IBOR Transition Frequently Asked Questions

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Contents

1. **Background** ... 3
2. **Risk-free rates** ... 4
3. **Fallback Language** ... 5
4. **Credit Adjustment Spread (CAS)** ... 6
5. **Client Related Questions** ... 7
6. **MIFOR** ... 7
7. **RBI Advisory Guidelines** ... 8

Risk Disclosure ... 10
References ... 11
Disclaimer ... 13

1. Background

i. What is a LIBOR rate?

LIBOR, the acronym for London Interbank Offer Rate, is an un-secured short-term borrowing rate determined by selected AA rated banks (also known as Contributor Banks). It is published for 5 currencies; British pound (GBP), Euro (EUR), US dollar (USD), Swiss franc (CHF) and Japanese yen (JPY) and for 7 different maturities, namely, overnight, 1 week, 1 month, 2 months, 3 months, 6 months and 12 months. It is published each London business day and is administered by ICE Benchmark Administration (IBA). A brief summary of the methodology followed by IBA for publication of LIBOR is provided below.

Level 1 (Transaction Based) - Where a Contributor Bank has sufficient eligible transactions, LIBOR is calculated as a volume weighted average price ("VWAP") of such eligible transactions, with a higher weighting for transactions booked closer to 11:00 AM London time. Eligibility criteria for transactions are specified by IBA.

Level 2 (Transaction Derived) - Where a Contributor Bank has insufficient eligible transactions to make a Level 1 submission, it will seek to make a submission based on transaction-derived data, including time-weighted historical eligible transactions adjusted for market movements and linear interpolation. Eligibility criteria for transaction derived data are specified by IBA.

Level 3 (Expert Judgement) - Where a Contributor Bank has insufficient eligible transactions or transaction-derived data to make a Level 1 or a Level 2 submission, it will submit the rate at which it could fund itself at 11:00 AM London time with reference to the unsecured, wholesale funding market. Each Contributor Bank agrees its defined Level 3 submission methodology with IBA, basing its rate on transactional data, related market instruments, broker quotes and other market observations. Level 1 and Level 2 submissions are mathematically based on transaction data and the methodology is common to all contributing banks. There is no discretion for contributors.

Further details about the calculation methodology can be found in [1].

ii. Why are Risk Free Rates (RFRs) replacing LIBOR?

Prior to mid-2007, LIBOR tended to move closely with other short-term interest rates such as Treasury yields and the Overnight Index Swap (OIS) rates. However, LIBOR began to display greater volatility in August 2007 with the onset of the financial crisis. Furthermore, during (and after) the financial crisis of 2007-08, the interbank borrowing / lending market based on LIBOR became illiquid and therefore panel banks had to increasingly rely on expert judgement to quote LIBOR rates.

Beginning in June 2012, after extensive investigations it was found that multiple banks were manipulating LIBOR rates for profits. Allegations arose that banks had purposefully underreported their borrowing costs by significant amounts in order to project financial strength amidst market uncertainty. In addition, banks were alleged to have manipulated the rate to realize gains on LIBOR-based contracts. Whereas financial strength can be signalled by underreporting one's own submission, gains in LIBOR-based contracts often involved concerted action by multiple individuals to influence the final fixing.

Financial regulatory bodies across the world including the International Organization of Securities Commissions (IOSCO) and Bank of International Settlements (BIS) joined in a coordinated effort toward reference rates reform in the wake of the LIBOR scandal. Key reforms include Wheatley review of LIBOR 2012, G20 asking FSB to reform major interest rate benchmarks, establishment of Official Sector Steering Group, establishment of IBOR Market Participants Group, Convention of working groups to proposer alternative reference rates, etc[1]. Hence, to avoid such events in the future, LIBOR is being replaced by alternate risk-free rates that are backed by actual transactions and that do not pose any manipulation risk.

iii. When will the publication of the existing LIBOR benchmarks cease?

On 5th March 2021, the FCA formally announced that the following LIBOR benchmark rates will either cease to be provided or will no longer be representative immediately after the following cessation dates [2]:

- 31st December 2021: All LIBOR benchmark rates in respect of Sterling, Euro, Swiss Franc and Japanese yen as well as the US Dollar (only 1-week and 2-month) LIBOR benchmark rates
- 30th June 2023: Overnight, 1-month, 3-month, 6-month, 12-month USD LIBOR benchmark rates

iv. What action is required with regards to existing and new LIBOR referencing contracts or financing arrangements?

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[1] ☐(a) September 2012 – Final report of the Wheatly Review of LIBOR, (b) February 2014 – ICE Benchmark Administration (IBA) took over administration of LIBOR from the British Banking Association (BBA), (c) ☐July 2017 - Andrew Bailey announced that by the end of 2021, the FCA would no longer seek to compel or persuade panel banks to submit quotes for LIBOR, making clear that reliance on LIBOR could no longer be assured beyond this date

No action is needed for contracts maturing before the cessation date of the referenced LIBOR benchmark rate. For all contracts maturing after the cessation date of the referenced LIBOR benchmark rate, the reference rates in the contracts need to be amended from current LIBOR to risk-free rates / alternate reference rates. Moreover, regulators/working groups have issued guidance with regards to ceasing the issuance of new LIBOR products (see [3], [4], [5], [6], [7], [8] for more details).

v. How are new floating rate financing arrangements impacted?

The ARR working groups have recommended that any few floating rate financing arrangements should be based on RFRs and not on LIBOR.

2. Risk-free rates

i. What are the main differences between LIBORs and RFRs?

RFRs are calculated on a structurally different basis than LIBOR and are not a like-for-like replacement for the same. While LIBOR is a forward-looking rate known at or prior to the commencement of the period to which they relate, RFRs are backward-looking overnight rates. RFRs do not contain liquidity and credit risk components as they're overnight rates. The table below sets out a non-exhaustive list of the differences between LIBOR and RFR.

LIBOR	ARR
Forward-looking term benchmark across multiple tenors (O/N, 1week, 1month, 2 months, 3 months, 6 months, 12 months)	Backward-looking overnight rate
The quotes submitted by the panel banks are transaction based, transaction derived (in case of insufficient eligible transaction data) and expert judgment base (in case of insufficient eligible transactions or transaction-derived data) [1]	Calculated as the volume weighted mean of actual transactions that took place in the overnight treasury repo market
Includes a built-in risk premium for credit risk and liquidity risk across tenors	Nearly risk-free rates
Centrally calculated in the London Interbank Market	Each country has its own rate calculation mechanism

ii. What RFRs have been proposed to replace LIBOR?

Various authorities and industry working committees have identified certain risk-free rates as alternative to LIBOR and are considering how existing benchmarks might be reformed in accordance with applicable regulation. The table below lays out the alternative risk-free rates recommended and endorsed by various industry working committees:

LIBOR	Alternate Risk-Free Rates	Industry Working Committee	Rate Administrator	Description	Publication Time	RFR-IBOR Spread Methodology
USD LIBOR	Secured Overnight Financing Rate (SOFR)	Alternative Reference Rates Committee [7]	Federal Reserve Bank of New York	▪ Fully transaction based ▪ Secured overnight rate with robust underlying money market	8:00 am ET	▪ 5-year lookback median approach
GBP LIBOR	Sterling Overnight Index Average (SONIA)	Sterling Working Group on Risk-Free Rates [3]	Bank of England	▪ Fully transaction based ▪ Unsecured overnight rate with robust underlying money market	9:00 am BST	▪ 5-year lookback median approach ▪ Forward Approach [9]
EUR LIBOR	European Short-term Euro Rate (€STR)	ECB Working Group on Euro Risk-Free Rates [8]	European Central Bank	▪ Fully transaction based ▪ Reflects the unsecured wholesale euro borrowing costs of Euro banks	8:00 am CET	▪ 5-year lookback median approach
CHF LIBOR	Swiss Average Rate Overnight (SARON)	The National Working Group on Swiss Franc Reference Rates [5]	SIX Swiss Exchange	▪ Transaction based + quotes ▪ Secured overnight rate since 2009 reflecting interest paid on repo	8:30 am CET (Every 10 minutes)	▪ 5-year lookback median approach
JPY LIBOR/JPY TIBOR	Tokyo Overnight Average Rate (TONAR)	Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks [6]	Bank of Japan	▪ Fully transaction based ▪ Unsecured rate based on the overnight call rate market	10:00 am JST	▪ 5-year lookback median approach
SIBOR/ SOR	Singapore Overnight Rate Average (SORA)	Steering Committee for SOR & SIBOR Transition to SORA (SC-STS) [4]	Monetary Authority of Singapore	▪ Fully transaction based ▪ Unsecured rate based on overnight interbank SGD cash market	9 am SST	

iii. Will forward-looking term RFRs be published and, if so, when will they be published?

As LIBOR is a forward-looking term rate available in several tenors, a number of working groups have indicated a desire to develop similar forward-looking risk-free rate derived term rates. This helps in continuity of in place market standards. Due to certain limitations, these rates may not be suitable in certain markets and there is no broader market consensus on the way forward. The following points state the stance of different working groups on term rates derived from risk-free rates:

- The Sterling Risk Free Working Group (the "RFRWG") in UK wants market participants to adopt a broad-based transition away from LIBOR to SONIA compounded in arrears. However, the working group has acknowledged the need for a Term SONIA Reference Rate ("TSRR") in the cash market as well as for certain legacy contracts. Ice Benchmark Administration has been selected by the UK's Financial Conduct Authority to provide forward-looking term Sonia inputs for a proposed synthetic LIBOR [10].
- The National Working Group on Swiss Franc Reference Rates do not recommend the use of a forward-looking term rates derived from risk-free rates.
- The Alternative Reference Rates Committee (the "ARRC") in US stated that a robust SOFR term reference rate will be developed and published once there is sufficient liquidity in the SOFR derivatives market. Furthermore, ARRC has chosen CME to publish the same. CME Group intends to limit the licensing of its SOFR Term Rates to cash market transactions initially until June 30, 2023. The Term SOFR rate will be available for license at no charge during this period.

iv. How do you calculate a compounded in arrears rate?

Compounding in arrears is one of the methodologies used to compute the interest rate for a specified period. Compounding in arrears compounds daily values of the overnight rate throughout the relevant term period. This would mean that the applicable interest rate would only be known at the end of the interest accrual period. However, there are conventions in place such as arrears with payment delay, arrears with n-day lockout and arrears with n-day lookback which reduce the uncertainty of the final interest rate payable by the borrower. The ARRC's User's Guide to SOFR provides a comprehensive overview of the different compounding conventions that can be used with SOFR [11]. The RFRWG published recommendations regarding conventions for referencing compounded in arrears SONIA in the sterling loan market in September 2020 which contains illustrative worked examples of RFR compounding conventions for the Sterling loan market [12]. Compounding in arrears is compatible with a wide variety of derivatives and cash products. Please contact your relationship manager for further information. Alternatively, email us at ibor.transition.information@kotak.com

v. How is interest calculated for contracts that start before but end after the given LIBOR cessation date?

LIBOR will be used to calculate the interest rate until it stops being published. The interest rate for subsequent periods would no longer be calculated based on the relevant LIBOR rate. For subsequent periods, the interest rate would be calculated as per the fallback language in the contract. For example, if both parties to the trade have adhered to the International Swaps and Derivatives Association (ISDA) IBORs 2020 Fallback Protocol, or have bilaterally agreed, the interest rate for USD for post LIBOR cessation period would be calculated on a compounded SOFR in arrears methodology plus the credit adjustment spread (CAS) (Details on CAS computation is given in section 4)

3. Fallback Language

i. What is fallback language and why is it important?

Fallback language refers to the contractual provisions that lay out the process through which a replacement rate can be identified if a benchmark (e.g., USD LIBOR) is not available. This will also include an adjustment spread to deal with the differences between LIBOR and chosen fallback rate (Refer to section 4 for more details). In other words, the fallback language within a contract acts as a how-to guide for identifying replacement rates / replacement rates) should the original benchmark be unavailable. Language also varies between derivatives and cash products and, even further, between different cash products. This variation drives uncertainty, so firms may be faced with a contract-level review to determine how to remediate impacted transactions. To address this, industry bodies are working to develop robust fallback provisions for several other interbank offered rates (IBOR) referencing transactions.

For over the counter (OTC) derivatives, the International Swaps and Derivatives Association (ISDA) amended the ISDA 2006 Definitions to include LIBOR fallback protocol. Moreover, on 11th June 2021, ISDA published the 2021 ISDA Interest Rate Derivatives Definitions, the latest in a series of definitional booklets that have provided the framework for documenting over-the-counter interest rate derivatives transactions since 1985. For cash products, national working groups, such as the US ARRC, have published proposed fallback language to implement in new transactions referencing IBOR. Refer to the next question for further details.

ii. Have any jurisdictions released recommended fallback language for cash products and/or derivatives?

The Alternative Reference Rates Committee has published recommended fallback language for:

- Floating Rate Notes [13];

- Bilateral and Syndicated Business Loans [14], [15];
- Securitizations [16];
- Student Loans [17]; and
- Adjustable Rate Mortgages [18].

Fallback language has further been made available by other industry bodies, including the International Swaps and Derivatives Association (ISDA) (which include fallback language for IBOR-referencing derivatives as part of the amendments to the ISDA 2006 Definitions and a Protocol [19] to facilitate the amendment of legacy derivatives transactions to include such fallbacks language) and the Loan Market Association (LMA).

iii. What is ISDA 2020 IBOR Fallbacks Protocol and Supplement?

On 23rd October 2020, ISDA published its IBOR Fallbacks Protocol (Protocol) and Supplement to the 2006 ISDA Definitions (Supplement) to address the expected cessation of LIBOR and IBORs at the end of 2021. ISDA Definitions contain the floating rate option definitions for LIBOR and other IBORs. The rate option definitions do contain fallback provisions, but they were only intended to address short-term disruptions to the publication of LIBOR and other IBORs. With the permanent end of IBORs in sight, these current fallback provisions would appear to be inadequate to ensure a smooth transition to alternative benchmark rates.

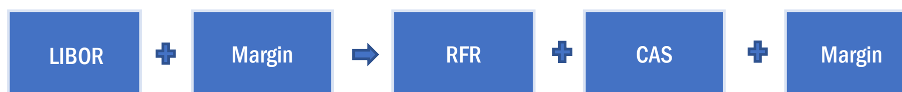
The Protocol allows parties to derivatives transactions to bilaterally amend their existing transactions to incorporate the terms and conditions that are contained in the Supplement. The Supplement resolves the problem of transitioning by amending those rate option definitions – primarily – by introducing certain objective and observable trigger events for each IBOR and the alternative benchmark rate that such IBOR will “fall back” to. ISDA has also published a related set of frequently asked questions, as well as a User Guide to IBOR Fallbacks and RFRs, to assist market participants in navigating the Protocol and the Supplement.

Detailed information can be found in [20].

4. Credit Adjustment Spread (CAS)

i. Why do we need spread adjustments and how will they be calculated?

LIBOR and RFRs are structurally different. The difference was explained in question 1 within the risk-free rates section above. As specified, due to absence of liquidity and credit risk, RFRs will be different from the corresponding LIBOR benchmark rates. Thus, direct replacement of LIBOR with risk-free rates will cause a transfer of value from one party to another. In order to make the rates more comparable and in line with each other, a credit adjustment spread (CAS) is added to the risk-free rate.



The credit adjustment spread calculated as per the ISDA methodology uses the historical median approach. Under this method, the credit adjustment spread is calculated as the median difference over a historic five-year period between the relevant LIBOR being replaced and the corresponding risk-free rate compounded in arrears for the term equivalent to the term of the LIBOR it replaces.

On 5th March 2021, ISDA confirmed that, following FCA’s announcement in relation to the permanent cessation and non-representativeness of all LIBOR settings, the “Spread Adjustment Fixing Date” had occurred and, accordingly, the credit spread adjustment had been fixed for all 35 LIBOR settings under the Bloomberg IBOR Fallback Rate Adjustments Rulebook [19]. On such date, Bloomberg published the fixed spread adjustment as calculated in respect of each LIBOR tenor. Alternate methodologies to compute applicable credit adjustment spread may be chosen as well (in case of non-ISDA contracts or if ISDA protocol has not been signed).

ii. When will the credit spread adjustment be calculated and become active?

The fixed spread adjustment as recommended by ISDA and published by Bloomberg shall be calculated from 5th March, 2021. This fixed credit adjustment spread will apply to all contracts that reference the ISDA master agreement and the revised 2006 ISDA definitions.

iii. Will there be any basis risk if the credit spread adjustment is not identical between cash products and derivatives?

Basis risk can arise if there is a difference between the credit spread adjustment calculation methodology between derivatives and cash products. Industry working groups have been strongly advocating consistency across derivatives and cash products. As long as there is consistency between the credit spread adjustment calculation methodologies, the basis risk between derivatives and cash products should be low.

5. Client Related Questions

i. How will the client's portfolio be impacted by the discontinuation of any LIBOR?

Kotak Mahindra Bank is working with clients to transition legacy LIBOR-impacted contracts before the given LIBOR ceases to be published. There are various industry standards that facilitate and accelerate the transition. Kotak Mahindra Bank will try to follow these industry standards consistently wherever it deems to be practical. However, Kotak Mahindra Bank encourages clients to take appropriate independent professional advice (legal, tax, accounting, financial or other) in order to comprehend the impact of discontinuation of any LIBOR.

ii. What is the impact of not amending any existing LIBOR contract?

Not amending the LIBOR contract could have multiple implications contingent on several items such as the contractual provisions for the financial product, the alternative RFR solutions available, etc. Kotak Mahindra Bank encourages clients to take appropriate independent professional advice (legal, tax, accounting, financial or other).

iii. What shall clients prepare for the transition away from LIBOR?

Kotak Mahindra Bank encourages clients to keep up to date with the latest industry developments with respect to LIBOR transition. Bank recommends that clients monitor the latest announcements by working groups, trade associations and international bodies. The websites of the working groups for each currency, FCA and ISDA are good sources of information to stay updated with the latest developments on LIBOR transition. Alternatively, staying in touch with client's own legal and financial advisers to familiarise with RFRs and seeking clarification with regards to any issues/queries shall also help.

iv. What should I do if I would like to discuss this topic with Kotak Mahindra Bank?

For queries regarding this topic, contact your relationship manager or email us at ibor.transition.information@kotak.com

v. Has COVID-19 impacted timelines for the LIBOR transition?

FCA, Bank of England and members of the Working Group on Sterling Risk-Free Reference Rates jointly announced that despite the COVID-19 pandemic, firms cannot rely on LIBOR being published after the end of 2021 and that this should remain the target date for all firms to meet. However, there could be a delay in achieving pre-set milestones.

iv. What is Kotak Mahindra Bank doing in respect of the ISDA IBOR Fallbacks and what should the client do in relation to this?

Kotak Mahindra Bank has adhered to the ISDA IBOR Fallbacks Protocol which allows the Bank to bilaterally amend its existing transactions to incorporate the terms and conditions that are contained in the ISDA IBOR Fallbacks Supplement. However, at the same time clients should consider seeking independent professional advice (legal, tax, accounting, financial or other) in relation to the same.

6. MIFOR

i. What is MIFOR?

The Mumbai Interbank Forward Offer Rate (MIFOR) is the rate that Indian banks use as a benchmark for setting prices on forward-rate agreements and derivatives. It is a mix of the London Interbank Offered Rate (LIBOR) and a forward premium derived from Indian forex markets. It is published for O/N, 1, 2, 3, 6 and 12-months maturities at 5 PM IST every day and is used for interbank transactions only. In India, exposures to LIBOR arise from loan contracts linked to LIBOR, foreign currency non-resident (FCNR) deposits with floating rates of interest linked to LIBOR, and derivatives linked to LIBOR or MIFOR.

ii. What will MIFOR be replaced by?

For legacy contracts, MIFOR will be replaced by Adjusted MIFOR which is based on the fallback rate for USD LIBOR i.e. the adjusted SOFR (SOFR compounded in arrears) plus a spread adjustment. The spread adjustment is calculated as a historical median spread with a 5-year lookback period between LIBOR and adjusted SOFR. Hence, adjusted MIFOR for legacy contracts is proposed to be computed basis adjusted SOFR and USD INR forward premia as its components.

For new MIFOR contracts, a modified MIFOR rate shall be used. It will be computed using the SOFR Index published By Federal Reserve without any spread adjustment value to SOFR. FBIL Modified MIFOR Curve will be computed using the Adjusted SOFR rate and the FBIL Forward Premia rate. The Adjusted SOFR compounded in arrears for various tenors is obtained from the Bloomberg Index Services Ltd. (BISL). The FBIL Forward Premia Curve is a transaction-based benchmark

that is computed from the USD/INR Cash-Tom and Spot-Forward trades which are reported to the Clearing Corporation of India (CCIL) for settlement. Detailed information can be found in [21].

Contracts referencing LIBOR / MIFOR may generally be undertaken after December 31, 2021 only for the purpose of managing risks arising out of LIBOR / MIFOR referenced contracts undertaken on or before December 31, 2021 [22].

iii. **What if the O/N fallback rate is not published by Bloomberg?**

Based on clarifications from Bloomberg, the overnight rate would be provided. In case it is not available, post- LIBOR cessation, the SOFR from FED would be taken and the constant spread of O/N SOFR to O/N LIBOR based on 5-year data would be applied.

iv. **What are the advisory timelines for replacing MIFOR?**

RBI has advised Banks to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), a benchmark which references the LIBOR, as soon as practicable and in any event by December 31, 2021.

v. **Who is responsible for publishing MIFOR rates and from which date are they being published?**

Financial Benchmarks India Pvt Ltd (FBIL) has started publishing daily adjusted MIFOR rates from June 15, 2021 and modified MIFOR rates from June 30, 2021 which are used for legacy contracts and fresh contracts respectively.

RBI Advisory: Key issues identified with benchmarks replacing MIFOR [23]

Banks have been advised to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), a benchmark which references the LIBOR, as soon as practicable and in any event by 31st December 2021. In this context, Financial Benchmarks India Pvt Ltd (FBIL) has started publishing daily adjusted MIFOR rates from 15th June 2021 and modified MIFOR rates from 30th June 2021 which can be used for legacy contracts and fresh contracts respectively. Other alternatives are MROR, MIBOR, use of SOFR with USD INR Cash/Tom Swap rate, etc. It was noted that each of the alternate benchmarks shall have advantages and issues.

- The use of the SOFR with the forward premia, for example, shall closely mimic the MIFOR but shall involve the use of one forward-looking and one backward-looking component.
- Use of the SOFR and the USD INR Cash/Tom Swap Rate, both of which are compounded in arrears, will address this issue but a benchmark based on cash / tom swap rates is likely to be more volatile than one based on forward premia.
- The MROR is a benchmark based on secured overnight transactions in a liquid market encompassing both bank and non-bank participants and hence closely shares the features of international RFRs. At present, however, IRS contracts referencing the MROR are not prevalent.
- The MIBOR is based on a less liquid interbank call market but MIBOR-based swaps account for the bulk of outstanding IRS contracts in the country. In any case, MIBOR, MROR and T-bill rates are domestic rates and their use as a RFR will need the development of a market for cross currency basis swaps. Issues associated with deriving a term structure for the RFR, as in global markets, will also need to be addressed.

Contracts referencing LIBOR / MIFOR may generally be undertaken after 31st December 2021 only for the purpose of managing risks arising out of LIBOR / MIFOR referenced contracts undertaken on or before 31st December 2021.

7. RBI Advisory Guidelines

Steps suggested by RBI to ensure preparedness of banks to transition away from LIBOR [22]:

The transition away from LIBOR and the adoption of RFRs developed in various jurisdictions is a significant event which needs to be carefully prepared for in order to manage potential customer protection, reputational and litigation risks as well as avoid disruptions to the safety and resilience of financial institutions and overall financial stability of the economy. For the same, RBI issued guidelines to assist banks and other RBI regulated entities to transition from LIBOR to RFRs. The steps suggested are as follows:

- Banks and financial institutions are encouraged to cease entering into new financial contracts that reference LIBOR as a benchmark and instead use any widely accepted alternative reference rate (ARR), as soon as practicable and in any case by 31st December 2021.
- Banks and financial institutions are urged to incorporate robust fallback clauses in all financial contracts that reference LIBOR and the maturity of which is after the announced cessation date of the LIBOR settings.
- Banks and financial institutions are encouraged to ensure that new contracts entered into before 31st December 2021 that reference LIBOR and the maturity of which is after the date on which LIBOR ceases or becomes non-representative include fallback clauses.
- Banks have also been advised to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), a benchmark which references the LIBOR, as soon as practicable and in any event by 31st December 2021. In this context, Financial Benchmarks India Pvt Ltd (FBIL) has started publishing daily adjusted MIFOR rates from 15th June 2021 and modified MIFOR rates from June 30, 2021 which can be used for legacy contracts and fresh contracts respectively.
- Contracts referencing LIBOR / MIFOR may generally be undertaken after 31st December 2021 only for the purpose of managing risks arising out of LIBOR / MIFOR referenced contracts undertaken on or before 31st December 2021.

Summary of the given guidelines can be found in [24].

Risk Disclosure

Market participants holding instruments referencing LIBOR could experience ambiguity with regards to the rate replacing LIBOR post cessation. It is important that market participants comprehend the risks associated with holding existing as well as new instruments with LIBOR references.

Some of the risks faced are mentioned below:

- Risk of changes in valuation of contracts referencing LIBOR either due to reduced submissions, discontinuation or amendments to the methodology used to calculate the benchmarks. This is true particularly if reference rates or fallback provisions are not aligned between commercially linked positions.
- Risk that effectiveness of hedging is undermined as benchmarks may perform differently than in the past, and financial products referencing existing Benchmarks scheduled to be discontinued may perform differently as a result.
- Risk of inadequate amendments to contracts. Although changes are made to documentation and contracts to incorporate fallback language or to support the transition to new reference rates; there exists a risk of inadequate changes.
- Operational and system changes required in the event of Benchmark cessation; in order to support new RFRs. For e.g. where systems need to be updated to support alternative rates.
- Tax impacts of amendments to existing financial arrangements.

Clients should independently assess the impact of these changes on their portfolio and take appropriate action as required.

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