Classification: Public

LLOYDS BANK

NOTICE – LIBOR AND OTHER AFFECTED BENCHMARK RATES

Benchmark rates are changing

You are receiving this because you are about to enter into a product which is linked to the **London Interbank Offered Rate ("LIBOR")** or other affected benchmark rate[1].

FCA announcement on the of LIBOR

On 5 March 2021 the Financial Conduct Authority (FCA) announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative from the following dates:

Immediately after **31 December 2021:**
All settings: British pound, Euro, Swiss franc, Japanese yen
1-week and 2-month settings: US dollar

Immediately after **30 June 2023:**
All remaining settings: US dollar

Interim Milestones

As well as these end dates, the official sector has set a series of interim milestones, including:

End-Q1 2021 for banks to cease **GBP LIBOR** lending and linear derivatives[2] and **end-Q2 2021** for non-linear derivatives[3]. Applies where expiry after end-2021; risk management of existing positions excepted.

End-Q4 2021 - latest date for banks to cease issuing new **USD LIBOR** contracts.

The agreement you are entering into may be impacted by the cessation of LIBOR. Any existing LIBOR products you hold may also be impacted. We are continuing to contact clients to discuss how they want to deal with their affected LIBOR agreements.

Here are some potential risks and impacts to be aware of:

New LIBOR Products

- New LIBOR products taken out now that mature after the announced cessation dates may contain provisions to facilitate transition to alternative reference rates, including fallbacks, that cater for the cessation of LIBOR or it being declared non-representative. However, you should be aware that changes to documents may still be required to effect transition and differences between products may remain, leading to unintended mismatches, for example between loans and related interest rate hedging instruments. Some of the advisory costs you incur when you take out a new LIBOR product may be duplicated when the product transitions to an alternative reference rate. Our range of LIBOR products will be affected by interim milestones from the official sector, and availability in the relevant currency will cease in accordance with the applicable guidance

[1] In this document "LIBOR" includes other affected reference rates where applicable.
[2] Linear derivatives include interest rate swaps and basis swaps.
[3] Non-linear derivatives include interest rate caps, interest rate floors, swaptions and constant maturity swaps.

Existing LIBOR Products

- Your existing documents may contain fallback provisions to deal with the non-availability of affected reference rates. However, these fallback provisions may not cater for the permanent cessation of LIBOR or it being declared non-representative. They may also differ across financial products which may lead to unintended mismatches, for example between loans and related interest rate hedging instruments
- Your existing documents are likely to need changing to replace affected reference rates with alternative reference rates and to update fallback provisions
- Alternative reference rates do not include a measure of term risk or bank credit risk. As a result, when products are transitioned to these rates a spread adjustment will be applied to account for this. This adjustment is referred to as the credit adjustment spread (CAS). You can read more about CAS in the LIBOR Transition FAQs on our website

All LIBOR Products

- Alternative reference rates are materially different from LIBOR and are calculated using different methodologies. Methodologies and market conventions can vary within and across different markets. Transition activity is taking place at different speeds across products, markets and currencies.
- Execution costs can apply when transitioning derivative products. Execution costs vary depending on market liquidity of the alternative reference rate and other factors. As an example, execution costs of a Bank of England Bank Rate hedging instrument, such as a swap, are typically higher than a comparable SONIA instrument.
- Your contracts that reference LIBOR may not perform as expected when LIBOR ends, and possibly even before that. For example, liquidity in LIBOR-referencing instruments may decline ahead of its discontinuation. A reduction in liquidity may negatively impact the value and transferability of any LIBOR contract. It may also no longer be possible to hedge LIBOR-referencing products
- You may need to review aspects of your own business such as systems, accounting, regulatory matters, and potential effects on future liquidity and hedging

Synthetic LIBOR and Tough Legacy

In addition, in their announcement of 5 March 2021 the FCA said it will consult on requiring the continued publication of a small number of LIBOR settings, including 1, 3 and 6-month sterling LIBOR, on a non-representative, 'synthetic' basis.

This is required because authorities recognise that there are a very limited group of contracts that genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended, often known as 'tough legacy'. The FCA has been clear that any synthetic LIBOR setting will not be considered representative and is not permitted for use in new contracts. It is intended for use in tough legacy contracts only. A further FCA consultation will take place in Q2 2021 to determine which legacy contracts will be permitted to use synthetic LIBOR.

The FCA has also published a policy statement on its proposed new powers, to be granted to it by the UK Government, which will be needed to effect these changes.

Other Interbank Offered Rates ("IBORs")

There are a number of other IBORs affected by these changes. These include:

EURIBOR (Euro Interbank Offered Rate) has been reformed to comply with the EU Benchmark Regulation and there are no current plans to discontinue it. However, you should be aware that cash fallbacks might need to be strengthened in light of regulatory guidance and some products may transfer to other Euro rates.

EONIA (Euro Overnight Index Average) has been reformed and since 2nd October 2019 has been quoted as €STR plus a fixed spread of 8.5 basis points, published on a T+1 basis. It is scheduled to be discontinued from 3rd January 2022.

Further help for you

If you have any questions or would like to talk to us about alternative reference rate products or any other aspect of LIBOR Transition, please get in touch with your relationship team.

We recommend that you consult your own independent advisors about these changes and how they affect you. Please share this document with any other relevant stakeholders and legal entities within your group.

For additional information from us on the transition from LIBOR, visit our website which includes our latest '**Our Approach to LIBOR Transition**' report and other useful resources: https://resources.lloydsbank.com/insight/phasing-out-libor/

You may incur advisory costs in connection with LIBOR transition. You may also wish to consider the following actions as part of your own transition planning:

- **Keep up to date**: understand latest developments
- **Understand impact on your business**: develop an inventory of LIBOR transactions, contracts, consider systems updates
- **Review your plans**: determine resource requirements

You can refer to the sources below for currency-specific information:

GBP: https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor
EUR: https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html
USD: https://www.newyorkfed.org/arrc/
CHF: https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates
JPY: https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/