

Guidance on LIBOR transition for our customers

This note is an effort by State Bank of India to reach out to its customers who have entered contracts with the Bank using LIBOR as the benchmark reference rate. The note tries to establish a broad oversight of the transition process with relevant challenges and the preparedness of the Bank in overcoming the same and ensuring a smooth transition process for its clients.

Background

Since the 1980s, LIBOR is used as a reference rate benchmark for floating rate transactions for bonds, derivatives, loans, securitizations etc. There are millions of contracts valued in the trillions which reference interbank offered rates, or IBORs, with the London Interbank Offered Rate (LIBOR) being the most widely used IBOR. However, as a result of significantly reduced volumes of interbank unsecured term borrowing and an increasing reliance on expert judgment to set the IBORs, there is a regulator-led push to transition the market from IBORs to alternative (nearly) risk-free reference rates (RFRs) that are based on actual overnight secured transactions. The main accelerator for the recent flurry of work has been the UK's Financial Conduct Authority (FCA) statement in July 2017 that after 2021, the FCA will no longer persuade or compel panel banks to submit the rates required to calculate LIBOR. The US Federal Reserve and other regulators have also taken measures to move away from IBORs. This poses considerable risk to the financial markets across the globe and as such requires various stakeholders to take active steps to understand the challenge of the transition and subsequently to swiftly transition into a new reference rate.

In India, the Mumbai Interbank Forward Offer Rate MIFOR, which is derived out of LIBOR, will be impacted by this transition. Additionally, all contracts entered by various Financial Institutions with their clients having LIBOR as the underlying benchmark for pricing the products will be impacted. Indian regulators are expected to issue reform guidelines in line with different global regulators including fallback language and methodology on MIFOR transitions shortly. SBI has already taken a lead by undertaking various steps internally to ensure that the transition is swift for the Bank as well as for all its clients.

Potential Impact

LIBOR transition may have implications across nearly all financial products including bonds, derivatives, structured products, structured financings, ECB borrowing, Syndicated FCB and other loans. It may impact all the existing LIBOR based product as well as the new products that the bank would provide in the future. The exact nature of the economic impact will be discernable only after identification of new Alternate Reference Rate (ARRs), availability of fallback clause in

existing contract, readiness of the IT infrastructure. Additionally, SBI would like to highlight that the conflicts arising out of the transition will be managed effectively to ensure that clients are not exposed to unpredictable or unreasonable costs, losses or risks, and are treated fairly.

LIBOR Program Priorities

Clients may wish to consider the following as part of their LIBOR transition program:

LIBOR Exposure Assessment: Clients need to understand exposures to LIBOR in their portfolio and create an inventory of contracts referencing LIBOR.

Review of Contractual Terms: Review contractual terms to determine fallbacks if LIBOR or another IBOR temporarily or permanently discontinues. Further, prepare to re-negotiate impacted contracts, if necessary.

Infrastructure / Systems Changes: Consider system readiness with respect to new alternative reference rates and related market conventions.

Valuation and Taxation: Consider issues related to accounting including hedge accounting and valuation changes as a result of the transition. The relevant changes in taxation rules should be analyzed.

Our Preparedness on key considerations

We are proactively working towards devising the roadmap for LIBOR transition in line with the guidelines issued by the different regulators. SBI is also actively engaged with the Indian Banks Association (IBA) to align our roadmap with the Indian banking industry. SBI has also started working on assessing exposure, developing appropriate legal agreement, accounting and tax considerations, various operational considerations with respect to systems and processes in order to ensure a smooth transition.

As part of our responsibility towards our customers, we are fully focus in identifying and addressing potential impact on existing and future transactions on account of LIBOR transition. We continue to monitor developments around LIBOR transition and will keep all clients updated for client education and awareness. We have also enclosed FAQs (Annexure I) related to the LIBOR transition for comprehensive understanding of the transition process.