P O Box 427 Pretoria 0001 South Africa
370 Helen Joseph Street Pretoria 0002
+27 12 313 3911 / 0861 12 7272
www.resbank.co.za

SOUTH AFRICAN RESERVE BANK
Prudential Authority

PA Communication 1 of 2021

LIBOR benchmark rate transition guidance

Objective of this Communication

This communication note provides guidance to financial institutions related to the London Interbank Offered Rate benchmark reforms.

As the end of 2021 draws closer, the London Interbank Offered Rate (LIBOR) transition remains a significant priority in the international arena for financial sector regulatory and supervisory authorities, standard-setting bodies and market participants. Continued self-initiated efforts from financial institutions, in conjunction with the application of supervisory guidance where applicable, remain critical measures in order to support LIBOR transition efforts towards global and jurisdictional financial stability.

In September 2020, the Prudential Authority (PA) issued a LIBOR survey to institutions falling within its supervisory scope. The outcomes of the survey provided jurisdictional insights on the range and depth of LIBOR-linked exposures, the extent of incorporation of fallback language into LIBOR-linked contracts, the rate of adoption of and challenges associated with alternative risk-free rates (RFR), and the manner in which institutions addressed this historic transition. As a result, the PA observed and concluded upon the awareness of and preparedness towards the LIBOR transition of participating financial institutions. A summary of the findings and outcomes of the survey were presented to the Association for Savings and Investment South Africa (ASISA), the Banking Association South Africa (BASA) and the South African Insurance Association (SAIA) in quarter two of 2021.

Since the release of the PA LIBOR survey, the market observed critical developments on the international front, which served to assist efforts in mitigating transitionary risk. Most notably, on 5 March 2021, the Intercontinental Exchange Benchmark Administration (IBA)[1] and the United Kingdom Financial Conduct Authority (FCA)[2] formally confirmed clear cessation dates for LIBOR. The IBA and FCA confirmed that panel bank submissions for all LIBOR settings would cease at the end of 2021, with the exception of a number of key US Dollar (USD) settings, which would continue until the end of June 2023 to support the rundown of legacy contracts.

Another critical development was the publication of the International Swaps and Derivatives Association (ISDA) Fallbacks Supplement and Fallbacks Protocol (which came into effect on 25 January 2021). Following this publication, there was widespread adherence observed to the ISDA Fallbacks Protocol by institutions globally[3].

---

[1] https://ir.theice.com/press/news-details/2021/ICE-Benchmark-Administration-Publishes-Feedback-Statement-for-the-Consultation-on-Its-Intention-to-Cease-the-Publication-of-LIBOR-Settings/default.aspx
[2] https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf
[3] https://www.isda.org/protocol/isda-2020-ibor-fallbacks-protocol/adhering-parties

With only a few months remaining for the Euro (EUR), Swiss Franc (CHF), Japanese Yen (JPY), Sterling (GBP) and USD (for applicable tenors) LIBOR transition, financial institutions, as a minimum, are expected to incorporate the following considerations[4] into their transition programmes:

1. In-depth contractual analysis to mitigate any potential contractual fragility.
2. The timely incorporation of appropriate fallback language into LIBOR-linked contracts.
3. The timely transition from LIBOR towards relevant alternative RFRs for all financial contracts.
4. An understanding of potential profit and loss impacts due to contractual transition and remediation efforts.
5. Tailored communication to clients or receipt from financial instrument providers related to bilateral contractual transitions, their implications and outcomes.
6. Dedicated monitoring of the development of and challenges with alternative RFRs and associated liquidity across term structures.
7. Sufficiently dedicated and knowledgeable resource allocations and technological investments.
8. Targeted updates to senior and executive personnel.
9. A robust monitoring programme to remain current with all jurisdictional and international developments affecting the LIBOR reform.
10. Independent assurance and validation across all conceptualised programme streams.
11. Regular and robust dialogue with relevant jurisdictional authorities.

Finally, given the potential financial, legal and reputational risks associated with inadequate preparation, the onus of a timely and orderly transition remain purely on financial institutions to manage through well-designed transition programmes with appropriate levels of governance and oversight. Therefore, financial institutions are strongly urged to leverage necessary resources and available supervisory guidance (from home authorities in all relevant LIBOR currencies) to complete all relevant transition milestones successfully.

All requests for further information related to this Communication may be submitted via email to the PA’s Market Risk Division at PA_RSD-MarketRisk@resbank.co.za.

Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 8 July 2021

[4] These considerations are synthesized from the outcomes of the PA’s LIBOR transition survey of 2020 and available international guidance.