

The Bank's LIBOR fall back options for loans

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Alternative Reference Rate

The following table lists the Alternative Reference Rates that the Bank will use to replace the LIBOR benchmarks in the respective currencies.

Currency	Benchmark	Alternative Reference Rate
	USD LIBOR	USD SOFR
	GBP LIBOR	GBP SONIA
	EUR LIBOR	EUR ESTR
	CHF LIBOR	CHF SARON
	JPY LIBOR	JPY TONAR
	SGD SOR	SGD SORA

LIBOR Fall Back benchmark

- **The Bank recommends the use of USD SOFR – Secured Overnight Financing Rate as the replacement benchmark for USD LIBOR.**
- **Borrowers may choose between Term SOFR and Overnight SOFR Compounded in Arrears, as the fallback rate.**

Term SOFR

- The CME Group's Secured Overnight Financing Rate (SOFR) term rates are recommended by the US Alternative Reference Rates Committee.
- Term SOFR is a forward-looking rate which, in most cases, will correspond to the reset tenor of the LIBOR loan. Term SOFR will be known at the start of the interest period.
- Term SOFR is the first fallback option for USD LIBOR in the bank's fallback clauses. For cases where Term SOFR will not suffice, the borrowers must engage with their respective relationship managers to select alternatives.
- Term SOFR is not as popular in the derivative market. Borrowers considering loan hedges, may look at O/N SOFR compounded in arrears.

O/N SOFR Compounded in Arrears

- The O/N SOFR rate, as published by the New York Fed, is compounded daily and used in arrears, for loan contracts.
- O/N SOFR, compounded in arrears, will be known close to the end of the interest period.
- Most SOFR derivatives use compounding in arrears. **Borrowers who hedge their loans may prefer using O/N compounding in arrears.**
- Lookback: - The standard approach used by the Bank is the 5 day lookback approach for compounding SOFR.

5 day Lookback Approach

For cases where the O/N Alternative Reference Rate compounded in arrears is used, the bank prefers a lookback period of 5 banking days for each day of the interest period.

Characteristics

- 1 The structure closely matches the derivatives structure and could be approximately hedged using swaps.
- 2 Rate is known some days before the payment date.
- 3 5-day lookback approach is the standard proposed by global benchmark administrators.
- 4 Most currency Alternative Reference Rates (ARR) are O/N in nature. Most ARR derivatives use O/N compounding in arrears.
- 5 Borrowers who intend to hedge their loans may use O/N compounding in arrears.


Please refer to the Illustration in the next slide.

Illustration

➤ 5 business day lookback approach (lag)

Recommended by US and UK regulators

Rate for	28-Jan	29-Jan	30-Jan	31-Jan	01-Feb	02-Feb	03-Feb	04-Feb	05-Feb	06-Feb	07-Feb
	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu
Published on	29-Jan	30-Jan	31-Jan	01-Feb	04-Feb			05-Feb	06-Feb	07-Feb	08-Feb
	0.01%	0.05%	0.03%	0.04%	0.02%			0.03%	0.08%	0.07%	0.06%



How does the approach work?

If a loan is drawn with an effective date of 5th Feb (Tuesday), the applicable rate would be the rate for 29th Jan (Tuesday), which is published on 30th Jan (Wednesday).

Note – The approach mentioned above is the preferred and standard approach used by the Bank. The Bank is open to discussing other approaches for compounding in arrears, as may be proposed by the borrower. For further details customers may approach their respective Relationship Managers.

- 1 The Bank would use the ISDA proposed Credit Spread Adjustments for all LIBOR Tenors across all LIBOR currencies.
- 2 ISDA had selected 5-Mar-2021 as the spread adjustment fixing date. The ISDA credit spreads were calculated using a historical median approach over a five-year lookback period from this date.
- 3 The ISDA credit spreads are published by Bloomberg Index Services Limited. The Bloomberg technical document displaying the credit spreads for the various IBORS and their respective tenors can be found on Bloomberg's website ([https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation Announcement 20210305.pdf](https://assets.bbhub.io/professional/sites/10/IBOR-Fallbacks-LIBOR-Cessation%20Announcement%2020210305.pdf))
- 4 As recommended by the various Risk-Free Rate committees globally (US ARRC, Sterling RFR committee), the Bank intends to use the ISDA spreads for LIBOR fallback in loans. This will be in line with the Credit Spread Adjustment used for LIBOR fallback in Derivative contracts.

Thank you

