LIBOR Transition
Frequently Asked Questions (FAQs)

December 2021

Content

Introduction to LIBOR transition

1. What is LIBOR?

The London Inter-Bank Offered Rate (LIBOR) is a daily benchmark interest rate, which is calculated by averaging the rates at which panel banks would obtain wholesale unsecured funding.

LIBOR rates are published on each London business day after submissions made by panel banks to the administrator, the Inter-Continental Exchange Benchmark Administration (IBA), and are available in five currencies (British pound Sterling, Euro, US dollar, Swiss Franc and Japanese Yen) and range from overnight to 12 months.

LIBOR is currently used to set the rates for more than 350 trillions of dollars (more than 13 times the GDP of China in 2021) in various financial products such as derivatives, bonds, loans, deposits, structured products and mortgages.

Certain currencies also use specific benchmarks such as EURIBOR and EONIA for EUR or the Tokyo Interbank Offered Rate (TIBOR) for JPY.

2. Why is LIBOR being phased out?

Further to the 2007 financial crisis in particular, the decline in volume of transactions on the unsecured interbank lending resulted into an underlying market, which has not been a very active one ever since.

Today's publication of LIBOR rates relies heavily on a panel of Banks based on their "expert judgement" and this situation has been foreseen as unsustainable by regulators as it represents potentially a serious source of vulnerability and systemic risk.

The UK Financial Conduct Authority (FCA) announced that it would no longer persuade or require LIBOR panel banks to provide submissions after 2021 and thus LIBOR rates would eventually need to be replaced.

3. Are other Inter-bank offered rates (IBORs) also being phased out?

For the Middle East markets IBORs, such as EIBOR, SAIBOR, OMIBOR or QIBOR, there are currently no plans of discontinuation.

However, the underlying currencies to which the benchmark rates apply are mostly pegged to the US dollar and will be impacted on their long-term use, due to the discontinuation of US LIBOR.

Other IBORs such as EURIBOR will continue to be published although the European Money Markets Institute (EMMI) announced on May 2017, that it has been working on the development of a new determination methodology for EURIBOR.

As such, unlike LIBOR, EURIBOR is set to survive beyond the end of 2021 while the extent to which parties will continue to use it following the introduction of alternate reference rates remains an uncertainty.

Speculations suggest that EURIBOR will be phased out inevitably as part of a wider overhaul of benchmarks tainted by manipulation scandals and because EURIBOR does not comply with the recently introduced EU Benchmarks Regulation (BMR).

4. When will the changes take effect?

The end of the year 2021 is seen as the key deadline for the transition.

The UK's Financial Conduct Authority (FCA) has announced in July 2017 that it will no longer compel banks to submit to LIBOR after 2021 and further announced, in November 2017, that it had secured the voluntary agreement of all LIBOR panel banks to continue submitting contributions until the end of 2021.

The FCA and the Bank of England insist that firms cannot rely on LIBOR being published after the end of 2021, and there will be no extension to this date notwithstanding the impacts of COVID-19.

In March 2021, the FCA, which oversees the LIBOR process, and the Inter-Continental Exchange Benchmarking Administration (IBA), the administrator of LIBOR, have confirmed that;

- Publication of LIBOR rates for most currencies and tenors/maturities will cease as from 31st December 2021.
- Publication of selected USD LIBOR rates will be available until end of June 2023, while these will be available for transitioning existing USD LIBOR contracts with more complex settings.
- No new contracts based on LIBOR rates will be issued as from 31st December 2021 (independent of the currency and maturity).

Responding to such development, the New York Federal Reserve Bank has officially indicated that there should be no new USD LIBOR deals by December 2021, and market participants are expected to deal exclusively by reference to the Alternative Reference Rates.

The Sterling Working Group (SWG) also announced that, by end of the third quarter, banks should have completed active conversion of all legacy GBP LIBOR contracts expiring after 2021.

5. Will LIBOR still be used in existing and new products after 2021?

Following the announcement made by FCA, IBA announced that it would cease the publication of LIBOR for Sterling, Euro, Yen and Swiss Franc after 31st December 2021.

Not only banks will no longer be compelled to submit their rates, it is unlikely that LIBOR or other IBORs will continue to be used after the end of 2021.

Shifting towards the use of new reference rates within existing or new contracts is therefore inevitable.

About the rates replacing LIBOR: Alternative Reference Rates (ARRs)

6. What are Alternative Reference Rates (ARRs)?

Alternative Reference Rates (ARRs) are rates that would potentially replace LIBOR.

After a series of consultations, industry discussions and market feedback, regulators have identified Risk Free Rates[1] (RFRs) as the preferred ARRs to LIBOR and are considering how existing benchmark rates might be reformed in accordance with applicable regulation.

7. What are Risk Free Rates (RFRs)?

RFRs are overnight interest rates derived from actual transactions that are either secured or unsecured. Traditionally RFRs are backward looking, i.e. they are published after the period to which they relate, and are considered more robust and reliable as their calculation is based on historical transactions that are more representative of the underlying markets than IBORs.

8. What are the RFRs/ARRs replacing LIBOR?

Each of the home jurisdictions of the five LIBOR currencies have established national working groups tasked with determining the preferred RFRs for their corresponding local currencies. MCB will be adopting a currency matching approach, whereby, each currency LIBOR will be replaced by the corresponding RFRs as listed in the table[2]:

	£ GBP	**$ USD**	**€ EUR**	**CHF**	**¥ JPY**
					
Alternative RFR	***SONIA*** *Reformed Sterling Overnight Index Average*	***SOFR*** *Secured Overnight Financing Rate*	***€STR*** *Euro Short-Term Rate*	***SARON*** *Swiss Average Rate Overnight*	***TONAR*** *Tokyo Overnight Average Rate*
Administrator	Bank of England	Federal Reserve Bank	European Central Bank	SIX Swiss Exchange	Bank of Japan
Rate Type	Unsecured	Secured	Unsecured	Secured	Unsecured
Underlying Transactions	Money Markets	Repo Transactions	Money Markets	Repo Transactions	Money Markets
Short Description	Unsecured rate that covers overnight wholesale deposit transactions	Secured rate that covers multiple overnight repo market segments	Unsecured rate that covers overnight wholesale deposit transactions	Secured rate that reflects interest paid on interbank overnight repo	Unsecured rate that captures overnight call market rate

Alternative Reference rates/Risk Free Rates replacing currency LIBOR rates

9. What are the main differences between LIBOR and RFRs/ARRs?

The main differences between RFRs and IBORs are the following:

[1] While alternative reference rates (ARRs) and risk free rates (RFRs) may not necessarily be the same, these two terms are often used to refer to the rates replacing LIBOR in this document.

[2] The table is not exhaustive and provided for general information purposes only. There currently exists other benchmarking rates that may be either discontinued or where changes have or will be made to their methodology.

		LIBOR	RFRs
	Calculation Methodology	Forward-looking estimate based on panel bank submissions	Backward-looking calculated mean based on transactions
	Publication	All Currency LIBOR in all tenors available around noon Greenwich Mean Time	Published at time of home jurisdictions and all RFRs available on T+1 (except SARON)
	Term Structure	Seven tenors from overnight to 12 months	Overnight rates
	Term and Credit Premium	Includes both a term and credit premium	As the name suggest, RFRs are risk free with no term nor credit premium embedded
	Volumes	Based on narrow range of contributor banks	Based on robust, very liquid underlying markets, reflects actual transactions
	Consistency/Timing	Quoted on the same basis and time for all five currencies	Different methodology and publication timelines for each currency
	Administrator	Private Sector	Central Banks (except SARON)
	Timing of interest rates	Known at the start of each interest period	Known only a few days before the end of interest period

Differences between RFRs/ARRs and LIBOR

10. How will RFRs be used to calculate interest on my loans/deposits?

The approach recommended by most International Working Groups (including the Alternative Reference Rates Committee and the Sterling Working Group) for the calculation of interest post LIBOR are ‘term rates’ and ‘compounding in arrears’.

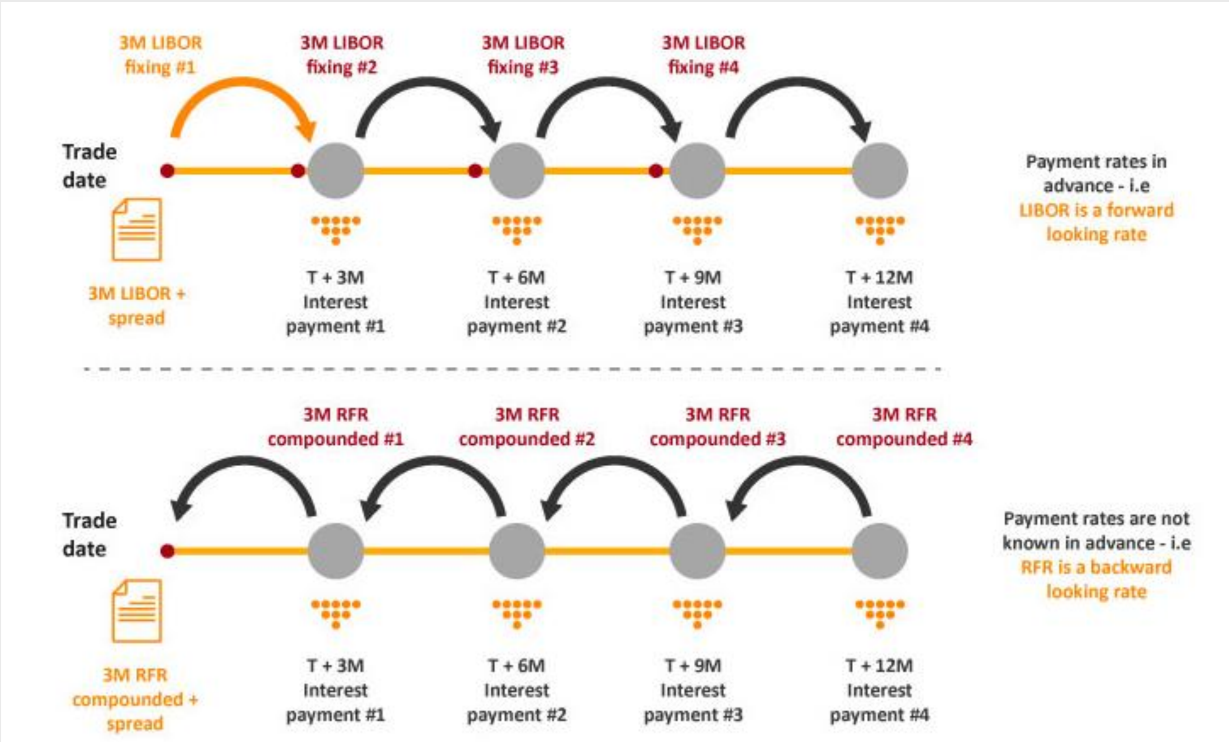
MCB will be adopting the internationally recommended approach for both existing contracts and new lending/deposits.

Using Term rates, e.g. Term SOFR for USD or EURIBOR for Euros, the interest amount payable/receivable at the end of the interest period for loans/deposits will be calculated on the rates published on the first day of the interest period. This approach is similar to LIBOR (forward looking).

In the absence of term RFRs for certain currencies (i.e. Great Britain Pounds, Swiss francs, etc.), the applicable interest rate can typically be obtained from the RFR overnight rates by using a computation known as ‘compounding’.

In the ‘compounding in arrears’ approach, the rates published daily are compounded on each business day over the interest period to obtain the effective interest rate. With this method, the effective interest rate can only be calculated once all the daily rates during that period have already been published, i.e. at the end of the interest period (backward looking). Compounding in arrears approach does not involve any “capitalisation" or compounding of accrued interest.

In the event that you have any contracts with MCB that may be impacted by the transition, we encourage you to reach out to your Relationship Manager/Relationship Executive for more information.



Backward looking against forward looking approach

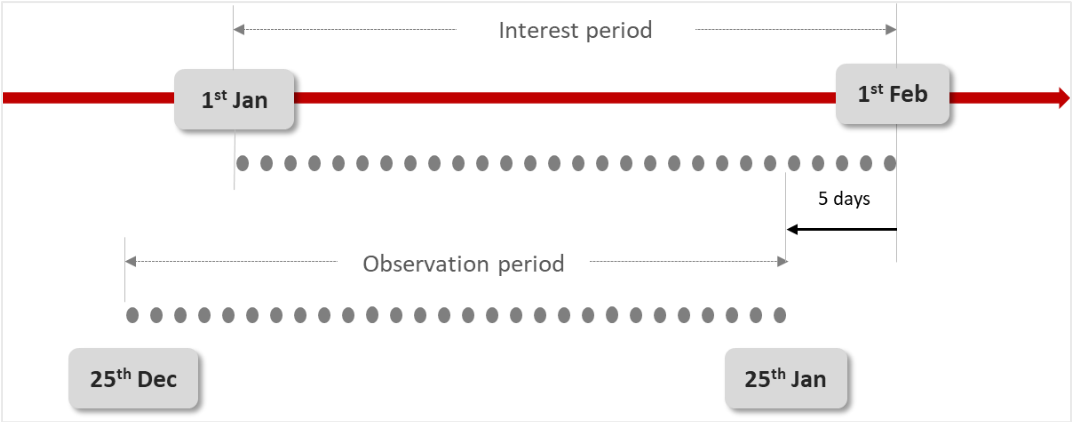
11. How is the timing of interest rate calculation different with compounding in arrears?

While, the new RFRs/ARRs are based on the same floating rate principle as LIBOR (See section 12), one of the most important differences relates to when interest rates are calculated.

With LIBOR, interest payable at the end of the interest period is determined based on the rates published on the first day of interest period. With RFRs, this calculation of interest can only be done at the end of the interest period. In other words, while at the beginning of the interest period, we can have an idea of the RFR rate that will be used for payments; the exact amount will only be known by the lender/borrower at the end of the period.

However, in order for the interest amount to be known a few days before the end of the interest period, a lookback period or "lag" is introduced. For example, using a 5 days lag, the compounding calculation begins with the rate published 5 days before the start of the interest period and ends 5 days before the payment is due. This period used for calculations (which is the same number of days as the interest period) is referred to as the observation[3] period.

[3] The observation period is the same number of business days as the interest period but starts and ends a specified number of business days before the relevant interest period. The number of business days by which the period is shifted backward is called a "lag". A lag typically is 5 days for cash products, and of 2 days for derivative products.



Compounding in arrears using a lookback (lag) of five days (cash products)

12. Will the new RFRs/ARRs also be based on floating rates like LIBOR today?

Yes, the new RFRs will also be based on the floating rate principle; just like when the interest payable/receivable goes up when LIBOR goes up, if the RFR goes up then the interest payable/receivable will also go up. Similarly, just like when the interest payable/receivable goes down as LIBOR goes down, in the event that the RFR goes down so will the interest payable/receivable.

13. What are 'adjustment spreads'?

Given the differences in calculation methodologies between LIBOR and the new RFRs/ARRs, it is important to ensure a certain degree of alignment between the interest rates being calculated. This equivalence between LIBOR and the new RFRs is achieved through the use of 'spreads', which are basically adjustments brought to the compounded RFRs.

For existing contracts based on LIBOR (and which need to be transitioned), the spreads which will be used by a vast majority of the global banking sector, are those which have been recommended by ISDA.

ISDA spreads are based on the 5-year historical median difference between the RFRs and LIBOR, and have been fixed at the beginning of March 2021.

There are several methodologies for calculating spreads for new contracts, e.g. those used by the CME [4] (Term SOFR), Bloomberg (BSBY), and ICE (Bank Yield Index).

[4] Chicago Mercantile Exchange

What does LIBOR transition mean for our clients?

Contracts having LIBOR exposures (except those in USD which shall be leveraging the extension to June 2023) and maturity date beyond 31st December 2021 will need to be transitioned to RFRs.

As from January 2022, no new contracts will be based on LIBOR.

MCB will engage with its clients impacted by the transition to determine the appropriate next steps.

14. How do I know if I have an exposure that will require transitioning?

We encourage all our clients to review all their outstanding financial contracts referenced in LIBOR that are maturing beyond 2021 (e.g. loans, fixed deposits, mortgages, overdrafts, import/export loans, bonds FCY credit cards, derivatives). These contracts are likely to require transitioning.

In parallel, our team is currently engaging with the impacted clients (i) to provide additional information about the LIBOR transition, (ii) for more details on the contracts and discuss any required alignment with the recommended international practices and requirements, (iii) to address questions, (iv) and advise on the way forward and timeframes.

15. Will there be any change in the interest amounts paid/received when using the new RFRs?

As recommended by regulators, we are adopting the same approach used by international banks during the transition, (i.e. ISDA protocols issued for the banking industry) which aim at ensuring that the clients will pay/receive more or less the same amount as he/she was using LIBOR.

Similar to LIBOR, the new RFR methodology is a floating one; i.e. rates goes down, the client pays/receives less, rates goes up, client pays/receives more. Since no one knows for sure how the rates will evolve, we cannot ascertain (just like LIBOR) future interest amount.

16. Will there be any cost/fees associated with the transitioning process of contracts?

There will be costs associated with the transition process, however, MCB will absorb these costs and will not charge any amendment fees or other costs relating to the transitioning process of existing LIBOR exposed contracts.

17. What can I do to make sure I am ready for the transition?

Several steps that we encourage our clients to consider taking for now, would include:

- Review information available on LIBOR transition and keep up to date with the latest transition developments.
- Review all their outstanding financial contracts referenced in LIBOR that are maturing beyond 2021 (e.g. loans, fixed deposits, mortgages, overdrafts, import/export loans, bonds FCY credit cards, and derivatives). These contracts are likely to require transitioning.

Rest assured that MCB will accompany you throughout this transition and will soon be in touch with you with additional information about the LIBOR transition and detail your impacted contracts.

You may also contact your Relationship Manager/Executive should you have any further questions.

18. Will there be direct debit processes for the new RFRs (just like with LIBOR)?

To simplify things, the direct debit process will remain the same just like it was with LIBOR.

That said, it must be noted that with the timing difference at which the exact interest amounts are calculated and known by the lender/borrower (see section 11), we encourage our clients to make sure they have established an efficient cash-flow management in place.

Our approach

19. What is MCB doing and how will we accompany you?

To complete this journey, MCB has launched its LIBOR transition programme to ensure that the bank and its clients are well prepared for the end of LIBOR, as we know it. Alongside our dedicated LIBOR transition teams overseeing the adaptation of our products, systems, processes, and people towards the use of RFRs, we are keeping abreast of the latest evolutions of the global industry. We are also working closely with regulators and leveraging our large network of international partners in different markets, in order to provide our clients with the latest information and ensure an overall smooth transition.

Our team is actively reaching out to our impacted customers (i) to provide additional information about the LIBOR transition, (ii) for more details on the contracts and discuss any required alignment with the recommended international practices and requirements, (iii) to address any questions, (iv) and advise on the way forward and timeframes.

Alternatively, you may also contact to your dedicated Relationship Manager/Relationship Executive should you have any question about the new rates or any facilities you have with MCB.

List of Acronyms

ARR:	Alternative Reference Rate
BMR:	EU Benchmarks Regulation
CMI:	Chicago Mercantile Exchange
EIBOR:	Emirates Interbank Offered Rate
EMMI:	European Money Markets Institute
EONIA:	Euro Overnight Index Average
€STR:	Euro Short-Term Rate
EURIBOR:	Euro Interbank Offered Rate
FCA:	Financial Conduct Authority
FSB:	Financial Stability Board
GDP:	Gross Domestic Product
IBA:	Inter-Continental Exchange Benchmark Administration
IBOR:	Interbank Offered Rate
ISDA:	International Swaps and Derivatives Association
LIBOR:	London Interbank Offered Rate
QIBOR:	Qatar Interbank Offered Rate
OMIBOR:	OMAN Interbank Offered Rate
RFR:	Risk Free Rate
SAIBOR:	Saudi Arabian Interbank Offered Rate
SARON:	Swiss Average Rate Overnight
SOFR:	Reformed Sterling Overnight Index Average
SONIA:	Reformed Sterling Overnight Index Average
TIBOR:	Tokyo Interbank Offered rate
TONAR:	Tokyo Overnight Average Rate
SWG:	Sterling Working Group

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