

## **LIBOR (LONDON INTERBANK BORROWING RATES) FREQUENTLY ASKED QUESTIONS**

**I have seen information regarding a LIBOR update on the CBI website and in the news. Can you explain this update to me in more detail?**

LIBOR interest rates are being phased out and are being replaced with Alternative Risk-Free Reference Rates e.g. the Secured Overnight Financing Rate (SOFR), which will become the benchmark interest rate for dollar-denominated derivatives and loans. This may impact the pricing of your loans and/or deposits, if you hold any LIBOR linked banking products with CBI. If you believe you may be affected, please reach out to your respective Relationship Manager for further information.

**What is LIBOR?**

The London Interbank Offer Rate (LIBOR) is administered by the ICE Benchmark Administration. It is the most commonly used benchmark for interest rates, and it is based on submissions from panel banks resulting in the publication of 35 rates across tenors and currencies, every applicable London business day.

**What is “LIBOR transition” or “LIBOR discontinuation”?**

LIBOR transition or LIBOR discontinuation refers to changes to the rules and/or methodologies used to calculate benchmark rates, restrictions on the use of benchmark rates, and/or discontinuance of benchmark rates, beyond 31 December 2021.

**What are the problems, and why is it changing?**

There are concerns about the subjectivity involved in the IBOR (Interbank Borrowing Rates) submissions:

- Since the 2008 financial crisis, banks have changed the way they fund their operations, leading to reduced liquidity in the interbank markets, resulting in particular impact on the longer tenors.
- The size of the interbank lending market is typically less compared to the size of the market that uses LIBOR resets, which exceeds \$200 trillion.

The LIBOR manipulation scandal hit the market 4 years after the financial crisis, when it was revealed that various contributing banks were rigging LIBOR by understating or overstating the interest rate, leading regulators to issue USD 9 billion in fines and penalties to the banks involved, as well as a slew of criminal charges.

**Do the changes only affect LIBOR?**

No, other IBORs are also facing similar issues and are being reformed. Wherever possible, IBORs will now be calculated by reference to actual transactions. Other IBORs may also be discontinued by the end of 2021 such as the Euroyen Tokyo Interbank Offered Rate (“Euroyen TIBOR”), Euro Interbank Offered Rate, “EURIBOR”) and Euro Overnight Index Average (“EONIA”).

**When will LIBOR be phased out?**

It is expected that beyond December 2021, LIBOR rates might be phased out and will no longer be reflective of market economics.

**Which rates are likely to replace LIBOR?**

Working groups in the banking and financial regulatory universe are trying to find a better alternative to LIBOR, although, it is too early to suggest which methodology might be adopted in the future. It is certain, however, that the secured overnight financing rate (SOFR) will be a benchmark interest rate for dollar-denominated derivatives and loans and may replace the London interbank offered rate (LIBOR). The SOFR will be based on actual transactions, calculated on a volume-weighted median.

### **Why is this important?**

Changes to the calculation methodology of these rates, and restrictions on use, may mean that they are no longer representative of the underlying market and economic reality that the benchmark rate was originally intended to measure, and therefore, the rates will no longer be an appropriate benchmark for products or agreements that customers have entered into with the bank.

Given that LIBOR is widely used, its discontinuation may impact, amongst other things, the payments under and/or the value of the products you currently have or that you may obtain in the future, your systems and processes, hedging arrangements and tax and accounting treatment. The implications of LIBOR discontinuation will differ depending on the product or service that you use.

### **What CBI is doing to ensure a smooth transition from LIBOR?**

CBI is adopting global best practice to ensure that both the Bank and its customers are protected, and the transition happens in a fair and transparent manner. The Bank intends to follow the regulatory guidelines and obtain mutual agreement with customers and counterparties when replacing IBORs.

### **What other countries or banks are doing about this?**

Across global jurisdictions, the financial services industry, working groups and regulators are focused on transitioning to alternative Risk-Free Rates (RFR). Various countries are currently considering alternatives to LIBOR. Some of the alternatives include the Secured Overnight Financing Rate (SOFR) for the US, the Sterling Overnight Index Average (SONIA) for the UK, the Swiss Average Overnight Rate (SARON) for Switzerland, and the Tokyo Overnight Average Rate (TONA) for Japan.

### **What is happening to the Emirates Interbank Offered Rate or “EIBOR”?**

CBI is not aware of any current plans for the cessation of (EIBOR) Emirates Interbank Offered Rate administered by the Central Bank of the United Arab Emirates, which serves as a UAE Dirham benchmark rate published by the UAE Central Bank. However, in the event that the EIBOR may also be eventually phased out and the Central Bank of the United Arab Emirates in the future, mandates reforms to this benchmark rate, advance notice of the timing or nature of such changes, may or may not be available to market participants.

### **Will it require changing or amending the existing contracts between the Bank and consumers?**

Yes, all LIBOR referencing loans, deposits and derivatives that mature after the end of 2021 will need to be amended, as LIBOR will cease to be published on this date, and unless the contract is amended, neither the Bank nor its customers will have a valid basis for calculating the total interest amount due.

### **How does this impact me as a retail individual customer holding Current Account, Saving Account, Fixed Deposit, Card, Loan products?**

There is no impact on retail customers provided you do not hold any banking products with CBI that reference LIBOR rate.

### **How does this impact me as a corporate customer?**

If you hold any syndicated loans, overdrafts and/or trade finance products with CBI that are linked to LIBOR rates, then the pricing of these products may be affected. Please reach out to your respective Relationship Manager for further information.

### **When will this be implemented?**

This is a market-driven change. It is highly likely that beyond June 2021, no new LIBOR linked products will be available in the international market and beyond December 2021, LIBOR rates may not be published, however, there is no guideline from the Central Bank of the UAE in regards to the same. As more information becomes available, we will keep our customers informed. For any further queries you can always contact your respective Relationship Manager.

### **Has COVID-19 resulted in any delays to the timeline for the LIBOR transition?**

Working groups for IBOR transition recently issued statements notifying that COVID-19 may cause delays for the transition of LIBOR in loan markets. However, the discontinuation date for the use of LIBOR by the end of 2021 remains unchanged.

### **I need more information about this.**

Please reach out to your dedicated Relationship Manager for further information in this regard or call our customer contact center on 600544440.