



## **PUBLIC NOTICE: BENCHMARK RATE (LIBOR) TRANSITION**

This public notice is to inform all our esteemed customers and public at large who have entered into LIBOR linked contracts with Bank of Maharashtra (hereafter referred as "BOM"), that BOM intends to transition away from LIBOR linked Benchmark Rates towards Alternative Reference Rate (hereafter referred as "ARR") by 31.12.2021. This decision was taken in view of announcement of UK's Financial Conduct Authority regarding discontinuation of Intercontinental Exchange administered LIBOR rate. A brief guidance note is as under:

### **• BACKGROUND:**

The London Interbank Offered Rate (LIBOR) is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short term loans. It is meant to represent the cost at which large, globally active banks can borrow on an unsecured basis in wholesale markets.

The rate is calculated and published daily by the Inter Continental Exchange (ICE). It is based on five currencies including USD, EURO, GBP, JPY & CHF and in several different maturities namely- overnight, spot next, and one, two, three, six and twelve months. It is used as a key interest rate benchmark across a number of Derivatives, Bonds, Loans, Securitizations, Deposits and other products.

India uses LIBOR to hedge interest risk emanating from Derivatives, Bonds, Loans, Securitization, Loans and Leases, Structured Debt, Trade Financing and many other products which have exposure to interest rate volatility. Apart from this, MIFOR (which is combination of LIBOR and a forward premium derived from Indian forex markets) is used in India to hedge local interest risk exposure. LIBOR Cessation will impact MIFOR calculations as well and all trades that are attached to MIFOR.

### **• NEED FOR TRANSITION:**

With growing complexity and size of the market, methodology of calculating rates and reasons given below, need for transition from LIBOR was felt worldwide.

- Libor scandal: The scandal arose when it was discovered that some of the banks on panel of LIBOR were falsely inflating or deflating their rates so as to profit from trades, or to give the impression that they were more creditworthy than they were.
- Inherent weakness: LIBOR is increasingly based on the expert judgment of the panel of banks, rather than on actual transactions, making it a less meaningful rate.
- The volume of interbank lending based on LIBOR declined dramatically after the financial crisis because of changes in bank regulations and money market funds. As a result, the underlying market that LIBOR seeks to measure is no longer sufficiently active.

### **• LIBOR CESSATION TIMELINE:**

On 05.03.2021, the UK regulator had announced the cessation dates for different currency LIBORs across various tenors.

Last publication date	Currency LIBORs
December 31, 2021	<ul style="list-style-type: none"><li>• Pound sterling, Euro, Swiss Franc and Japanese Yen for all tenors.</li><li>• US Dollar LIBOR for 1 week and 2 months.</li></ul>
June 30, 2023	<ul style="list-style-type: none"><li>• Remaining US dollar settings.</li></ul>







• **NEW BENCHMARK RATE:**

Since it is clear that LIBOR will no longer available, regulatory and advisory bodies working with market participants in various jurisdiction around the world have started releasing plans to retire existing benchmarks and begin the process of developing replacements. Worldwide, probable benchmark rates identified as an alternative for LIBOR are as under:

Working Group	Alternative Ref Rate	Rate Name	Administrator	Collateralization	Publication Date	Description
Working Group on Sterling Risk-Free Reference Rates	SONIA	Sterling Overnight Index Average	Bank of England	Unsecured	Reformed 23/04/2018 Legacy 31/03/1997	Unsecured rate that covers overnight wholesale deposit transactions
Alternative Reference Rates Committee	SOFR	Secured Overnight Financing Rate	Federal Reserve Bank of New York	Secured	02/04/2018	Secured rate that covers multiple overnight repo market segments
The National Working Group on CHF Reference Rates	SARON	Swiss Average Rate Overnight	SIX exchange	Secured	22/09/2009	Secured rate that reflects interest paid on interbank overnight repo
Study Group on Risk-Free Reference Rates	TONAR	Tokyo Overnight Average Rate	Bank of Japan	Unsecured	30/12/1992	Unsecured rate that captures overnight call rate market
Working Group on Risk-Free Reference Rates for the Euro Area	ESTER	European Short Term Euro Rate	European Central Bank	Unsecured	October 2019	Unsecured rate that captures overnight wholesale deposit transactions

• **IMPACT ON CUSTOMERS:**

As BOM will cease entering into new contracts that use LIBOR as a reference rate by 31.12.2021, all LIBOR linked exposure of customers will have to be transitioned to an alternate benchmark rate as and when notified by the BOM. For smooth transitioning, all the LIBOR linked contracts must have robust fallback language. (Fallback language refers to the provision which defines the process to identify a replacement rate if benchmark rate is not available.)

For existing/Legacy loans, Fallbacks will result in the application of new ARR in place of LIBOR as mutually decided by the BOM and Client. Since transition from LIBOR TO ARR might lead to risks in terms of infrastructure, taxation, accounting legal and operations, all potential risks must be carefully examined. We advise our valued customers to make an internal transition impact assessment of their LIBOR linked exposure.

For further information/clarification related to your existing exposures and on specific products and services, please contact your respective Branches.

**Disclaimer:**

This public notice is provided for general information only. One may seek guidance from one's professional advisor regarding possible risks and impact of LIBOR transition on legal, taxation, financial and accounting aspects of their business. We have put our best effort to bring accurate and update information of LIBOR transition, however, Bank of Maharashtra (BOM) will not be liable for any loss or damage caused to any entity/person.

