

Transitioning Away From LIBOR

POINTS TO NOTE FOR
CORPORATE TREASURERS



財資市場公會
Treasury Markets Association



HONG KONG MONETARY AUTHORITY
香港金融管理局

Overview

The London Interbank Offered Rate (LIBOR) will likely be discontinued after 2021. This is a significant development as LIBOR is the most widely used benchmark for a variety of financial contracts.

Contracts that reference LIBOR could be subject to legal disputes if corporates do not reach an agreement with their banks or counterparts on a replacement rate before LIBOR becomes unavailable.

Corporates are suggested to take prompt action to assess the implications of LIBOR discontinuation, seek professional advice as appropriate, and engage their bankers and counterparts to make early preparations for the transition.

1

Why should corporate treasurers be concerned?

LIBOR, especially USD LIBOR, is the most widely used benchmark rate for a variety of financial contracts, including loans and derivatives.

As most existing LIBOR contracts do not stipulate how contract terms would be managed should LIBOR become permanently unavailable, these contracts could be subject to disputes or litigation if the parties to the contract fail to agree on a replacement rate or other fallback arrangements in advance.

2

Are there alternatives to LIBOR?

In the five LIBOR currency areas (i.e. the US, Euro Area, Japan, the UK and Switzerland), relevant authorities have identified transaction-based overnight interest rates as the alternative reference rates for LIBOR.

IBOR	Alternative reference rate
USD LIBOR	Secured Overnight Financing Rate (SOFR)
EUR LIBOR/EURIBOR	Euro Short Term Rate (ESTR)
JPY LIBOR/TIBOR	Tokyo Overnight Average (TONA)
GBP LIBOR	Sterling Overnight Index Average (SONIA)
CHF LIBOR	Swiss Average Rate Overnight (SARON)

How can these

3 alternative reference rates be used in financial transactions?

Interest payments based on overnight rates are generally calculated using the method of simple or compounded averaging. Currently, the most popular calculation method is compounding in arrears. Certain overseas authorities are also exploring the possibility of deriving a term structure for these overnight rates. However, a firm timetable for doing this has yet to be established. As such, corporates are advised to rely on calculation methods that have already been developed (such as those aforementioned) and promptly consult their banks on how these can be used, and also look into necessary changes that may be required, including to IT systems.

What steps should

4 corporates take to prepare for the transition away from LIBOR?

First, corporates should take steps to identify and review all their existing contracts that use LIBOR as the reference rate (e.g. loans, derivatives, floating rate notes, etc.). If the contracts do not contain provisions setting out how LIBOR will be replaced when it becomes unavailable, corporates should talk to their banks and counterparties to build in the alternative reference rates as a fallback.

Furthermore, corporates should avoid entering into new contracts with a maturity beyond 2021 using LIBOR as reference rates. Instead, they should consider using the alternative reference rates set out in question 2 for new contracts.

5

Will HIBOR be discontinued?

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

6

Whom to contact?

For specific questions about existing LIBOR contracts and how these should be handled, please contact your bankers, and seek advice from lawyers or financial advisors as appropriate.