Habib Canadian Bank

LIBOR Transition – Know your risks

What is LIBOR and why transition?

LIBOR, the London Inter-bank Offered Rate, is a systemically important interest rate benchmark, aimed at providing an indication of the average rates at which banks could obtain unsecured funding from each other.

LIBOR is determined and published daily by ICE Benchmark Administration (IBA) for USD, GBP, EUR, CHF and JPY across 7 tenors (O/N to 12months) based on the submissions of Panel Banks.

A lack of interbank transactions means that the rates are based predominantly on the expert judgement of Panel Banks submitting the rate. In 2017 FCA concluded that LIBOR setting is not in line with international benchmark requirements and decided a timeline of 2021 for transition. The US Federal Reserve and other regulators have also taken measures to move markets away from IBORs within set timelines. As a result, the continuation of all LIBORs and other IBORs on their current basis cannot be guaranteed after 31 December 2021.

Following guidance from the Financial Stability Board (FSB), regulatory led public / private working groups were established to identify and promote adoption of robust alternative reference rates (ARRs) founded on substantial underlying transactions across the LIBOR currency jurisdictions

Jurisdiction	Working Group	RFR	Rate Name	Administrator	Description
	Working Group on Sterling Risk-free Reference Rates	SONIA	Sterling Overnight Index Average	Bank of England	UNSECURED Rate reflects overnight wholesale deposit transactions.
	Alternative Reference Rates Committee	SOFR	Secured Overnight Financing Rate	Federal Reserve Bank of New York	SECURED Rate reflects multiple overnight repo market segments.
	Working Group on CHF Reference Rates	SARON	Swiss Average Rate Overnight	SIX Swiss Exchange	SECURED Rate reflects interest paid on interbank overnight repo average.
	Study Group on Risk-free Reference Rates	TONA	Tokyo Overnight Average Rate	Bank of Japan	UNSECURED Rate reflects overnight call rate market
	Working Group on Risk-free Reference Rates for the Euro Area	EuroSTR	European Short Term Euro Rate	European Central Bank	UNSECURED Rate reflects overnight wholesale deposit transactions.

But…transition is not like for like…

- ARRs are overnight rates, with no term structure.
- ARRs do not incorporate credit risk.
- ARRs characteristics differ by currency.

Why is LIBOR Transition a challenge?

LIBOR is entrenched in market activity and underpins more than $350tn of USD LIBOR contracts across a variety of products (predominantly derivatives). It is estimated that $36.6tn will still be outstanding after the end of 2021 and this number continues to grow. There is a risk that contracts and products cease to function as intended post-2021 if changes are not implemented in support of the transition from LIBOR to ARRs.

Benchmark reforms

LIBOR and other IBORs are currently the focus of international and national reforms. These reforms may result in: (i) changes to the rules and/or methodologies used in calculating interest benchmark rates applicable to products offered by Habib Canadian Bank; (ii) restrictions on the use of existing interest benchmark rates; and/or (iii) discontinuance of certain interest benchmark rates. Even if certain benchmark rates based on LIBOR continue to be published, changes to their methodology, or restrictions on use, may mean that they (i) are no longer representative of the underlying market and economic reality that such benchmark rates were originally intended for and/or (ii) they are no longer appropriate for products that customers have entered into with Habib Canadian Bank.

HCB Preparation: Benchmark fallback arrangements including alternative rates

If benchmark rates such as LIBOR and other IBORs are discontinued or otherwise become unavailable, or stop being appropriate for use in our products, then interest rates and other provisions which reference the benchmark will be determined using fallback arrangements (if any) with Habib Canadian Bank.

They may allow the affected benchmark to be replaced by alternative rates;

a) an alternative reference rate - ARR (i.e. SONIA, SOFR, SARON, TONA etc);
b) Bank's Own Base Rate;
c) a Fixed Rate;
d) or another alternative benchmark.

Additionally, an adjustment spread may be applied to the ARR, for example to produce a replacement rate for the LIBOR and other IBOR benchmarks.

Habib Canadian Bank may also make other technical, administrative or operational changes to products to reflect the adoption and implementation of an alternative rate, including changes to the timing and frequency of determining rates and making interest payments.