Australian Securities and Investments Commission

Office address (inc courier deliveries):
Level 5, 100 Market Street,
Sydney NSW 2000

Mail address for Sydney office:
GPO Box 9827,
Brisbane QLD 4001

Tel: +61 1300 935 075
Fax: +61 1300 729 000

www.asic.gov.au

May 2020

Dear Reader

Preparation for LIBOR transition

The Australian Securities and Investments Commission (ASIC) is writing to a number of large corporations in Australia regarding the transition from LIBOR (London Inter-bank Offered Rate) to alternative reference rates (ARRs). The purpose of this letter is to highlight the need to plan for LIBOR transition and to encourage entities to start the transition early.

The LIBOR benchmark

LIBOR is a widely used interest rate benchmark offered in five currencies (USD, GBP, CHF, EUR, and JPY) and seven tenors (overnight/spot next, 1 week, 1 month, 2 months, 3 months, 6 months, and 12 months).

LIBOR is calculated based on submissions from 20 panel banks and represents the average rate at which these 20 panel banks could obtain unsecured, wholesale borrowing.

LIBOR is referenced in more than US$350 trillion worth of financial contracts globally. It is used in derivatives, loans, investment holdings, and is deeply embedded in business processes, including accounting methodologies, models, and valuation systems.

Transition from LIBOR

In July 2017, the Financial Conduct Authority (FCA) announced that it will no longer compel panel banks to submit to LIBOR after 31 December 2021. It is expected that LIBOR will cease to be published after that date. Relevant jurisdictions have established alternative reference rates to be used instead LIBOR.

What is ASIC expecting large corporations to do?

Find out the extent to which LIBOR affects your organisation

We recommend conducting a LIBOR 'stocktake' and identify all areas of your organisation that are affected by LIBOR. Identification should not be restricted to financial contracts and investment holdings. You should also consider whether LIBOR is used as, or as a part of, discount rates in valuation and risk models, or if it is used in accounting methodologies and tax treatments. LIBOR could even be used in non-financial contracts and disclosure documents.

All parts of your business should be reached out to, to ensure they are aware of the need to identify LIBOR.

Find out how LIBOR transition impacts your organisation

Once LIBOR exposure has been identified, you should consider the various scenarios for LIBOR cessation. Several useful questions include:

- Do your contracts have 'fallback' provisions that specify what will happen if LIBOR is no longer available? Fallbacks may cover a temporary or permanent interruption.
- Is LIBOR transition an event that the organisation can manage internally, or will it need external assistance?
- How long will it take for various parts of the organisation to implement changes?
- Are there enough resources to manage the transition?

Reach out

If you have large exposures, your firm may have already started the transition process. If not, it is advisable that you start engaging with your firm's banks and financial services providers to understand their LIBOR transition plans and how they will impact your business.

Most of the large financial institutions have in place client outreach and communication programmes for this purpose. Early engagement with clients, alongside an understanding of the difference between products that reference LIBOR, and those that use alternative reference rates, will help your company make informed decisions and avoid legal, financial and litigation risks.

More information

There are industry-led groups in relevant jurisdictions that frequently publish transition guides, industry consultations, and various material that may help with your transition preparation. These include:

- Sterling Risk Free Reference Rate Working Group for the transition from GBP LIBOR to SONIA (Sterling Overnight Indexed Average)
- Alternative Reference Rate Committee for the transition from USD LIBOR to SOFR (Secured Overnight Financing rate)

- Euro Working Group for the transition from EUR LIBOR, EURIBOR, and EONIA to €STR (euro short-term rate)

Please visit ASIC's Financial Benchmarks website for updates related to LIBOR transition in Australia.

Yours sincerely

Cathie Armour
Commissioner
ASIC