

**Transitioning away from LIBOR:
Q&As for Corporate Treasurers**
(First published in July 2020, updated in July 2021)

1. When exactly will various LIBOR settings be discontinued and what alternatives to LIBOR are available?

- All LIBOR settings will be discontinued starting from 1 January 2022, with the exception of overnight, 1-, 3-, 6-, 12-month USD LIBOR. These USD LIBOR settings will continue to be published until end-June 2023 merely to support the rundown of legacy contracts that reference these settings.
- In the five LIBOR currency areas (i.e. Euro Area, Japan, Switzerland, the UK and the US), relevant authorities have identified transactions-based overnight interest rates as the alternative reference rates (ARRs) to LIBOR, which are available for use now (see table below).

LIBOR		To be discontinued from	Alternative reference rates (ARRs)
CHF LIBOR		1 January 2022	Swiss Average Rate Overnight (SARON)
EUR LIBOR			Euro Short Term Rate (ESTR)
GBP LIBOR			Sterling Overnight Index Average (SONIA)
JPY LIBOR			Tokyo Overnight Average (TONA)
USD LIBOR	1-week, 2-month	1 July 2023	Secured Overnight Financing Rate (SOFR)
	Overnight, 1-, 3-, 6-, 12-month		

2. What should corporates do to prepare for the transition away from LIBOR?

- First, corporates should identify and review all their existing contracts that use LIBOR as the reference rate (e.g. loans, derivatives, floating rate notes, etc.). If these contracts do not contain fallback provisions setting out how LIBOR will be replaced when it becomes unavailable, corporates should contact their banks and counterparties to discuss and agree on the fallback arrangements or amend these contracts to reference ARR directly.
- If corporates have before 25 January 2021 entered into LIBOR-linked derivatives contracts referencing the 2006 ISDA Definitions, they are strongly encouraged to

evaluate as soon as possible whether they should adhere to the ISDA 2020 IBOR Fallbacks Protocol as an effective way to implement fallback provisions in these contracts. Corporates may wish to contact their bankers to understand more about this.

- Furthermore, corporates should avoid entering into new LIBOR-linked contracts. Instead, they should consider using ARR for new contracts. In case corporates need to enter into new LIBOR-linked contracts between now and end-2021 due to practical considerations, they should ensure that these contracts contain adequate fallback provisions.

3. Do ARRs, being overnight rates, have term structures like LIBOR? If not, how can these ARRs be used in longer term financial contracts?

- Term structures of certain ARRs (e.g. SONIA and TONA) have already been available for use by market participants. Term structures of other ARRs are still being explored or considered by the relevant overseas authorities, and it is uncertain when those term ARRs will be ready for use. Notwithstanding this, interest payments based on overnight rates can be calculated using methods that are commonly adopted by the industry for various types of contracts, such as simple or compounded averaging. Instead of waiting for the availability of those term ARRs, corporates are advised to consider using these methods and promptly consult their banks on how they can be applied, and also look into necessary changes that may be required, including IT system changes.

4. 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 ARR to HIBOR following the international trend, which is the HKD Overnight Index Average (HONIA). Market participants are free to choose between HIBOR and HONIA.

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