

# Interest reference rate reform

A global reform on interest reference rates (interbank offered rates – IBORs) is underway as the existing IBORs are no longer seen as liquid or robust enough to represent the interbank market. IBORs are used as reference rates for various types of financial products and contracts, such as credit facilities, mortgages, derivatives, cross-currency swaps, bonds and other investment products, estimated to be worth at least EUR 350 trillion.

Authorities around the world are now requiring improvements: partly by strengthening the methodology behind existing IBORs and partly by creating new alternative reference rates (ARRs) to replace the existing ones. The EU Benchmark Regulation sets out requirements and criteria for reference rates and requirements for fallback plans in case the reference rate becomes unavailable in future.

Please note that all information about the IBOR transition is based on the current understanding Nordea has and that this might change in future.

Jurisdiction									
Currency <sup>**</sup>	GBP	USD	CHF	JPY <sup>*</sup>	EUR	EUR	SEK	DKK	NOK
Current IBOR	LIBOR GBP	LIBOR USD	LIBOR CHF	LIBOR JPY	EONIA	EURIBOR	STIBOR	CIBOR	NIBOR
Transition status	Cease to exist end 2021	Cease to exist mid 2023 <sup>*</sup>	Cease to exist end 2021	Cease to exist end 2021	Cease to exist end 2021	Reformed EURIBOR is compliant	Pending reform	Expected to remain	Expected to remain
ARR	SONIA	SOFR	SARON	TONAR	€STR	Fallback rate: €STR	Fallback rate: SWESTR	Fallback rate: DESTR	Fallback rate: Reformed NOWA
ARR in use	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes

\*tenors 1W and 2M to cease along with other LIBOR rates after December 2021

1M, 3M & 6M tenors of GBP/JPY/USD LIBOR will most probably be published beyond cessation dates for tough legacy contract on a synthetic basis using a changed methodology

## LIBORs (AUD, CHF, EUR, GBP, JPY, USD)

These rates are going to cease to exist by the end of 2021 and should be replaced by fallback rates no later than this date (with exception to LIBOR USD which will remain until June 2023 for majority of tenors). Fallback rates are published by Bloomberg Index Services Limited (BISL) and consists of adjusted ARR (compounded in arrears) and spread adjustment (fixed on 5<sup>th</sup> March 2021). Most probably GBP/JPY/USD LIBOR will be published beyond cessation date on a synthetic basis only for tough legacy contracts (1M, 3M and 6M tenors).

## EONIA

Will cease to exist by the end of 2021 and will be replaced by the euro short-term rate (€STR). The transition has already started.

## EURIBOR

The hybrid EURIBOR was authorised under the EU Benchmark Regulation (BMR) in November 2019. €STR is the fallback rate.

## Nordic IBORs (STIBOR, CIBOR, NIBOR)

It is expected that the three Nordic IBORs will continue to be available for the foreseeable future. CIBOR was approved at the end of 2019 and NIBOR in October 2020. The expectation is that the administrator of STIBOR will apply for authorisation in 2021.

The use of the new Nordic ARRs will, at least initially, be primarily as fallback rates.

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## What is IBOR?

Interbank offered rates (IBORs) are interest rates at which panel banks offer to lend to another panel banks. IBORs are for example EURIBOR (EUR), LIBOR (GBP, USD, CHF, EUR, JPY, AUD), STIBOR (SEK), CIBOR (DKK) and NIBOR (NOK).

## What is IBOR transition?

The IBOR transition is a global reform with significant impact on the financial industry. Some IBORs will be replaced by alternative reference rates, while others may continue to exist but with a reformed methodology, see the table on the previous page.

## Why a reference rate reform?

For various reasons, the interbank market has become less liquid since the financial crisis, especially in tenors longer than overnight. The rates are therefore no longer considered to be sufficiently representative of an actual interbank market.

## How does Nordea handle the transition?

All Nordea's business areas are preparing for the transition, to ensure a timely and compliant transition to relevant ARR's where needed. The reform process is ongoing and at different stages for different currencies. Discussions among market participants are continuing, and further clarity of the market approach is expected. Nordea is actively following these discussions and participates in many of the working groups. Nordea will inform, support and guide customers in order to make the transition as smooth as possible.

## How does this affect customers?

The transition to new reference rates will have an impact on Nordea's current and future product offerings. During 2020-21 there will be changes in our product offerings, especially for customers with existing agreements referencing LIBOR or EONIA rates, but also to the extent requested with new product offerings referencing the new alternative rates. Nordea will contact affected customers in due time regarding these changes, and customers can also decide to contact Nordea to discuss the implications of the transition and any appropriate actions.

*The final outcome of the global reform is still in progress, and assumptions may change. Please contact your Nordea representative for any further questions.*

*Nordea IBOR Transition Office, March 2021*