FAQs

1. **What is LIBOR?**

   LIBOR stands for London Interbank Offered Rate and is published by the Intercontinental Exchange (ICE). It is currently the accepted key benchmark interest rate for borrowing between banks in the international market.

   LIBOR is also the basis for FCY loans in countries around the world, thus impacting consumers as much as Financial Institutions. LIBOR is published for major currencies in different tenors (overnight, 1-week, 1-month, 3-months, 6-months, 1-year). The 3-months term is most common.

   LIBOR is used worldwide in a variety of financial products including:

   - Consumer loans products
   - Deposits
   - Syndicated loans
   - Interest rate swaps and other derivatives

2. **Why are regulators vouching for the markets to stop using LIBOR?**

   LIBOR was subject to a lot of criticism due to its susceptibility to manipulations. Regulators had concerns about the long-term sustainability of the benchmark and therefore decided to pre-empt any further possible deterioration by switching to other reference rates.

3. **As from when will LIBOR no longer be published?**

   LIBOR for Sterling, Euro, Yen and Swiss franc will cease to be published on 31st December 2021, while US Dollar LIBOR will cease on 30th June 2023.

4. **Which rates are likely to replace LIBOR?**

   Regulators want market participants to use rates based on overnight, virtually risk-free rates (RFRs). The following RFRs have been identified by various jurisdictions for their respective local currency:

Currency	Approved RFR	Published by
US dollar	**SOFR** (Secured Overnight Financing Rate)	Federal Reserve Bank of New York
Sterling	**SONIA** (Sterling Overnight Index Average)	Bank of England
Euro	**€STR** (Euro Short-Term Rate)	European Central Bank
Swiss franc	**SARON** (Swiss Average Rate Overnight)	SIX Swiss Exchange
Yen	**TONA** (Tokyo Overnight Average Rate)	Bank of Japan

5. **What are RFRs and how do they differ from LIBOR?**

   The key difference between RFRs and LIBOR is the fact that RFRs are based on completed financial transactions (backward looking) while LIBOR relies on quotes from banks that aren't necessarily from actual financial transactions but on what these banks expect would be the expected future interest rate (forward looking).

   Moreover, LIBOR is based on lending without collateral which means a credit risk component (premium) is already embedded in the rate. Whereas some RFRs are based on transactions involving collaterals (secured), so no credit risk component is incorporated in the rates.

   The other noteworthy difference is that RFRs are daily rates and do not account for longer period lending (term risk) in contrast with LIBOR.

   These differences will require Credit Adjustments Spreads to the RFRs to compensate for the credit and term risks. As an example, the 3-months LIBOR would be translated to the RFRs plus the credit adjustment spread.

FAQs*(Cont'd)*

6. Credit Adjustment Spreads

Since RFRs do not take into consideration credit risk and term risk, International Organisation which regulates the derivative market (International Swaps and Derivatives Association - ISDA) designated Bloomberg to calculate and publish adjusted RFRs to incorporate what is called Credit Adjustment Spreads.

Therefore, where LIBOR is replaced in an existing contract with an RFR-based rate, a credit adjustment spread will be added. These Credit Adjustment Spreads have been fixed as at 05 March 2021 as per below:

USD LIBOR

Tenor	Spread adjustments (%)	New Rates + Spread adjustment
0/N	0.016440	SOFR + 0.01644%
1W	0.048390	SOFR + 0.04839%
1M	0.124480	SOFR + 0.12448%
2M	0.203030	SOFR + 0.20303%
3M	0.290650	SOFR + 0.29065%
6M	0.469910	SOFR + 0.46991%
1Y	0.593960	SOFR + 0.59396%

EUR LIBOR

Tenor	Spread adjustments (%)	New Rates + Spread adjustment
0/N	-0.55830	ESTR - 0.5583%
1W	-0.54140	ESTR - 0.5414%
1M	-0.52050	ESTR - 0.5205%
2M	-0.48890	ESTR - 0.4889%
3M	-0.46580	ESTR - 0.4658%
6M	-0.40190	ESTR - 0.4019%
1Y	-0.19030	ESTR - 0.1903%

EUR EURIBOR

Tenor	Spread adjustments (%)	New Rates + Spread adjustment
1W	-0.50600	ESTR - 0.506%
1M	-0.49140	ESTR - 0.4914%
3M	-0.43500	ESTR - 0.435%
6M	-0.35550	ESTR - 0.3555%
1Y	-0.17130	ESTR - 0.1713%

GBP LIBOR

Tenor	Spread adjustments (%)	New Rates + Spread adjustment
0/N	0.0458	SONIA + 0.0458%
1W	0.065	SONIA + 0.065%
1M	0.0808	SONIA + 0.0808%
2M	0.1126	SONIA + 0.1126%
3M	0.1698	SONIA + 0.1698%
6M	0.3269	SONIA + 0.3269%
1Y	0.5634	SONIA + 0.5634%

FAQs*(Cont'd)*

7. **Why RFRs are better than LIBOR?**

   Regulators prefer RFRs to IBORs because RFRs are:

   - Calculated by reference to recorded transactions, rather than relying on submissions from banks.
   - They tend to be more robust and more difficult to manipulate.

8. **What is a lookback period?**

   A lookback period is an agreed number of banking days prior to the date on which the rate of interest is to be determined. As proposed by ISDA, a lookback period of 2 days for derivative contracts and 5 days for cash contracts can be used. This ensures that the parties know the interest that will be payable at the end of the interest period a few days in advance of the payment date.

Day	Examples of observed rate present	Rates applied for interest rate computation with a lookback period of 5 days
Monday, 3 Jan 2022	2.41	
Tuesday, 4 Jan 2022	2.42	
Wednesday, 5 Jan 2022	2.45	
Thursday, 6 Jan 2022	2.43	
Friday, 7 Jan 2022	2.41	2.41
Monday, 10 Jan 2022	2.39	2.42
Tuesday, 11 Jan 2022	2.41	2.45
Wednesday, 12 Jan 2022	2.37	2.43
Thursday, 13 Jan 2022	2.39	2.41
Friday, 14 Jan 2022	2.40	2.39

9. **How interest is calculated using RFRs? And how is it different from LIBOR setting?**

   LIBOR setting is based on simple interest which means that interest is not computed on interest but solely on the Principal. However, the new market convention for RFRs has shifted from simple interest to compounding interest computation. This means that interest will be computed on interest as well as the principal between payment due dates. This is illustrated in the table below:

Compound Interest on a one-week SOFR loan of $ 1million drawn on 3 January 2022							Simple Interest
Day	**Example: Secured Overnight Financing Rate (percent Annualised)**	**Number of days rate is applied**	**Effective Rate(Not Annualised)**	**Principal**	**Principal + Accumulated Interest**	**Interest Charge for Next Business Day (Effective Rate* (Principal + Accumulated Interest))**	**Interest Charge for Next Business Day (Effective Rate* Principal)**
Monday, 3 Jan 2022	2.41	1	0.0241/360= 0.006694%	$1,000,000.00	$1,000,000.00	$66.94	$66.94
Tuesday, 4 Jan 2022	2.42	1	0.0242/360= 0.006722%	$1,000,000.00	$1,000,066.94	$67.23	$67.22
Wednesday, 5 Jan 2022	2.45	1	0.0245/360= 0.006806%	$1,000,000.00	$1,000,134.17	$68.06	$68.06
Thursday, 6 Jan 2022	2.43	1	0.0243/360= 0.006750%	$1,000,000.00	$1,000,202.24	$67.51	$67.50
Friday, 7 Jan 2022	2.41	3	3*0.0241/360= 0.020083%	$1,000,000.00	$1,000,269.75	$200.89	$200.83
				$1,000,000.00	**$1,000,470.64**	$470.63	$470.55

FAQs *(Cont'd)*

10. What happens in case of arrears?

In case of arrears, the interest would continue to accrue by the daily interest rate plus the penalty rate as per terms and conditions of the bank.

11. What will happen to products linked to LIBOR?

The Bank will change the rates on all contracts from LIBOR to the relevant RFRs, including the credit adjustment spreads applicable.

12. What will happen to new products?

Contracts issued after September 2021 will be expected to be linked to the new RFRs.

13. What is the timeline for implementation?

As advised by Bank of Mauritius, the expected target date to start using the new rates is at end of September 2021.

14. If a USD LIBOR loan is maturing after December 2021 but before June 2023, does it need to switch to new rates?

Yes. It is recommended that all loans linked to LIBOR to be switched to the relevant RFRs or an agreed fixed rate.

15. What is a fallback clause?

Fallback clauses are the legal provisions in a contract that define the steps that should be taken to agree a new interest rate if the reference interest rate in the original transaction is no longer available.

16. What is SBM doing?

The Bank is working on a plan to transit from LIBOR to RFRs. The change will be implemented in a gradual manner and SBM will guide its clients throughout the transitional period. The Bank will reach out to its customers to make changes to individual contracts.

17. What do I need to do?

You may need to assess how you or your business will be affected by the phasing out of LIBOR and its impact. These changes may include, but not be limited to, loans, deposits, derivatives products and system change. You should also consider seeking advice from your financial and/or legal advisers.

If the bank has not contacted you yet, you may liaise with your account manager for guidance.