IBOR Business Banking FAQ
https://www.ocbc.com.my/group/ibor-transition/index.html

Corporate Loans/Financing and Derivatives

1) Existing / Legacy Loans/Financing

My company has an existing loan/financing that references LIBOR and matures after end 2021. What should I do about this?

There is no immediate impact on your loan/financing at this juncture, and we will be reaching out to you in due course to assist with the transition.

What will happen to my outstanding loan/financing if I do not want to change my rate, even when LIBOR is discontinued?

When LIBOR is discontinued, we will no longer be able to calculate your interest/profit payment using LIBOR. Instead, your loan interest /financing profit payment will be calculated using a ‘fallback’ rate or other alternative provisions. We will reach out to you in due course on the transition to replacement rate. .

How will the change in benchmark affect my loan repayment/financing payment?

The transition from LIBOR to another benchmark could lead to some changes to your loan repayment/financing payment, depending on market conditions at that point in time. We will reach out to you in due course on the transition to the replacement rate.

What if I had hedged my LIBOR loan/financing with a swap?

If you had hedged your LIBOR loan/financing with a swap, your swap would also have been likely pegged to LIBOR. You should review the terms of your swap contract as early as possible to understand the consequential implications once LIBOR is discontinued. Notably, if the terms of your swap contract provide for a ‘fallback’ rate, there is a possibility of a hedging mismatch if the ‘fallback’ rate of your loan/financing differs or kicks in at a different time. We will reach out to you in due course to discuss options.

In other markets such as the US, borrowers, whose loans are pegged to LIBOR, have similarly been encouraged to transition both their loans and swaps to reference the Secured Overnight Financing Rate (SOFR) or other alternative rates in order for hedge effectiveness to be maintained.

What are the tax and accounting-related implications of the change in benchmark?

Relevant bodies such as the Malaysian Accounting Standards Board, the Malaysia Inland Revenue Board, the ARRC, the Financial Accounting Standards Board and the US Internal Revenue Service have provided/may provide guidance from time to time on such issues pertaining to the LIBOR transition.

2) New Loans/financing

I am looking to take up a new loan/financing. Should I avoid entering into any new contracts that still reference LIBOR?

If you wish to take up a new loan/financing that references LIBOR, you should carefully consider the possible alternative rate on cessation of LIBOR, .

Will banks continue to offer fixed rate loans/financing? Will these be affected by the transition?

The expected discontinuance of LIBOR only affects contracts that reference LIBOR, e.g. LIBOR floating rate loans/financing. We will continue to offer other types of loans/financing that fit customer needs, including fixed rate loans/financing.

3) Derivatives

What is the industry solution to address cessation of benchmarks in swap and derivatives documentation?

ISDA, which is the global leading industry body for swaps and derivatives, is in the process of updating and amending the 2006 ISDA Definitions to include new fallback provisions to apply in the event of cessation of certain benchmarks, including benchmarks such as LIBOR.

The proposed fallback provisions shall state that upon the occurrence of the specified event (i.e. the cessation of the relevant benchmark), references to the affected benchmark will be replaced with references to an identified replacement rate in the same currency. The fallback provisions are still in consultation and drafting phase.

What is the market's transition plan for existing and new swap and derivatives contracts referencing benchmarks such as LIBOR, which shall permanently cease in end 2021?

Once details on the fallback rates and calculation methodology are finalised, ISDA will publish one or more supplements to the 2006 ISDA Definitions (Revised 2006 ISDA Definitions).

New swap and derivatives contracts entered into on or after the effective date of the Revised 2006 ISDA Definitions shall be deemed to have applied the fallback rates by incorporating by reference the Revised 2006 ISDA Definitions into the swap and derivatives contracts.

ISDA will also publish a related protocol (ISDA Protocol) that market participants can adhere to amend legacy swap and derivatives transactions entered into prior to the effective date of the Revised 2006 ISDA Definitions.

How will my outstanding swap or derivatives contracts be affected by the transition?

If you have outstanding swap and/or derivatives contracts referencing LIBOR that mature beyond end 2021, the smoothest transition would be to replace or amend such contracts referencing LIBOR to reference the fallback replacement rates set out in the Revised 2006 ISDA Definitions before end-2021.

What is SOFR?

SOFR is the secured overnight financing rate administered, and published, by the Federal Reserve Bank of New York and it is the recommended alternative to USD LIBOR selected by the Alternative Reference Rate Committee (ARRC). ARRC is a group of private market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York.

As a market participant, what do I need to do to prepare for this transition?

You should assess your impacted swap and derivatives contracts and familiarise yourself with the developments of this transition.

You may wish to consider either adhering to the ISDA Protocol or bilaterally amending your impacted swap and derivatives contracts to include the revised fallbacks. The ISDA Protocol will provide for standard amendments to include the revised fallbacks and is an efficient method to multi-laterally amend contracts with other adhering parties. Bilateral amendments could be used to amend contracts individually with counterparties on terms that are mutually agreeable.

Please visit www.isda.org for information on ISDA's efforts on benchmarks reform.

Are all swap and derivatives transactions impacted by this change?

All interest rate swap and derivatives products, including, but not limited to, cross currency swaps, swaptions and all structured products referencing discontinuing benchmarks such as LIBOR will be impacted.

One component of USDMYR cross currency swaps is the USDMYR basis, referencing the USD LIBOR and the Kuala Lumpur Interbank Offered Rate (KLIBOR) benchmarks. We will provide updates in due time on announcements affecting KLIBOR.

4) Other Matters

Should firms start building or investing systems to products referencing the new benchmarks?

The use of new benchmarks such as SOFR in your financial contracts will require changes in systems, operations, accounting and other processes. It is important that firms start reviewing the changes needed, as these will take time to implement. The industry is trending towards the use of compounded overnight rates. It is therefore important for institutions to have in place the systems to manage such backward-looking compounded overnight rates.

Important Notice

1) Risks Related to the Use of Benchmarks in Derivatives

London Interbank Offered Rate (LIBOR)

It is the expectation that the publication of LIBOR will be discontinued after the end of 2021. LIBOR is currently set for five currencies (CHF, EUR, GBP, JPY and USD) and seven tenors based on submissions from panel banks. If cessation of LIBOR occurs during the term of this financial instrument, the contractual terms would provide a process for determining a fallback but it is unclear and uncertain what rate this instrument would reference as a result of that process. Due to this lack of clarity and certainty, there is no way to know at this time whether you would be disadvantaged economically. Timing for any cessation of LIBOR may vary across different currencies and tenors in which LIBOR is currently set for and such timing may differ from the timing for any cessation of other interbank offered rates ("IBORs"). In addition, the cessation of LIBOR may result in a mismatch between the rate referenced in this financial instrument and your other financial instruments, including potentially those that are intended as hedges.

Next Steps

The International Swaps and Derivatives Association, Inc. (ISDA) intends to update its definitions to include fallbacks to certain rates that would take effect and provide certainty if LIBOR or another key IBOR is permanently discontinued. In order to avoid the lack of clarity regarding the rate that this contract would reference upon the discontinuation of LIBOR or the relevant IBOR, you should consider either adhering to the protocol that ISDA will publish to include the new fallbacks in existing derivative contracts such as this contract or bilaterally amending such derivative contracts to include the new fallbacks. Adherence to the ISDA protocol will amend contracts with other adhering parties so that such contracts include the fallbacks but will not result in inclusion of the fallbacks in contracts with counterparties that do not adhere. The ISDA protocol will provide for standard amendments to include the new fallbacks but bilateral amendments could be used to amend contracts with all counterparties that agree to the bilateral amendments on terms that are mutually agreeable to the relevant counterparties.

Even after ISDA implements fallbacks in its definitions, the discontinuance of LIBOR or the relevant IBOR and the application of the fallbacks in ISDA's definitions may result in a mismatch between the rate referenced in this financial instrument and your other financial instruments, including potentially those that are intended as hedges. You should review the terms of this instrument and your other financial instruments to determine if adhering to the protocol published by ISDA or entering into appropriate bilateral amendments will meet your hedging objectives. You should also consider the tax, accounting and regulatory implications of executing and then potentially amending this instrument.

2) Disclaimer