis and official sector statements, focused on the international bond markets.

4. **There were several comments about FSB jurisdictions being advanced and starting to talk to corporates about fallback language. However, in Hong Kong we have had numerous conversations with corporate treasurers and have yet to find anyone that has been approached by a bank. Indeed, one very large listed company is considering stopping issuing USD debt (and reverting to HKD HIBOR debt) as their banks have not yet considered fallback language. Is this in line with expectations?**

- **Andrew Ferguson, APLMA:**

  Definitely not. Banks should be talking to clients about transition and most have started such conversations. But clearly, as I said this morning, a lot of bankers need some training.

5. **Seems a key challenge to industry migration will be managing the commercial impact to counter-parties as the rate gets reset, and resolving the thorny contractual negotiations, given there will be winners and losers in this zero sum situation. How can the government or regulators assist to smoothen out the transition?**

- **Mushtaq Kapasi, ICMA:**
  In the context of active transition, such as consent solicitation in the bond market, it is important to ensure that the economic terms on which the transition is carried out does not give rise to any economic winners or losers. To address this, it will be important for the buyside and the sellside to reach an agreement on the spread adjustment – that is, the potential differential between the IBOR (which has a credit risk element embedded in it) and the risk-free rate (which does not). In the UK sterling market for instance, there is likely to be a market consultation on what the spread adjustment should be in these instances, even though there has already been a number of active transitions (by way of consent solicitation) undertaken to transition from sterling LIBOR to SONIA (the risk-free rate in the sterling market) which have used the same formulation, consistently applied.
- **Arthur Yuen, HKMA:**
  The official sector has been working closely with industry associations such as ISDA in the development of calculation methodologies and conventions, as well as engaging market participants in raising the general awareness of the need to prepare for the transition.

6. **Have there been any conversations on making regulatory surveys more consistent? The volume of surveys combined with the fact that they all ask for different analysis and different cuts of data is very time consuming for transition programs, which are already facing resource and time challenges.**

- **Arthur Yuen, HKMA:**
  The HKMA has communications with other regulators on benchmark transition both bilaterally and at international forums, including exchanging benchmark survey's templates with some regulators for each other’s reference. The HKMA has been mindful of the survey's potential burden on banks, and therefore has made reference to other regulators' templates when developing its own survey and has tried to keep it relatively simple. In the international forums, the FSB has worked with BCBS on a report to G20 (via a questionnaire) quantifying the exposures and highlighting the risks and challenges facing LIBOR transition. It will continue to work on a simplified set of key metrics and questions to monitor the transition progress early next year.

7. **When do you foresee term rates being developed for alternate RFRs for USD and GBP LIBOR?**

- **Andrew Ferguson, APLMA:**
  IBA and Refinitiv have already launched SONIA term rates. USD SOFR probably before the end of 1Q21

- **Mushtaq Kapasi, ICMA:**
  In the sterling market, term rates are already under development: for instance Refinitiv, ICE Benchmark Administration and FTSE Russell have all started publishing prototypes, and another is expected shortly from a different provider. But these prototype rates will remain in beta form until such time as the regulatory authorities declare that they can be used in the market more generally (it is considered that this could take up to six months).
  In the US, the latest 2020 Objectives released by the Alternative Reference Rates Committee (ARRC) includes the establishment of an RFP process and criteria for recommendations in order to select an administrator of an ARRC-recommended forward-looking term SOFR rate to be published in the first half of 2021, if liquidity in SOFR derivatives markets has developed sufficiently, and also establish recommended *scopes of use* for such a term rate. The date set for this objective is 30 September 2020. It is important to note that a term rate is the first step in the ARRC recommended fallbacks waterfall for FRNs.
  However, the UK authorities (and the ARRC in the US) have been consistently clear that the market should transition to SONIA/SOFR compounded in arrears rather than waiting for a forward-looking term rate to emerge. Further, a Term Rate Use Case Task Force in the UK has concluded, based on an anonymous survey, that use of SONIA compounded in arrears is appropriate and is likely operationally achievable for approximately 90% of new loan deals by value and that alternative rates would likely be required for 10% of new loan deals by value.

8. **As many regions are taking a two-pronged approach for transition, which may in turn hinder the development of ARR product and trading activities. Is there any plan to foster the use of ARR? Thanks.**

- **Arthur Yuen, HKMA:**
  HK has adopted the multiple-rate approach, allowing market participants to choose between HIBOR and its alternative reference rate HONIA. HIBOR is a credible benchmark rate and it is still widely used in HK. Nonetheless, efforts are being made to promote the use of HONIA. For instance, HKEX has launched clearing services for HONIA-based interest rate products. To facilitate the calculation of interest payments based on HONIA compounding, TMA has been publishing 30-, 90-, and 180-day HONIA averages and a HONIA Index.

9. **If the term rate will be available later but banks are actually moving towards interest in-arrears calculation, then will there a possibility that banks will switch back to forward looking rate once that becomes available again?**

- **Andrew Ferguson, APLMA:**
  In the syndicated loan market there is a chance that following a switch to overnight RFR's compounded in arrear, lenders may wish to revert to forward looking term rates - if such became available and were acceptable to regulators and other interested parties.
- **Mushtaq Kapasi, ICMA:**
  This could happen, but it would be unlikely in the bond markets. In the sterling FRN market for instance, there have been over 180 deals (including securitisations) issued on the basis of compounded in arrears, and the UK authorities (and the ARRC in the US) have been consistently clear that the market should transition to SONIA/SOFR compounded in arrears rather than waiting for a forward-looking term rate to emerge. See further the answer to Q7. The term rate, when it does become operational, should really only be used in a limited range of circumstances.
- **Jing Gu, ISDA:**
  As far as derivatives are concerned, it is unlikely to happen. FSB has made it very clear that overnight RFR is a better reference rate choice than term rates in interest rate derivatives markets and a forward looking RFR-derived term rate is not needed in most cases for these markets. FSB has stated that it supports a focus on the overnight RFRs as a primary IBOR fall back rate, in the work which it has invited ISDA to lead on robust fall backs for derivatives which reference IBORs. ISDA's proposal that the fallback rates be directly based on the overnight risk-free rates such as SOFR is in line with the FSB's position. ISDA's consultations have established that market participants prefer to use the compounded setting in arrears rate to address differences in tenor between IBORs and overnight RFRs, and the historical median over a five-year lookback period approach to deal with differences in credit/liquidity risk and other factors such as liquidity and fluctuations in supply and demand.

  See "*Interest rate benchmark reform – overnight risk-free rates and term rates*" published by FSB on 12 July 2018.

  "The FSB considers that the greater robustness of overnight RFRs compared with term rates makes overnight RFRs a better reference rate choice than term rates in markets where participants do not need forward-looking term rates. Where the value of contracts referencing the benchmark is very large, markets will need to reference a robust benchmark, such as overnight RFRs, to avoid systemic risk. Benchmarks which are used extensively must be especially robust in order to ensure financial stability. This is true in the market which constitutes the largest part of current IBOR usage – the market for interest rate derivatives. Where transition away from an IBOR is necessary, overnight RFRs are a better choice than term RFRs for these markets, both because these markets have a long history of using derivatives based on overnight rates and therefore do not in most cases need term rates, and because the extensive use of derivatives dictates that they should refer to the most robust rates. In the case of fall backs in contracts which reference term IBORs, an appropriate credit spread would

need to be added to rates produced by compounding the overnight RFR, but a forward-looking term rate is not, in most cases, needed. "

10. **Will there be a recommendation on how to choose the convention for different product?**
    - **Mushtaq Kapasi, ICMA:**
      In the sterling market, it is not yet clear whether the regulatory authorities will make any recommendation on the conventions used for different products. This is more of a market-led issue than a regulatory issue, and the conventions may change over time as the markets evolve, so the regulators would not necessarily want to commit themselves. However, the different Risk-Free Rate Working Groups may make recommendations; such as the ARRC in the US and the Sterling Risk-Free Rate Working Group in the UK (such as this one).

11. **I understand that ISDA may not be able to issue the definitions and related protocol until they have antitrust clearance from the DOJ. Do we have any indications on whether ISDA may have to push off the publications past end-July?**
    - **Jing Gu, ISDA:**
      ISDA hopes to soon be in a position to launch the IBOR Fallback Protocol and the IBOR Fallback Supplement to implement the new fallbacks for legacy and new derivative contracts, respectively. The documents themselves should be final by the end of July and Bloomberg's publication of the indicative fallback rates recently launched on July 17th. The actual launch of the IBOR Fallback Protocol and the IBOR Fallback Supplement remains subject to and will occur only after ISDA receives a positive business review letter from the US Department of Justice and similar feedback from competition authorities in other jurisdictions. The fallbacks will take effect in new contracts via the IBOR Fallback Supplement and in legacy contracts that are amended by the IBOR Fallback Protocol (or bilaterally) on a set date about four months later. ISDA will provide market participants with approximately two weeks' notice of the official launch date and later effective date.

12. **Question to Jing Gu: Has there been any development in the Korea benchmark regulation and English translation of this act?**
    - **Jing Gu, ISDA:**
      An English translation of the Financial Benchmark Act is not published by the Korean government as of yet. The FSC is in the process of enacting subordinate Presidential Decrees and FSC regulations which would prescribe the details of the Act.

13. **Any website publish the transaction and fallback rate for the legacy bond performed content solicitation?**
    - **Mushtaq Kapasi, ICMA:**
      There is no central repository for information captured from any consent solicitations which have already been undertaken in the sterling market (although the information is generally publicly

available). In terms of the fallback rate which might be used for *future* consent solicitations, this has not been formally consulted upon, but all consent solicitations (approx. 20) as well as all new issues (at least 180) thus far have used the compounded in arrears rate (and see above answers regarding use of a term rate). As for the spread adjustment which might be used for future consent solicitations, there is likely to be a market consultation on what this should be (although the same spread adjustment has been used for all consent solicitations to date).

14. **With respect to India and specific to MIFOR, it was mentioned that Q 1 next year EBA India is expected to publish something. DO we have any further information on the same. What is it that EBA is planning to publish.**
    - **Jing Gu, ISDA:**
      Indian Banks' Association, IBA chairs the working group on MIFOR transition. Please contact IBA for further information on the MIFOR transition discussion.

15. **There are media news that Central Banks in some countries may start issuing digital currencies. Will all that we have discussed today apply to digital currencies also?**
    - **Andrew Ferguson, APLMA:**
      Unlikely
    - **Mushtaq Kapasi, ICMA:**
      The IBORS relate to 5 currencies (USD, GBP, CHF, Euro and JPY). Any digital currencies which are not deemed to be one of these existing currencies will likely benefit from their own specific benchmark.

16. **Some fixed to variable bonds refer to USD SWAP rates or SGD SWAP rates, could you advise what change we should expect for these SWAP rates?**
    - **Mushtaq Kapasi, ICMA:**
      This is being considered in the sterling market; often, the solution will be a function of how the documentation is drafted – if it drafted widely enough (for instance, just a reference to swaps/midswaps generally), this may allow for a substitute page to be used from which to take the swap rates, so there could be a simple switch from the IBOR swap rate to the ARR swap rate.
      If it is drafted narrowly (for instance, to a specific, defined screen page), it may be that the issuer needs to amend the relevant documentation by way of consent solicitation because that source might not exist any longer. Some documents may refer back to the ISDA definitions for swaps/midswaps, which might capture any consequential changes to the relevant swap rate. And some may already contain fallbacks to gilts, or similar.
      However, the new ARR swap rates will need to embed the ISDA adjustment margin for them to be economically equivalent to the IBOR swap rates. Whether or not they do will depend on whether whatever the screen rate providers put on their screens embeds the ISDA adjustment margin, and ultimately whether that can be deemed to preserve the economic equivalence of LIBOR. We understand, for instance, that ICE Benchmark Administration are not planning to maintain a screen

with SONIA midswap rates which embed an adjustment margin, but that they are planning to start a new screen with SONIA based swap rates which can be used for new SONIA swap-based transactions, but not for any legacy, LIBOR swap-based transactions.

17. **Understand that ARRC and the Sterling RFR WG have been recommending for market participants to use the compounded RFRs and to not wait for forward-looking term RFR for cash products. However, APLMA mentioned they are committed to development of forward-looking rates for the loan market. Should market participants hold back in offering cash products in compounded RFRs in anticipation of the release of forward-looking term rates? or? What is the take-away for the participants in this topic?**

- **Andrew Ferguson, APLMA:**
  The Fed, the ARRC, the Bank of England, the Financial Conduct Authority and others have said categorically DON'T WAIT FOR FORWARD LOOKING TERM RATES.
- **Mushtaq Kapasi, ICMA:**
  Term rates are under development as they are considered necessary *for a small segment of the market* (see Q7 above). But UK authorities (and the ARRC in the US) have been consistently clear that the market should transition to SONIA/SOFR compounded in arrears rather than waiting for a forward-looking term rate to emerge. The key take-away is not to wait for the term rates, but to continue with a transition plan based on a compounded in arrears rate.