

BENCHMARK REFORM - LIBOR TRANSITION

CONTEXT

Benchmark interest rates are used widely across the global economy and they provide the basis for many financial contracts. Financial benchmarks are being reformed globally.

Due to the high importance of benchmarks, the EU legislator adopted in 2016 the Benchmark Regulation ("BMR")¹ with the primary purpose of ensuring that the benchmark-setting process is governed by a clear governance structure and transparent methodologies to ensure that benchmarks are robust and reliable.

The introduction of the BMR has resulted in the reformation or decision to discontinue the use of many widely used interest rate benchmarks including, among others, the London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR), the Euro Overnight Index Average (EONIA) and certain other Interbank Offered Rates (IBORs).

KEY CHANGES TO CONSIDER

LIBOR, which is one of the main interest rate benchmark used in the financial markets, is considered as no longer sustainable. Therefore, LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- **31 December 2021**, for Sterling, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings;
- **30 June 2023**, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

EONIA benchmark will be discontinued on 3 January 2022.

CHANGES IMPLEMENTED BY THE BANK

Banque Havilland (the "Bank") has chosen, in line with the current market practice, to transition away from the use of LIBOR across all products. The Bank will use compounded Risk Free Rates ("RFRs") in the context of its lending solutions, which are calculated and made available by Bloomberg Index Services Limited for the currencies USD, GBP, JPY and CHF (in all tenors and settings) and applying an "in advance" methodology, which means that the applied compounded RFR will be known already at the beginning of each interest period.

Moreover, the Bank, in relation to legacy credit agreements, has also included the spread adjustment rates (calculated in accordance with the methodology described in Section 4.3 of the IBOR Fallback Rate Adjustments Rule Book published by the International Swaps and Derivatives Association (ISDA)) for the currencies USD, GBP, JPY and CHF which need to be applied in order to mitigate, to the extent possible, any value transfer from IBORs to RFRs.

NOTE

- In line with the current market practice, the Bank will continue using the respective IBOR term rates for EUR, DKK, SEK, NEK and CAD (being EURIBOR, CIBOR, STIBOR, NIBOR and CDOR respectively). The Bank has also included a fallback process in the event these term rates are no longer appropriate.
- EURIBOR, administered by the European Money Markets Institute, is now considered as BMR compliant and was added to the European Securities and Markets Authority (ESMA) benchmark register. The EURIBOR specification has been reformulated and moved to a "hybrid" methodology (<https://www.emmi-benchmarks.eu/euribor-org/about-euribor.html>). Therefore, EURIBOR can continue to be used going forward.

SUPPORT

If you have any questions regarding the above, please do not hesitate to contact your relationship manager who will be able to support you.

¹Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/47/EC and 2014/17/EU and Regulation (EU) No 596/2014