

## **BANK OF INDIA, U.K. OPERATIONS (BOIUK)**

### **Important information on discontinuation / transition of LIBOR and use of new reference rate**

In order to ensure our clients remain informed about LIBOR discontinuation after 2021, we are sharing the below information.

#### **What is LIBOR?**

The London Inter-Bank Offered Rate – or LIBOR – is the interest rate at which banks lend to and borrow from one another in the interbank market. LIBOR is a measure of the average rate at which banks are willing to borrow wholesale unsecured funds. It is based on five currencies including the US dollar, the Euro, the British pound, the Japanese yen, and the Swiss franc, and serves seven different maturities such as overnight/spot next, one week, and one, two, three, six, and 12 months.

LIBOR is based on submissions provided by a panel of 20 banks. These submissions are intended to reflect the interest rate at which banks could borrow money on unsecured terms in wholesale markets. It is administered by Intercontinental Exchange Benchmark Administrator (ICE). It is used as a key interest rate benchmark across a number of derivatives, bonds, loans, securitisations, deposits and other products.

#### **What is happening now?**

Both the FCA and the Bank of England's Financial Policy Committee (FPC) noted in 2017 that it had become increasingly apparent that the absence of active underlying markets and the scarcity of term unsecured deposit transactions raised serious questions about the future sustainability of the LIBOR benchmarks.

In a speech by Andrew Bailey, the Ex. Chief Executive of the FCA, he has stated that the FCA expects the LIBOR panels to dwindle or disappear after end-2021 and firms must be able to run their business without LIBOR from this date, and reduce the stock of 'legacy' LIBOR contracts. LIBOR is now expected to be replaced by new Risk-Free Rates (RFRs) across the global financial markets.

Based on statements by the FCA, the expectation is that the LIBOR will no longer be a credible lending rate after the end of 2021. UK Finance as well as the Bank of England's Working Group on Sterling Risk-Free Reference Rates have recently released publications relating to LIBOR discontinuation. These can be accessed on the following links:

- <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/factsheet-calling-time-on-libor-why-youneed-to-actnow.pdf?la=en&hash=5832419D3782354BAC3E041E4F5C2860D5D3B75F>
- [https://www.ukfinance.org.uk/system/files/LIBOR-Guide-for-Business-CustomersFINAL\\_1.pdf](https://www.ukfinance.org.uk/system/files/LIBOR-Guide-for-Business-CustomersFINAL_1.pdf)

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