



INDIAN OVERSEAS BANK

INFORMATION TO CUSTOMERS

ON

LIBOR TRANSITION & MIGRATION TO ALTERNATE REFERENCE RATES (ARR)

The London Interbank Offered Rate (LIBOR) is the most important financial benchmark of the world with contracts tagged to the extent of about USD 350 trillion. Post the subprime crisis, the Financial Conduct Authority (FCA) of the United Kingdom, the administrator of LIBOR announced in 2017, that they will no longer compel panel banks to publish LIBOR post 2021, signaling the beginning of the end of LIBOR.

Potential impact:

All market participants, including Indian Overseas Bank, who have exposure to various financial products using LIBOR as a reference rate will be impacted. LIBOR transition may have implications across nearly all financial products including bonds, derivatives, structured products, structured financings, ECB borrowing, Syndicated FCB and other loans. The transition will have far reaching impact and wide complications as LIBOR is deeply embedded in the global financial markets.

Consequent to the public announcement on 5th March 2021 by Financial Conduct Authority (FCA) of the United Kingdom, LIBOR will cease by the end of 2021 i.e., 31st December 2021 in respect of Euro, GBP, JPY and CHF settings and 1 week and 2 month USD LIBOR. All other LIBOR settings will cease to exist after 30 June 2023. Even if LIBOR continues in the market for some period after the end of 2021, it will be non-representative in the market.

Alternate Reference Rates (ARR):

Risk-free rates or "RFRs" are likely to replace LIBOR. RFRs are overnight interest rate benchmarks which are perceived by the Alternate Rates Reference Committee of FED New York and other regulators, to be more representative and reliable than LIBOR. This is because these benchmarks are intended to be based on liquid markets and so they can be calculated by reference to actual transactions. Several RFR working groups were set-up across a range of countries to identify

alternative RFRs for the relevant currency. The RFR which has been recommended by those working groups for each currency are shown below:

Jurisdiction	Existing IBOR	Risk Free Rate (RFR)	Description
USA	USD LIBOR	SOFR (Secured Overnight Financing Rate)	Overnight US Treasury repo(new)
UK	GBP LIBOR	SONIA (Sterling Overnight Index Average)	Overnight unsecured deposit(enhanced)
Eurozone	EURIBOR	€STR (Euro Short Term Interest Rate)	Overnight unsecured deposit(new)
Switzerland	CHFLIBOR	SARON (Swiss Average Rate Overnight)	Overnight repo transactions(existing)
Japan	TIBOR	TONA (Tokyo Overnight Average rate)	Overnight unsecured call rate(existing)

The above are the RFRs for major currencies and regulators in other jurisdictions such as Singapore, Hongkong have recommended RFRs for their currencies.

Difference between IBOR and the replacement rates:

Principal Characteristics	
RFRs (Risk Free Rates)	IBOR (Interbank Offered Rates)
Overnight Deposits	Interbank Offered Rates Overnight to 1Year
Calculated In arrears/ backward looking*	Forward Looking
Risk Free or Nearly Risk Free	Incorporates Credit Risk
Transaction Based	Submission, or Partly Transaction Based
Future Cash Flows Based on Compounding in Arrears	Term Rate, certain future cash flows set by each tenor

*RFRs are overnight rates known only at the end of the day. Some committees have recommended Term rates and the same are being published.

Impact on the customers:

Some of the indicative areas of impact on the customers are as follows:

- Changes in pricing/methodology, since migration is to a risk free rate, necessary spread adjustments will be added to the pricing which may have an impact on the costs for the customer.
- Amendments to legacy contracts/agreements/documents linked to LIBOR and insertion of fall back languages for loans migrating to RFRs and documentation may entail additional costs.

IOBs preparation:

- Our bank has proactively devised a roadmap for LIBOR transition in line with the regulatory guidelines and are progressing as per the timeline.
- Our bank has formed an internal steering committee consisting of various stake holders which oversees the preparedness with regard to System & procedures to ensure smooth migration.

Customers having Foreign currency exposure linked to LIBOR may approach the branch where they maintain the account for complying with the documentation requirements.

Customers may feel free to contact us for any further clarification/information on the following phone no./mail id :

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