IBOR TRANSITION SERIES:
A LOCAL MARKET PERSPECTIVE

INDIA IBOR TRANSITION

(IN COLLABORATION WITH FIMMDA AND IBA)

TUESDAY, 22 SEPTEMBER 2020
10:00AM – 12:45PM (IST) / 12:30PM – 3:15PM (HKT)

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ASIFMA Virtual Event: India IBOR Transition
Q&A

1. **RBI was speaking on an alternative to MIFOR as a currency basis on MROR. Would like to know more considering the term structure on MROR is missing unlike MIBOR based OIS swaps**

   - **Ms. Dimple Bhandia, Reserve Bank of India:**

     It is correct that the MROR is an overnight rate and does not have a term curve. A term curve will need to be developed along with the currency basis.

2. **Noticed MIFOR calculation is depended on USD LIBOR and will be ceased by end 2021. How about MIBOR, is there any cessation plan in future? Will India take a multiple rate approach like other APAC jurisdictions in majority?**

   - **Mr. Rudra Narayan Kar, FBIL:**

     There is no cessation plan for MIBOR. MIBOR is an unsecured rate used mainly in MIBOR OIS. As regards MROR being used a s a replacement for MIFOR, MROR is an O/N rate and does not have a term curve. The term Curve is required to be developed in addition to developing the currency basis market. It can be a medium to long term goal.

3. **There are discrepancies in rates published by Bloomberg as term spread adjustments and compounded RFR rates are not exactly adding up to final fallback rates. Bloomberg is saying it is because of different periods taken for these rates as suggested by ISDA. Can you please elaborate?**

   - **Mr. Rohit Mandhotra, Bloomberg:**

     The calculation is as per the rule book and will match. The important aspect to take care is of that the Adjusted reference rate date needs to be the same as the record date and the spread adjustment needs to be as of historical date.

     For example for calculation of U.S. Dollar LIBOR 3M Adjusted Reference Rate for 16th October 2019.

     Rate record date will be 16 Oct 2019.
     Accrual Spot Date - 18 Oct 2019 (Add the Reference Rate Spot Lag number of Reference Rate Business Days to the Rate Record Day to get the Accrual Spot Date)
     Accrual Start Date - 16 Oct 2019 (Subtract the Offset Lag number of Reference Rate Business Days from the Accrual Spot Date to get the Accrual Start Date)

Accrual End Date - 16 Jan 2020 (Add the tenor (subject to the Modified Following convention as this is the 3M Tenor))
Based on this compute the compounded rates.

For Spread Adjustment Rate Record Day 16-Oct-19, Subtract the Tenor from the Rate Record Day = 16-Jul-19. The important part now is that you subtract 2 (two) Reference Rate Business Days to get the Median Period End Date (= 12-Jul-19) and then Subtract 5 (five) years from the Median Period End Date to get the Median Period Start Date (12-Jul-14)

Once you match this the calculation will match.

4. **Why a 5-year median spread rate is chosen over a mean rate? Secondly, how the SoFR rates spread previous to 2018 will be calculated? / And secondly how the 5 year median is calculated as SoFR got published after April 2018?**

- **Mr. Rudra Narayan Kar, FBIL:**

  The 5 year data and the median spread has been taken from Bloomberg data

  The Median spread period has been chosen based on the Working group committee recommendations. This basically smoothens the volatility of the curve.

- **Mr. Rohit Mandhotra, Bloomberg:**

  SOFR was first published by the Federal Reserve Bank of New York on 2nd April 2018. Where SOFR is required by the calculations in this methodology prior to this date, the following proxy sources are used:
  • From 22nd August 2014 until 29th March 2018 (inclusive), the indicative (pre-launch) SOFR values published by the Federal Reserve Bank of New York
  • From 20th February 1998 until 21st August 2014 (inclusive), the Historical Overnight Treasury GC Repo Primary Dealer Survey Rate

5. Is there any major role the Day count convention to play in libor transition based on currency and the new benchmark selected?

- **Mr. Rudra Narayan Kar, FBIL:**

  Yes. The day count coventions are important. We may use the convention as per the ISDA rulebook.

- **Mr. Rohit Mandhotra, Bloomberg:**

  Yes it does play an important role. Please refer to IBOR Fallback Rate Adjustments Rule Book for details.

6. Do you have a view on how the pricing for new loans/ products on ARR will take place? For example: How will the spread for credit risk and liquidity that are inherent in LIBOR be arrived at while pricing new loans on SOFR.. Are there any indicators of what these spreads could look like other than the LIBOR vs OIS that can be observed?

- **Mr. Mushtaq Kapasi, ICMA:**

  In the cash markets, for new products (i.e. newly issued and referencing the ARR directly), the pricing will be inherent and included in the margin. For anything that is being converted to the ARR from the IBOR rate early, by way of amendment (in the loan market) or by way of consent solicitation (in the bond market), an adjustment spread will be required to replicate the credit element in LIBOR and therefore to maintain the economics of the original transaction. The adjustment spread will try to reflect the bank credit risk element which is present in LIBOR, but is not observable in risk-free rates. As for how it will be constructed, in the sterling bond market, where over 20 consent solicitations have taken place, this adjustment spread is based on the net present value of the difference between sterling LIBOR and SONIA based on the sum of a margin plus the linear interpolation, to the final maturity date of the particular bonds being amended, of [a particular] LIBOR vs SONIA Basis vs. [a particular] LIBOR vs SONIA Basis. It is not yet clear whether this formulation will work for the loan market, or indeed whether it will become the market “standard” for the bond market.

7. **As LIBOR was unsecured rate and the new regime look like shifting to secured overnight or term lending rate, which will leave certain basis point on the table due to this unsecured to secured rate, is any adjustment/mark up required or permitted to lenders ?**

   - **Mr. Mushtaq Kapasi, ICMA:**

     There will be an adjustment spread payable but not to account for secured/unsecured differences, but rather for the lack in credit element. See question 13 for further information. Not all ARRs are secured: SOFR is, but SONIA is not.

8. **Hi this is Raj from Central bank of India, is any RFR or sofr is manipulative? How to make it more transparent for end user**

   - **Mr. Mushtaq Kapasi, ICMA:**

     The ARRC states that the transaction volumes underlying SOFR regularly are around $1 trillion in daily volumes and these volumes are far larger than the transactions in any other U.S. money market. The ARRC also notes that this makes SOFR a transparent rate that is representative of the market across a broad range of market participants and protects it from attempts at manipulation. For further background on SOFR, see Key Facts about SOFR, ARRC, August 2020.

9. **Refinitiv: Are these fallbacks same which ISDA has recommended?**

   - Yes they are same.

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Thank you for submitting your questions. We did our best to answer most of the questions posted.
We appreciate your understanding.
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