

IBOR Transition

Frequently Asked Questions (FAQ) for Clearstream customers

1. What is the IBOR transition about?

Interbank Offered Rates (IBORs) are term rates for unsecured interbank loans, which have been widely used as reference rates (also called benchmark rates) for a large volume and broad range of financial products and contracts.

Due to a decline in interbank unsecured loans, there is a need to shift to robust benchmark rates that are anchored to active and liquid underlying markets. The financial industry is working on a transition from IBORs to new benchmark rates, also known as Alternative Reference Rates (ARRs) or Risk-Free Rates (RFRs).

IBORs, typically the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR), are often used as benchmark rates to determine the interest rate for floating rate notes/securitisations.

The discontinuation/replacement of such benchmark rates requires the issuers of:

- Newly-issued securities to either:
 1. Start referencing ARRs/RFRs, especially for securities with a tenor beyond the expected discontinuation date of the relevant IBOR.
 2. Include fallback provisions in the Terms and Conditions of the security to cope with both a permanent and a temporary discontinuation of the benchmark rate.
- Existing securities referencing IBORs to change the benchmark rate and the related calculation details that are defined in the Terms and Conditions of the security. This may be done in two steps:
 1. Change the fallback provisions in the Terms and Conditions of the security to cope with both a permanent and a temporary discontinuation of the benchmark rate, if not yet done
 2. Change the benchmark rate and the related calculation details once the issuer decides on the alternative

Note: fallback provisions are part of the Terms and Conditions of the security (for example, Prospectus, Final Terms, Pricing Supplement, etc.) and describe the method of determining floating rates of interest if the benchmark rate becomes unavailable.

2. What will happen to the IBORs and what are the alternatives?

London Interbank Offered Rate (LIBOR)

The cessation of LIBOR will take place in phases:

- The following LIBORs will cease to be published immediately after **Friday, 31 December 2021**:
 - All 7 settings of Swiss franc (CHF) LIBOR.
 - All 7 settings of Euro (EUR) LIBOR.
 - The overnight, 1-week, 2-month and 12-month Sterling (GBP) LIBOR.
 - the Spot Next, 1-week, 2-month and 12-month Japanese yen (JPY) LIBOR.
 - 1-week and 2-month US dollar (USD) LIBOR.
- 1-month, 3-month and 6-month GBP LIBOR will:
 - Be published on a synthetic basis at least until the **end of 2022** (to be reviewed Annually).
 - No longer be representative immediately after **Friday, 31 December 2021**.
- 1-month, 3-month and 6-month JPY LIBOR will:
 - Be published on a synthetic basis until the **end of 2022**.
 - No longer be representative immediately after **Friday, 31 December 2021**.
 - Cease to be published immediately after **Friday, 30 December 2022**.
- Overnight and 12-month USD LIBOR will cease to be published immediately after **Friday, 30 June 2023**.
- 1-month, 3-month and 6-month USD LIBOR will no longer be representative immediately after **Friday, 30 June 2023**.

Note: it is currently unknown whether it will be published on a synthetic basis.

The following rates are the alternative reference rates for LIBOR:

Currency	ARR/RFR
CHF	Swiss Average Rate Overnight (SARON)
EUR	Euro short-term rate (€STR)
GBP	Sterling Overnight Index Average (SONIA)
JPY	Tokyo Overnight Average Rate (TONAR/TONA) (Tokyo Term Risk-Free Rate (TORF))
USD	Secured Overnight Financing Rate (SOFR)

For more details, please refer to Annex 1 of the ICSDs' [IBOR transition recommendation paper](#).

Euro Overnight Index Average (EONIA)

The European Money Market Institute (EMMI) will cease to publish EONIA as of Monday, 3 January 2022. Euro short-term rate (€STR) is the alternative reference rate for EONIA.

Euro Interbank Offered Rate (EURIBOR)

EURIBOR is currently not expected to discontinue at the same time as LIBOR. However, the working group on euro risk-free rates has been working on public consultations on €STR-based fallback rates. In the future, EURIBOR may transition into €STR.

Other IBORs

The other IBORs may also be either reformed or replaced in the future.

For examples of ARR/RFRs for other IBORs, please refer to Annex 2 of the ICSDs' IBOR transition recommendation paper.

Clearstream Banking¹ will closely monitor the situation in the domestic markets and inform the customers accordingly via either Announcement or a corporate action notification.

3. How are the ICSDs preparing for the IBOR transition?

Both ICSDs:

- Are members of the International Capital Market Services Association (ICMSA) IBOR transition working group. In this forum, the two ICSDs are working together with the ICMSA to discuss the operational and practical challenges related to the IBOR transition for Eurobonds.
- Have defined their recommendations for a smooth IBOR transition based on the current situation. Detailed information can be found in the ICSDs' IBOR transition recommendation paper.
- Will continue to monitor the evolution in the market and work together with their customers (who are also issuers and agents), depositories, custody agents and ICMSA to adapt to the changes.

¹ Clearstream Banking refers Clearstream Banking S.A., registered office at 42, avenue John F. Kennedy, L-1855 Luxembourg, and registered with the Luxembourg Trade and Companies Register under number B-9248.

4. What will happen to the interest payment if the Terms and Conditions of the security still refer to an IBOR (for example, LIBOR) as the benchmark rate after this particular IBOR has been discontinued?

It will be the responsibility of the issuer to decide how to determine the interest rate based on the fallback provision defined in the Terms and Conditions of the security, unless the relevant jurisdiction (authority of the governing law of the security, issuer's country, the payment currency, etc.) imposes changes. It is currently unclear if this will be the case and when.

The issuer may have other choices, depending on the definition in the Terms and Conditions of the security, such as:

- Call the bond;
- Ask the major banks to quote the rates. However, the feasibility to obtain such quotes is unknown;
- Use the last FRN rate.

Clearstream Banking will send a corporate action notification (for example, early redemption, rate fixing notification) once an official announcement is received from the depositories/custody agents, who need to receive such announcement from the issuer or its agents.

5. Which event types will be used to share information on the amendment of the benchmark rate for existing securities referencing LIBOR?

If Clearstream Banking receives a notification about:

- A change in the Terms and Conditions of the security related to the benchmark rate, Clearstream Banking will notify the customers about the change by sending a corporate action notification for CHAN (Change) via SWIFT MT564 and/or other standard Clearstream Banking authenticated communication channels (Xact Web Portal and CreationOnline).
- A consent/meeting event to modify the benchmark rate or fallback provision that is defined in the Terms and Conditions of the security, Clearstream Banking will notify the customers about the consent/meeting event by sending a corporate action notification for either CONS (Consent solicitation) or BMET (Bondholder meeting) via SWIFT MT564 and/or other standard Clearstream Banking authenticated communication channels (Xact Web Portal and CreationOnline).

In both situations, Clearstream Banking will make a copy of the relevant documentation (for example, amended Terms and Conditions of the security, consent solicitation memorandum, notice of meeting, etc.) available upon request.

As today, CBL will continue to provide customers with relevant publications by offering material or restrictions via the Corporate Action database, if and when they are available. Availability is advised through the corporate action event notification. Customers can place

an email request to receive terms and conditions related to the event to CAdatabase.CS@clearstream.com (as per the terms of the related notification).

For more details, please refer to Section 3 of the ICSDs' IBOR transition recommendation paper.

[6. When the notification about a change in the Terms and Conditions of the security or information on the meeting/consent is expected to be released?](#)

The timing depends on when the issuer finalises its review and takes action. In the ICSDs' IBOR transition recommendation paper, the ICSDs recommend that the issuer plans ahead to avoid having too many events to review at the end of the transition period.

The ICSDs have observed that the volumes of corporate actions have been increasing since September 2021. However, not all transitions have taken place yet. Issuers should continue to actively transition the existing securities referencing LIBOR beyond 2021. When the issuers decide to act may depend on various factors, including:

- The first rate fixing date/payment date that is impacted (for example, currently a fixed rate note and the interest rate type changes to a floater five years later).
- How the fallback provision in the Terms and Conditions of the security (T&C), if any, interact with the cessation of LIBOR:
 - Whether there is a pre-cessation trigger that is defined (that is, either the unrepresentativeness or the announcement of it by the relevant jurisdiction) which allows the issuer to unilaterally change the T&C without solicitation of holder's consent.
 - How it is defined (for example, condition on the timing of the announcement of the unrepresentativeness).

This means that:

- Some issuers may be ready to trigger the change based on the FCA announcement dated 5 March 2021.
- Some issuers may need to wait until the relevant LIBOR becomes unrepresentative.
- Some issuers may need to wait until the actual cessation of the relevant LIBOR.

The events should be handled on a first-in/first-out basis upon receipt of the official announcement. If there is a significant number of events that need to be sent at the same time, Clearstream Banking may prioritise them based on:

- The payment date, followed by the interest period starting date for change events (that is, notification of the change in the Terms and Conditions of the security due to the benchmark rate modification).
- The instruction deadline for consent solicitation/meeting events.

For more details, please refer to Section 3 of the ICSD's IBOR transition recommendation paper.

7. Will there be any restrictions on the use of the current IBORs? Will any controls for the acceptance of the securities be put in place?

This is at the discretion of each regulator/jurisdiction and, therefore, the timing may vary. For example, from January 2020, EONIA can no longer be used for new contracts. For each market/product, the new contract with the existing IBORs may be restricted at different times.

Regulators have been encouraging issuers to:

- Use the risk-free rates for the new issuances
- Complete the transition away from LIBOR well before the ultimate cessation of LIBOR on a representative basis.

Issuers should ensure that they are aware of the latest regulatory expectations and avoid the use of LIBOR for new issuances.

For example:

- the FCA has confirmed:
 - That the synthetic GBP/JPY LIBORs will be available:
 - Only for use in legacy contracts (except for cleared derivatives), if the relevant conditions are met.
 - Not for new use.
 - [The prohibition of the new use of the five continuing USD LIBOR as from 2022 and its exceptions.](#)
- the US regulators released [a Joint Statement on Managing the LIBOR Transition.](#)

Issuers should check the statements from their own regulators, not limited to the above-mentioned examples, as applicable.

Notes:

- The reference rate name is not an eligibility criterion for the ICSDs. In other words, it is the responsibility of the issuer and its legal counsel to comply with the prohibition on the new use of LIBOR. The same applies to any other IBORs that are expected to cease.
- As the ICSDs are not the owners of the contracts (the Terms and Conditions of the security are a contract between the issuer and the investor), they expect the issuer and its legal counsel to respect the decisions made by the relevant regulators/jurisdictions.

8. Where will the customers be able to find information on the existing fallback provision of a particular security?

Please refer to the Terms and Conditions of the security.

If the customers do not have the Terms and Conditions of the security a copy can be obtained as below:

- From either their front/middle office, their underlying client or the data service that they are subscribed to (for example, Bloomberg).
- From Clearstream Banking, if available, through Xact Web Portal or CreationOnline queries; it will be subject to fee as per Fee Schedule.

9. Will the customers receive a notification per security for changes in the Terms and Conditions of the security or information on the meeting/consent?

- Changes in the Terms and Conditions of the security:
 - For Eurobonds that are deposited with a Common Depository or a Common Safekeeper, an individual event will be created per security and sent to the relevant noteholders who have a balance, pending settlement instructions and/or pending custody instructions.
 - For domestic securities, whether an event will be sent per security or not depends on how the change is announced in the local market.
- Consent/meeting event: For both Eurobonds and domestic securities, an event should be sent per security.

10. Where will the customers be able to find information on the calculation details for each interest payment?

As is already the case today, the basic calculation details, such as interest period, number of days and the day count convention, will continue to be available in the corporate action details for each interest payment. Clearstream Banking may also provide:

- The fixing date and the margin, as defined in the Terms and Conditions of the security, if available. This information remains indicative because:
 - Local holidays may not be always considered to derive the fixing date;
 - If there is a step up condition for margin, the initial margin may be reported as Clearstream Banking does not receive a notification.
- The interest rate per annum, if this information is received. In some situations, Clearstream Banking only receives information on the payable amount.

For further details, such as the benchmark rate, the applicable convention to determine the observation period (for example, lookback, lockout, etc.) and the method to calculate the interest rate (for example, compounded rate), Clearstream Banking recommends customers to refer to the Terms and Conditions of the security.

11. Where will the customers be able to find information on the benchmark rate (overnight rate/index) used for the interest rate calculation?

As the alternative reference rates are overnight rates (daily rate), the issuer needs to choose how to calculate the interest rate over the interest period and add the margin, if relevant.

As mentioned in Question 10 above, Clearstream Banking may refer to the interest rate per annum in the corporate action details for each interest payment, if this information is received. However, Clearstream Banking does not receive daily rates to calculate the average rate/compounded rate, as it is not its role to calculate the interest rate. The calculation of the interest rate is performed by the issuer's calculation agent.

If the customers need information on the historical data of the daily rates or compounded index, Clearstream Banking recommends customers to refer to the website of the relevant benchmark rate:

Currency	ARR/RFR
CHF	Swiss Average Rate Overnight (SARON)
EUR	Euro short-term rate (ESTR)
GBP	Sterling Overnight Index Average (SONIA)
JPY	Tokyo Overnight Average Rate (TONAR/TONA) (Tokyo Term Risk Free Rate (TORF))
USD	Secured Overnight Financing Rate (SOFR)

12. Will the interest rate be announced before the payment? How many days in advance will Clearstream Banking announce the rate?

This depends on:

- The rate fixing date that is set in the Terms and Conditions of the security, as chosen by the issuer.
- The time required by the issuer and its agent to go through the operational processes that are required to officially announce the applicable interest rate/payable amount.

Currently, Clearstream Banking anticipates that the timing of the announcement may be very close to the payment date if the fixing is done "in arrears" (that is, using the rate for the period that is more or less synchronised with the interest period). In the scenario below (fixing date on PD-5, which is commonly used and recommended model for Eurobonds), Clearstream Banking expects to receive the information four or three business days before the payment date:

PD-5	<ul style="list-style-type: none">• Daily rate for PD-5 is published.• The issuer and its agents start the rate fixing process. This usually takes one to two days.
PD-4 or 3	The Common Depository/Common Safekeeper receives the information and notifies the ICSDs. The ICSDs will notify the noteholders in their systems.

PD = payment date

If the issuer chooses to use a rate fixing date that is closer to the payment date (for instance, PD-2), the timing to announce the interest rate/payable amount may be on the payment date itself or later.

It is also possible that the rate fixing date remains at the start of the interest period because:

- The issuer may choose to use the “**in advance**” model;
- New term rates may be developed by the market in the future. However, it is not clear when and if they can be used as benchmark rates in the future.

Therefore, the rate fixing timing may vary, depending on:

- The choice of the rate fixing timing by the issuer;
- Whether the term rates are developed and used by the market in the future.

For more information, please refer to the following sections of the ICSD’s IBOR transition recommendation paper:

- Section 4 for the rate fixing process;
- Annex 4 for the “In Arrears” and “In Advance” conventions.

13. Will any technical changes be made to the reporting?

Currently, Clearstream Banking does not plan to make any technical changes to the type/format of reports because of the IBOR transition. If there will be any changes in the future, the customers will be notified accordingly via Announcement).

14. What will be the impact for the customers?

Clearstream Banking expects that there will be a significant number of corporate actions due to the changes in:

- The benchmark rate and the related details in the Terms and Conditions of the security.
- The fallback provisions to cope with both a permanent and a temporary discontinuation of the benchmark rate.

Taking LIBOR as an example, at the end of 2020, there were more than 4,300 Eurobonds referencing LIBOR with a tenor beyond 2021. There are floating rate notes/securitisation referencing LIBOR in the domestic market as well, especially in the U.S. market. In the coming months/years (for 1-month, 3-month, 6-month and 12-month USD LIBOR, the discontinuation has been postponed to June 2023), Clearstream Banking expects an increase in the number of corporate actions due to the migration of the existing LIBOR-linked securities to the alternative reference rates.

For further information on the impact for existing securities, please refer to Section 3 of the ICSDs’ IBOR transition recommendation paper.

For securities referencing the alternative reference rates, the customers may experience a delay in receiving the rate fixing notification for the interest payment if the fixing date is set very close to the payment date. This may also delay the payment itself.

As specified in Section 4 of the ICSDs' IBOR transition recommendation paper, the ICSDs recommend that the noteholders:

- Review how the timing and complexity of the rate fixing may impact their own processes (for example, contractual payment service as custodian, how to anticipate the earliest possible timing to receive information on the rate, how to calculate/treat the accrued interest, impact on payment timing, etc.) and/or their underlying clients, if any.
- Assess the best ways to adapt to the impact on their processes, if any.

15. What will happen if the interest rate is negative?

Securities with a floating rate coupon and an interest rate calculation linked to a negative benchmark interest rate may result in a **theoretical negative coupon**. However, such coupons would usually be announced as "NIL payment" or "coupon pays zero".

For more details, please refer to the [guidelines concerning negative interest rate securities](#) held through Euroclear Bank and Clearstream Banking (the ICSDs).

16. Does Clearstream Banking anticipate any impact other than the changes in the Terms and Conditions of the security and in the interest payments on floating rate notes/securitisations?

Other impact: Taxation of Italian debt securities

Both ICSDs, in their role as withholding tax agents, have identified a potential impact of the IBOR transition on the pro-rata temporis taxation applied to Italian debt securities (that is, tax calculation based on the accrued interest and holding period). Clearstream Banking is closely monitoring the situation together with their agents in Italy to assess the operational impact.

For more details, please refer to Section 5 of the ICSDs' IBOR transition recommendation paper.

Other impact: Floating rate repo service (triparty)

As mentioned in Section 6 of the ICSDs' IBOR transition recommendation paper, benchmark rates are made available for floating rate repo in the triparty collateral management service depending on customers' needs.

For more details, please refer to the following online documentation:

- [CmaX Product Guide](#)
- [Triparty repo](#)

Any future updates on this service will be communicated via Announcement.

17. Is it possible to get information on when and how the transition should take place per ISIN?

If the issuer wishes to share and discuss the transition plan with the noteholders, customers may receive some events to prepare for the transition, such as disclosure events (DSCL), informative events (INFO) and other events (OTHR). If such events are available, customers may act accordingly to obtain information.

If no corporate actions are available, it is difficult to obtain information related to the transition plan before it is finalised by the issuer, their legal counsel, and, if appointed, their [Independent Advisor \(Benchmark Agent\)](#). The ICSDs will not respond any inquiries from the noteholders to check the transition plan of the issuer, unless it is either a specific proposal or a discrepancy that is raised by the sole holder of the security (for example, the underlying investor says that they signed the written resolution and the Terms and Conditions of the security has been changed, however, there is no notification from the ICSD).

The ICSDs' aim is to notify customers as soon as the official notification is received from the issuer's agent or the Common Depository/Common Service Provider.