

What is LIBOR?

- London Inter-Bank Offered Rate (“LIBOR”) is an interest rate benchmark which is an indication of the average unsecured borrowing rate in the international interbank market for a given period/currency.
- LIBOR is used for financial products including, but not limited to, loans, securities and derivatives.
- LIBOR is submitted by a panel of contributing banks in London using available transactions as well as their expert judgements over the future interest rate direction.
- LIBOR is published daily by ICE Benchmark Administration in five currencies GBP, USD, EUR, JPY and CHF over seven tenors of overnight, 1 week, 1-month, 2-months, 3-months, 6-months and 12-months.

Why is Reform Required

- The UK Financial Conduct Authority (“FCA”) had on 27 July 2017 announced that LIBOR will be discontinued after 31 December 2021 as part of FCA’s regulatory reform to improve market transparency and to reduce dependency on LIBOR that was largely based on panel banks’ expert judgement; and transition to alternative risk-free reference rate benchmarks that are based on historical transactions.
- On 5 Mar 2021, FCA announced that:

LIBOR setting	Last date of publication/representativeness	Index cessation effective date	Spread adjustment fixing date	Interpolation	Potential for non-representative, synthetic publication
CHF LIBOR					
All CHF LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	N/A	N/A
EUR LIBOR					
All EUR LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	N/A	N/A
GBP LIBOR					
Overnight, 1-week, 2-month and 12-month GBP LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	N/A	N/A

LIBOR setting	Last date of publication/ representativeness	Index cessation effective date	Spread adjustment fixing date	Interpolation	Potential for non- representative, synthetic publication
1-month, 3-month and 6-month GBP LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	N/A	1 January 2022 onwards
JPY LIBOR					
Spot next, 1-week, 2-month and 12- month JPY LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	N/A	N/A
1-month, 3-month and 6-month JPY LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	N/A	1 January 2022 through 31 Dec 2022
USD LIBOR					
Overnight and 12- month USD LIBOR settings	30 June 2023	The first London Banking Day on or after 1 July 2023	5 March 2021	N/A	N/A
1-week and 2- month USD LIBOR settings	31 Dec 2021	The first London Banking Day on or after 1 Jan 2022	5 March 2021	The first London Banking Day on or after 1 Jan 2022 through 30 June 2023	N/A
1-month, 3-month and 6-month USD LIBOR settings	30 June 2023	The first London Banking Day on or after 1 July 2023	5 March 2021	N/A	1 July 2023 onwards

- FCA has reminded all banks and market participants to remove dependencies on LIBOR to avoid disruption when LIBOR ceased to be published.

LIBOR & other reform currencies and their proposed alternative risk-free reference rates

	LIBOR reform currencies					Other RFR reform currencies	
	USD	EUR	GBP	JPY	CHF	SGD	THB
Legacy benchmark to discontinue	USD LIBOR	EUR LIBOR EURIBOR EONIA	GBP LIBOR	JPY LIBOR TIBOR EUROYEN TIBOR	CHF LIBOR	Singapore Swap Offer Rate (SOR)	Thai Baht Interest Rate Fixing (THBFIX)
Proposed alternative Reference Rate ("RFR")	Secured Overnight Financing Rate (SOFR)	Euro short-term rate (€STR)	Sterling Overnight Index Average (SONIA)	Tokyo Overnight Average Rate (TONA)	Swiss Average Rate Overnight (SARON)	Singapore Overnight Rate Average (SORA)	Thailand Overnight Repurchase Rate (THOR)
Administrator of RFR	Federal Reserve of New York	European Central Bank	Bank of England	Bank of Japan	SIX Swiss Exchange	Monetary Authority of Singapore (MAS)	Bank of Thailand (BOT)
Secured/unsecured nature of RFR	Collateralized (repo) rate (i.e. secured)	Unsecured	Unsecured	Unsecured	Secured	Unsecured	Secured
Day count convention	Act/360	Act/360	Act/365	Act/365	Act/360	Act/365	Act/365
Currency specific Industry working group	The Alternative Reference Rates Committee	Working Group on Euro Risk-Free Rates	Working Group on Sterling Risk-Free Reference Rates	Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks	The National Working Group on Swiss Franc Reference Rate	Steering Committee for SOR Transition to SORA (SC-STTS)	Steering Committee on Commercial Bank's Preparedness on LIBOR Discontinuation
Industry working group	International Swaps and Derivative Association ("ISDA") International Capital Market Association ("ICMA") Loan Market Association ("LMA")						

Difference between Inter-Bank Offered Rate (IBOR) and Risk Free Rates (RFR)

	Nature	Interest fixing event	Certainty of Rate at beginning of interest period	Approaches available for compounding, if applicable
IBOR	Forward looking based on expert judgement	Upfront, near/at the start of interest period	Certain at beginning to end of interest period	Not applicable
RFR	Backward looking based on historical transactions	In arrears, near/at the end of interest period	Uncertain at beginning Known near/at the end of interest period	Payment delay Lockout Lookback Backward shift Other approaches

Developments in RFR compounding in arrears approaches are ongoing in the loan, securities and derivative industries.

Customer should consult your relationship manager or service provider on relevant approaches available, depending on product type and market practice.

Useful references

- UK Financial Conduct Authority's website on transition from LIBOR: <https://www.fca.org.uk/markets/libor>
- US Alternative Reference Rates Committee: <https://www.newyorkfed.org/arrc>
- International Swaps and Derivative Association ("ISDA") on LIBOR: <https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/>
- International Capital Market Association ("ICMA"): <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/benchmark-reform/>
- Loan Market Association (contents for registered LMA members only): <https://www.lma.eu.com/libor>
- Asia Pacific Loan Market Association (contents for registered APLMA members only): <https://aplma.com/microsites/categories/2>

Next steps

Please note that the information provided herein is not exhaustive and RHB will continue to provide more information on the changes as and when there is more clarity on the alternative benchmark rate to be adopted, the methodology, term structure (if any) and transition process that has been agreed within the industry.

Should you have any further clarification or queries on LIBOR transition to RFR, please do reach out to your respective Relationship Manager.