BANK OF MAURITIUS

Guidance on LIBOR Transition

6 April 2021

Updated 17 September 2021

TABLE OF CONTENTS

1. INTRODUCTION

1.1 Background to the LIBOR reform

In response to attempts to manipulate key global benchmark rates and to declining liquidity in underlying markets, the Financial Conduct Authority (FCA), which regulates the London Interbank Offered Rate (LIBOR), announced in 2017 that it would no longer compel panel banks to continue submitting quotes for LIBOR after December 2021.

On 5 March 2021, the FCA clarified and confirmed that all LIBOR settings would either cease to be provided by any administrator or no longer be representative as follows:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and

- immediately after 30 June 2023, in the case of the remaining US dollar settings.

Representative LIBOR rates will thus not be available beyond the dates set out above, and publication of LIBOR settings will cease immediately after these dates. It is thus essential for market participants to take the requisite steps to be ready for the cessation of LIBOR publication by end-2021.

In preparation for the transition away from LIBOR, relevant authorities have announced and released a series of alternative risk-free rates (RFRs) (Table 1). While LIBOR rates are published for various tenors and on generally unsecured transactions, the RFRs have been set up as overnight rates, some of which secured.

Table 1: Alternative Risk-Free Rates for Major Currencies

Major Currencies and their RFRs				
Jurisdiction	**Current IBOR**	**New RFR**	**Type**	**Administrator**
Euro Area	EONIA,EURIBOR EUR LIBOR	€STR (Euro Short-Term Rate)	Unsecured rate that captures overnight wholesale deposit transactions (new)	ECB
United Kingdom	GBP LIBOR	SONIA (Sterling Overnight Index Average)	Unsecured rate that covers overnight wholesale deposit transactions (enhanced)	BoE
United States of America	USD LIBOR	SOFR (Secured Overnight Financing Rate)	Secured rate that covers multiple overnight repo market segments (new)	FED
Switzerland	CHF LIBOR	SARON (Swiss Average Rate Overnight)	Secured rate that reflects interest paid on interbank overnight repo rate (existing)	SIX Exchange
Japan	JPY LIBOR	TONAR (Tokyo Overnight Average Rate)	Unsecured rate that overnight call rate market (existing)	BoJ

Moreover, the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol and the IBOR Fallbacks Supplement both came into effect on January 25, 2021. The Protocol and the Supplement provide robust fallback provisions to be applied upon the permanent cessation of a relevant IBOR or a pre-cessation announcement made with respect to LIBOR. Derivatives contracts governed by ISDA, as well as other financial contracts with embedded improved fallback language, will be referencing a RFR compounded in arrears plus a spread adjustment derived from a historical five-year median look-back. These official spread adjustments are currently being published by major vendors.

On 2 June 2021, the Financial Stability Board (FSB) supported the use of the ISDA spread adjustments for cash products that are to fall back or move from an IBOR to overnight RFRs or RFR-based term rates. This would enable homogenous spread adjustments on both derivatives and cash products. Further, on 29 July 2021, the Alternative Reference Rates Committee (ARRC) recommended use of CME Group's forward-looking SOFR term rates, thus providing market participants an essential tool in the transition away from USD LIBOR.

1.2 Progress made in LIBOR transition in the Mauritian Jurisdiction

The Bank of Mauritius (Bank) started engaging with banks with regard to the LIBOR transition as from January 2020. The Bank first conducted a preliminary survey to take stock of the key transitional, operational, accounting, technical and legal challenges that banks in the Mauritian jurisdiction were facing while preparing for the transition.

In October 2020, the Bank conducted a detailed follow-up survey to assess the progress made by banks in the transition process and gather granular information on their preparedness in shifting to alternative reference rates. Subsequently, in January and February 2021, the Bank held one-to-one meetings with banks for in-depth discussions about their progress and challenges that they face, and map the way forward in the transition process.

The Bank first issued the Guidance on LIBOR transition to banks in April 2021, setting out the key milestones and related timelines that banks are expected to meet in their preparation process for the phasing out of LIBOR.

This update to the April 2021 Guidance is based on the outcome of a follow-up survey conducted in July 2021 to assess banks' progress in adhering to the set timelines and identify remaining challenges, as well as on international developments with regard to the transition.

All banks have initiated the benchmark reform process, although they are at different stages of their transition plans. They are generally aware of their exposures to LIBOR and of the risks entailed in the transition process. Banks that are most advanced in their preparations have already overhauled their systems to cater for the new pricing methodologies, communicated with their clients, and implemented fallback provisions in LIBOR contracts that extend beyond end-2021/30 June 2023, as applicable.

Banks have generally signified their intention to adopt the RFRs administered by respective authorities as alternative rates. Most of them will follow market conventions and adopt the practices set forth by respective national Working Groups, such as the ARRC, with regard to the conversion of the alternative RFRs to term rates. The expectation is that banks must act with the tools that are presently available as opposed to waiting for tools that may not emerge for some time.

1.3 Purpose of this Guidance

This updated Guidance intends to assist banks in the transition process by setting out the expectations with regard to banks' governance structure, risk identification approaches and other actions in relation to the benchmark rate transition. The document also updates the key milestones and related timelines that banks need to meet in their preparation process for the phasing out of LIBOR.

2. GUIDANCE ON THE TRANSITION

The Bank recommends all banks to actively finalise their preparations for the LIBOR transition. This section outlines the key actions that banks should implement for the successful transition process from LIBOR to currency-specific RFRs. The list is not exhaustive, and banks will need to assess whether additional measures are required given the nature of their exposures.

2.1 Project Management and Governance

1. The Board of Directors and senior management should exercise adequate oversight on the transition process. The risk and impact assessment, as well as the mitigation measures should be duly documented and approved by the Board. The Board and senior management should ensure that the transition plan adequately addresses the risks identified.

2. There should be a proper project management framework to monitor underlying risks, resources, budget, progress of the transition and associated risks, together with ensuring regular reporting to senior management and the Board. Banks should put in place an appropriate organizational and operational structure to manage the transition, with adequate resources and budget being allocated to the project.

3. Senior management should monitor and review the transition strategy, taking into account any legislation and/or guideline issued by relevant authorities, as well as information and/or interpretations from industry bodies.

4. Banks should have a clear project timeline, consistent with that set by the Bank.

2.2 Risk Identification, Assessment and Mitigation

5. All risks associated with the transition should be duly identified, assessed and mitigated.

6. Banks should have a comprehensive contract inventory, and carry out an exposure analysis in respect of LIBOR-linked products.

7. Banks should develop and implement fallback provisions for all contracts that reference LIBOR extending beyond end-2021/30 June 2023, taking note of best industry practices where available for each product type.

8. Banks should protect relevant outstanding LIBOR contracts from uncertainty by amending them to account for LIBOR's end through the adoption of the ISDA IBOR Fallbacks Protocol, wherever possible.

9. Banks should initiate changes to be made to current systems, operations and control environment.

10. Incorporation of new market data sources/calculation methodologies into systems should be duly documented.

11. Banks should test their systems in a timely manner to ensure readiness for the transition and perform any required model validations.

12. Banks should ensure that the pricing of instruments adhere to international best practices, and are adjusted in such a way so as to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one party to another as a result of the application of the replacement RFRs.

13. Banks should consider the implications of the transition on fair value accounting, regulatory reporting and taxation. External auditors should be engaged in the process.

14. Banks should have in place a proper communication strategy in order to avoid reputational and litigation risks.

15. Banks should initiate client communications and disclosures, and provide training to all relevant staff.

3. TIMELINE

In order to be fully prepared for the phasing out of LIBOR by end of 2021/30 June 2023, as applicable, the Bank recommends the following milestones:

By the end of 2021Q3, banks should have already:	• Conducted the risk and impact assessment and identified the mitigation measures • Established a transition plan approved by the Board • Established an appropriate organizational and operational structure to manage the transition, including specific timelines and resources • Identified all existing LIBOR exposures maturing after the end of 2021 and beyond • Ceased initiation of new LIBOR-linked products that expire after the end of 2021, except for products linked to the USD LIBOR expiring after the end of June 2023 • Started using alternative reference rates in new contracts as far as possible • Communicated with clients about the LIBOR transition and the actions being taken to support the switch to alternative rates • Completed and tested necessary changes to key systems and processes to enable transition to alternative rates • Ensured that necessary set-up is available from Treasury Management Systems/vendors for determination and the use of term rates • Liaised with external auditors to assess the regulatory, tax and accounting implication of the transition • Where applicable, adhered to the ISDA protocol • Wherever possible, have completed the conversion of all legacy LIBOR-linked contracts expiring after end-2021/30 June 2023 to alternative rates, and, if not feasible, ensured robust fallbacks are adopted • Introduced fallback language in new contracts, as and where necessary

By end of 2021, banks should:	• Stop offering new LIBOR-linked products in all LIBOR settings; all new business should be conducted using alternative RFRs • For any legacy contracts for which it has not been possible to make amendments, have considered and discussed between the parties the implications of cessation or lack of representativeness of LIBOR settings ending at the end of 2021, and taken steps to prepare for this outcome as needed • Ensure that all critical processes and systems can be operated without reliance on LIBOR settings ending at the end of 2021 and use the alternative RFRs
By end of June 2023, banks should:	• For any remaining USD LIBOR legacy contracts for which it has not been possible to make amendments, have considered and discussed between the parties the implications of cessation or lack of representativeness, and taken steps to prepare for this outcome as needed • Ensure that all critical processes and systems can be operated without reliance on USD LIBOR settings ending at the end of June 2023.

Bank of Mauritius

17 September 2021