

LIBOR and Reference Rate Reform

According to the UK Financial Conduct Authority (FCA), it is likely that the London Interbank Offered Rate (“**LIBOR**”) will be discontinued after 2021 and that is to say, we will no longer be able to offer you with LIBOR products thereafter.

While the discontinuation of LIBOR (“**Discontinuation**”) shall have no impact on your LIBOR contract(s) with us with maturity date(s) before the date of Discontinuation, a replacement reference rate will have to be adopted to replace the LIBOR in LIBOR contract(s) with maturity date(s) falling on or beyond the date of Discontinuation.

And in light of the Discontinuation, we shall soon cease to offer our customers any LIBOR contracts with us with maturity beyond 2021.

Whether or not your LIBOR contracts with us will so be affected by the Discontinuation, we believe that it would be in your interest to learn more about the captioned matter and enclose herewith a copy of the "Points to Note for Corporate Treasurers" issued by the Treasury Markets Association in July 2020 (“**Note**”) for your reference.

Hyper Link to the Note:-

http://www.tma.org.hk/FixingsFile/LIBOR_Transition_Points_for_Corporate_Treasurers.pdf?161

For the purpose of this notice, “LIBOR contract(s)” refers to any contract that you are having with our Bank which has adopted LIBOR as its reference rate including, but without limitation, any general facility letter/agreement, hire-purchase / lease agreement, factoring agreement etc.

We trust that you would find the contents of the Note helpful and should you have any specific questions regarding LIBOR contract(s) and how they would be handled, please do not hesitate to contact your relationship manager.

Dah Sing Bank, Limited

1st September 2020

Encl.

Transitioning Away from LIBOR: Points to Note for Corporate Treasurers

Key Takeaways:

- 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.

Overview

- According to the UK Financial Conduct Authority (FCA), which regulates LIBOR, LIBOR will likely be discontinued after end-2021, as there is a very high chance that LIBOR panel banks will stop making submissions for LIBOR determination after that date. The FCA has already warned that market participants should prepare for a transition away from LIBOR.
- LIBOR discontinuation will have implications not only for financial institutions but also corporates which have outstanding contracts referencing LIBOR with a maturity beyond 2021. This note explains how the benchmark transition will impact the corporate sector through a series of Q&As.

Q&As

1. Why should I (as a corporate treasurer) 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 (Table 1).

Alternative Reference Rates

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)
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3. How can these alternative reference rates be used in financial transactions, given they are overnight rates without a term structure like LIBOR?

- 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.

4. What steps should I 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, you should talk to your 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 above 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, we have 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. Who can I contact if I have more questions?

- For more background information about the cessation of LIBOR and relevant transition work being undertaken, please refer to the following website:
https://www.tma.org.hk/en_market_LIBOR.aspx
- For specific questions about your existing LIBOR contracts and how these should be handled, please contact your banker, and seek advice from your lawyers or financial advisors as appropriate.

Treasury Markets Association
July 2020