

Transitioning away from LIBOR: Q&As for Corporate Treasurers

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1. When exactly will the remaining USD LIBOR settings be discontinued and what alternatives to USD LIBOR are available?

- The remaining panel-based USD LIBOR settings, including overnight, 1-, 3-, 6-, and 12-month USD LIBOR, will not be available after 30 June 2023.
- The Secured Overnight Financing Rate (SOFR), a transaction-based overnight interest rate, has been recommended by both the Federal Reserve Bank of New York and the Alternative Reference Rates Committee (ARRC) in the US, as the alternative reference rate (ARR) for USD LIBOR.

2. What should corporates do to prepare for the transition away from LIBOR?

- As the publication of the remaining panel-based USD LIBOR settings will cease in the near future, corporates should check if they still have any existing legacy contracts (e.g. loans, derivatives, floating rate note, etc.) which still use LIBOR as the reference rate and whether such contracts contain adequate fallback provisions setting out how LIBOR would be replaced when it ceases to be available. If there are any such contracts, corporates should take immediate action and contact their banks and/or counterparties to discuss and agree on the fallback arrangements, and amend these contracts to reference ARRs. As the contract remediation process typically involves lengthy discussions with the relevant parties, corporates should take prompt action to complete the remediation process in good time **before end-June 2023**.

3. Does SOFR, being an overnight rate, have term structures like LIBOR?

- Since SOFR is an overnight interest rate, several different calculation methodologies based on SOFR have been developed to provide various interest rate options for different products. One such option is the CME Term SOFR Reference Rates benchmark (Term SOFR) which is a set of forward-looking interest rate estimates, calculated and published daily for 1-, 3-, 6- and 12-month tenors. Importantly, Term SOFR has been endorsed by the ARRC (under a limited scope of use). An information note¹ jointly published by the Asia Pacific Loan Market Association (APLMA) and the Treasury Markets Association (TMA) has set out various options available in the loan market for replacing USD LIBOR with SOFR. Corporates may refer to the information

¹ https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/The_End_of_LIBOR.pdf

note or consult their banks to select the appropriate replacement rate which best suits their USD LIBOR-linked contracts or transactions.

4. Can corporates rely on the synthetic USD LIBOR settings to transition away from the remaining USD LIBOR settings?

- On 3 April 2023, the Financial Conduct Authority (FCA) in the UK announced² its decision to continue the publication of the 1-, 3- and 6-month USD LIBOR settings on a synthetic basis from 1 July 2023 until 30 September 2024. Nevertheless, the FCA has emphasized that synthetic USD LIBOR is only a temporary measure to assist in the remediation of legacy transactions and underlines that synthetic LIBOR should not be used for new transactions. It has reminded market participants not to rely on synthetic USD LIBOR. Corporates are reminded to minimise their reliance on synthetic LIBOR rates and take active steps to remediate their existing USD LIBOR-linked contracts in preparation for the cessation of USD LIBOR settings.

5. What is the status of the other LIBOR settings?

- The publication of all sterling, euro, Swiss franc and Japanese yen LIBOR settings, as well as the 1-week and 2-month USD LIBOR settings ceased after 31 December 2021. These LIBOR settings have been replaced by ARRAs which include the Sterling Overnight Index Average (SONIA) for the sterling, Euro Short Term Rate (ESTR) for the euro, Swiss Average Rate Overnight (SARON) for the Swiss franc, Tokyo Overnight Average (TONA) for the Japanese yen, and the Secured Overnight Financing Rate (SOFR) for the US dollar. The Hong Kong banking sector has transitioned smoothly from these LIBOR settings to their respective ARRAs.

6. Will HIBOR be discontinued?

- In Hong Kong, there is no plan to discontinue HIBOR as it remains a credible financial benchmark. Nevertheless, we have identified an ARR to HIBOR following the international trend, which is the HKD Overnight Index Average (HONIA). Market participants are free to choose between HIBOR and HONIA.

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² <https://www.fca.org.uk/news/news-stories/fca-announces-decision-synthetic-us-dollar-libor>