IBOR transition FAQs

Information relating to the transition from LIBOR and EONIA to alternative Risk Free Rates.

Overview

What is happening?

One of the biggest changes to financial markets of the last decade is taking place with the move from LIBOR (London Interbank Offered Rate) to RFRs (alternative Risk-Free Rates).

Publication of 24 LIBOR settings ended permanently on 31 December 2021 (read statement by Financial Conduct Authority).

The LIBOR settings that have ended are:

- all euro and Swiss franc LIBOR settings
- overnight / spot next, 1-week, 2-month and 12-month sterling and Japanese yen LIBOR settings
- 1-month, 3-month and 6-month sterling and Japanese yen LIBOR settings for anything other than temporary usage for tough legacy positions*
- 1-week and 2-month U.S. dollar (USD) LIBOR settings.

The EONIA (Euro Overnight Index Average) benchmark was also discontinued on 3 January 2022.

U.S. authorities (Federal Reserve, FDIC and OCC) issued a statement that **no new lending, derivatives and certain other types of product should reference USD LIBOR after 31 December 2021** (read statement). Exceptions are limited to specific activities necessary to service transactions entered prior to 1 January 2022 (read statement). The UK's Financial Conduct Authority (FCA) has also published its exceptions, which are similar to those published by U.S. authorities (read FCA notice).

The ARRC (Alternative Reference Rates Committee) selected **SOFR (Secured Overnight Financing Rate) as its endorsed replacement rate for U.S. dollar LIBOR** and as a general principle recommends that market participants use overnight SOFR and SOFR averages given their robustness. The ARRC also supports the use of the SOFR Term Rate for business loan activity (read specific use cases).

* 1, 3 and 6-month GBP and JPY LIBOR settings are being published on a synthetic basis, and do not rely on submissions from panel banks. Synthetic JPY LIBOR will cease at the end of 2022, and availability of synthetic GBP LIBOR is not guaranteed beyond end-2022. The FCA published a notice allowing use of these synthetic rates in all legacy contracts except cleared derivatives. **New use of synthetic LIBOR is banned**.

What are Risk Free Rates?

Risk Free Rates (RFRs) are overnight rates, which can be used as alternative benchmarks for Interbank Offered Rates (IBORs). RFRs have been identified because they are robust and are anchored in active, liquid underlying markets. This contrasts with the scarcity of underlying transactions in the term interbank and wholesale unsecured funding markets from which some IBORs are constructed. (For more detail on RFRs visit the Financial Stability Board website)

Cash and derivatives markets are both transitioning to utilise RFRs as replacements for LIBOR and EONIA.

Where are benchmark changes happening?

Benchmark changes are taking place in all major economies. For more details on the changes taking place in individual countries please visit the Resources section of the Deutsche Bank IBOR transition website.

Are all benchmarks changing?

The focus of this change is on LIBORs (GBP, USD, EUR, JPY and CHF) and EONIA.

EURIBOR has already been subject to in-depth reforms over the last few years, to meet the EU Benchmarks Regulation (EU BMR) requirements, strengthening its governance framework and developing a new hybrid methodology. While there aren't any plans to discontinue EURIBOR, regulators and the working group on euro risk-free rates (Euro RFRWG) have stressed the importance of including robust fallbacks in EURIBOR-based contracts to comply with EU BMR.

Many regulators are looking to either replace benchmarks in the years ahead or to move to a multi-rate system where the existing benchmark and the new benchmark can be used, particularly in Asian markets.

Why are benchmarks changing?

Since the 2008 global financial crisis there have been heightened concerns that Interbank Offered Rates (IBORs) pose a systemic risk. Banks have increased the stability of their funding and the interbank market has shrunk substantially.

Reduced interbank lending has meant that LIBOR benchmark settings are calculated on a diminishing number of underlying transactions and are therefore increasingly reliant on expert judgement.

Risk Free Rates, on the other hand, are based on actual transactions that have already happened in the overnight market, rather than on the judgement of submitters. This provides a basis for their calculation that is more reliably rooted in actual transaction data.

Who does this impact?

The transition will impact anyone with financial products linked to a LIBOR or EONIA benchmark.

What products use IBOR benchmarks?

Benchmark interest rates play a key role in financial products and contracts. Cash products (e.g. loans and bonds) and derivative products (e.g. swaps and options) may be linked to IBOR benchmarks.

For more information please get in touch with your Deutsche Bank representative.

How do I know which benchmark my product uses?

Information on the benchmark referenced and any relevant interest calculation will be detailed in your product documentation or trade confirmation.

For more information please get in touch with your Deutsche Bank representative.

The Transition Process

What do I need to do?

The transition is complex, market participants must clearly understand the differences between IBORs and alternative rates as part of transition discussions.

Actions to consider:

1. Speak with your legal and financial advisers, and your Deutsche Bank representative, at an early stage to discuss if products are affected, options available and to answer any questions.
2. We encourage you to proactively transition, or update fallbacks, on legacy U.S. dollar LIBOR contracts, ahead of the June 2023 cessation date.

What is a fallback clause?

A fallback clause is the provision in a contract that defines the steps that should be taken if the reference rate in a transaction is no longer available. In the context of benchmark reform, fallbacks could be triggered by the cessation or loss of representativeness of IBOR benchmarks.

Fallbacks in some financial contracts have in the past been designed to deal with the temporary unavailability of a benchmark, not the permanent cessation of a benchmark. Fallbacks should be reviewed and amended to be effective for the cessation of LIBOR.

Deutsche supports adherence to the ISDA 2020 IBOR Fallbacks Protocol (see below), which enables modern fallback provisions to be incorporated into legacy derivative contracts referencing LIBOR.

For non-derivative products, it is very likely that documentation will need to be amended to facilitate conversion to a suitable alternative.

How do I know if my product contract contains a fallback clause?

Review your product documentation and speak to your Deutsche Bank representative at the earliest opportunity to understand the choices available to you and to agree the appropriate course of action.

What is the ISDA 2020 IBOR Fallbacks Protocol?

The International Swaps and Derivatives Association (ISDA) published the ISDA 2020 IBOR Fallbacks Protocol in October 2020, and it came into effect on 25 January 2021. The protocol enables fallback provisions to be incorporated into legacy derivative contracts referencing LIBOR.

Deutsche Bank has adhered to this protocol, which amends the terms of its legacy transactions with clients that have also adhered. Derivative transactions entered into on or after 25 January 2021, which incorporate the ISDA 2006 Definitions, will include updated LIBOR fallback terms.

Deutsche Bank has also adhered to the ISDA Benchmarks Supplement Protocol, which upgrades fallbacks across different asset classes including LIBOR rates. Deutsche Bank will be happy to match with clients who also adhere to this protocol.

Visit the ISDA website for further information on the ISDA 2020 IBOR Fallbacks Protocol and talk to your Deutsche Bank representative.

What happens to products that are not transitioned to alternative rates by the deadlines?

This will depend on the fallback in the contract. In some cases, legacy fallbacks may not function and will therefore leave an unclear basis for payments to continue, and in other cases legacy fallbacks may produce an outcome that you find uncommercial.

All market participants are strongly encouraged to transition to an alternative ahead of cessation, or to amend documentation accordingly. Speak to your Deutsche Bank representative at the earliest opportunity to understand the choices available to you and to agree the appropriate course of action.

Are there any exceptions to the LIBOR transition deadlines?

Regulators have prohibited new use of USD LIBOR after 31 December 2021. This also applies to contracts expiring before 30 June 2023.

U.S. and UK regulators recognise that there are exceptions, which are limited to specific activities necessary to service transactions entered prior to 1 January 2022:

i. transactions executed for purposes of required participation in a central counterparty auction procedure in the case of a member default, including transactions to hedge the resulting USD LIBOR exposure;

ii. market making in support of client activity related to USD LIBOR transactions executed before 1 January 2022;

iii. transactions that reduce or hedge the bank's or any client of the bank's USD LIBOR exposure on contracts entered into before 1 January 2022; and

iv. novations of USD LIBOR transactions executed before 1 January 2022.

Please read the statement by U.S. regulators and the FCA guidance.

How could the transition impact the terms of my contract? (e.g. the return I receive on an investment product or the interest rate I pay on a loan.)

The transition from LIBOR to alternative rates could impact investment returns and the cost of borrowing. Please discuss with your Deutsche Bank representative in the first instance.

Products

All products

I have a LIBOR-referencing loan with Deutsche Bank, what should I do?

These changes may impact the loan positions you currently hold and you should review your legal documentation. It is likely that an amendment will need to be agreed, which will determine the basis on which a switch to an alternative reference rate can be made. These changes may incorporate adjustments for credit and term differences (i.e. between the IBOR and the alternative Risk Free Rate) and the effective date of the changes.

Please speak to your Deutsche Bank representative without delay to discuss the choices available to you and the practical steps that need to be taken.

Trade Finance and Working Capital products

Deutsche Bank is in the process of reviewing all relevant client documentation related to trade finance and working capital products that contain IBOR features impacted by this change.

Your Deutsche Bank representative will contact you in advance of the relevant cessation date to arrange for amendments to be agreed, where necessary. You can also contact your Deutsche Bank representative, who is available to answer your questions and offer support.

Cash Management Services

What is changing?

Deutsche Bank is actively transitioning cash management products to alternative reference rates. Affected clients will receive documentation from Deutsche Bank advising them of the effective date(s) of these changes. Changes will apply to the following products:

Current accounts

You will receive written notification informing you of changes to interest rate conditions.

Overdrafts

You will receive a draft amendment to your overdraft agreement, which will need to be signed and returned. Interest rate floors will still apply for negative currencies i.e. no changes to base rate set-up.

Notional pooling

If you are on TBSA (Transaction Banking Services Agreement) documentation, you will receive legal notification of the interest rate change. If you are on legacy documentation, you will receive documentation with the updated rates, which you will need to signed and return.

Cash concentration structures

For cash concentration structures where you have instructed Deutsche Bank to calculate inter-account interest, Deutsche Bank will need to be provided with updated documentation containing new inter-account interest rates that will be made effective at intervals throughout the year. LIBOR rates will continue to be available for use until the respective cessation date for the rate. If you do not provide an updated rate by the date we will notify you of, Deutsche Bank will amend the rate to 0.00% effective 1 July 2023.

What pricing adjustments will be applied to cash management products?

With regards transition from LIBORs to alternative reference rates, Deutsche Bank will apply the Overnight Fixed Fallback Spread Adjustment for the relevant currency provided by Bloomberg Index Services Limited, or provided to, and published by, authorised distributors.

In relation to the transition from EONIA to €STR, Deutsche Bank has applied a credit adjustment spread of 0.085%, determined by the European Central Bank (ECB), as a measure to compensate the economic difference between EONIA and €STR.

Deutsche Bank will round the published spread adjustments to the nearest two decimal places to clients' economic benefit to simplify implementation.

Derivatives products

I have a derivatives contract with Deutsche Bank. What should I do?

Please speak to your Deutsche Bank representative to discuss how this will work for your products and the practical steps that need to be taken.

What type of derivatives are impacted?

Impacted benchmarks are primarily used in linear and non-linear interest rate derivatives, but can also be used in some credit, equity and FX derivative products.

What is the process for changing existing contracts?

Banks and their clients will need to agree the basis on which the changes will take place. In some cases, the contracts for existing trades contain an agreed approach to cover the eventuality that a benchmark ceases to be available (fallback provisions).

Fallbacks are typically designed to deal with the temporary unavailability of a benchmark, not permanent cessation, and must therefore be updated. This should preferably be done by adopting the ISDA 2020 IBOR Fallbacks Protocol where applicable and use bilateral agreements for all other cases.

Regulators have stated that fallbacks should not be relied upon as the primary conversion mechanism for legacy trades. Market participants should proactively transition from legacy benchmarks to alternative Risk Free Rates wherever possible.

Dealer polls

What is a dealer poll?

A dealer poll is a fallback arrangement designed for a temporary, rather than a permanent, interruption to LIBOR publication. Dealer polls ask a counterparty or calculation agent to collect quotes for borrowing rates from a range of dealers, which can then be used to determine a rate. The cessation of LIBOR settings may lead to dealer polls being initiated in the market.

What is Deutsche Bank's approach to dealer polls?

Deutsche Bank's position is not to participate in or facilitate any dealer poll activity.

Who should I contact at Deutsche Bank for dealer poll queries?

For any queries regarding dealer polls, please contact your DB representative.

Further information

Please contact your Deutsche Bank representative

Deutsche Bank is ready to support with actively transitioning your contracts to alternative Risk Free Rates, updating fallbacks and answering your questions.

Please get in touch with your Deutsche Bank representative at the earliest opportunity to understand the choices available to you and to agree the appropriate course of action.

Useful resources

- Deutsche Bank IBOR transition website

- Financial Conduct Authority (FCA) – Changes to LIBOR as of end-2021
- Alternative Reference Rates Committee (ARRC) – ARRC 2022 Objectives
- International Swaps and Derivatives Association (ISDA) website