



IBOR TRANSITION

Helping you to prepare

This is an important guidance note in respect of IBOR transition, providing information about how the transition might influence various IBOR based products.

Interbank Offered Rates (“IBORS”) are expected to be replaced by new risk-free rate (“RFRs”) across the global financial markets. Based on statements by the FCA, the expectation is that the London Interbank Offered Rate “LIBOR” will no longer be a credible lending rate after the end of 2021. Work is also underway for the replacement of other global IBORs. Coutts & Co supports this transition, which may impact products you have purchased or may be considering purchasing from Coutts & Co.

There is still considerable work being done across the industry to develop new RFRs. Given the complexity of changes to these critical benchmarks of the global financial system we want to share some information with you now about the anticipated transition.

It is likely that the process to replace IBORs will have an impact on both new and existing transactions.

Alternative Options

For LIBOR, the Bank of England’s Working Group on Sterling Risk-Free Reference Rates has recommended the “Sterling Overnight Index Average” (“SONIA”) as its preferred option. In the US the Alternative Reference Rate Committee has recommended the Secured Overnight Financing Rate (“SOFR”). The RFR working group for Euro has also announced its proposal on RFRs but transition work in the Euro is not as advanced as it is for Sterling and the US Dollar.

Whilst the market for alternative RFRs is still developing, there are many instances where references to existing IBOR rates may continue to be appropriate. For those products (either new or existing) we would hope to transition to the alternative RFRs by the end of 2021, or in some cases earlier. We will work with you on that transition. Given the current market developments in this area, we are unable to predict whether or not there may be costs involved in the transition process. We will seek to apply an approach consistent with market participants.

If you have different and linked IBOR products

In line with the general market consensus on this issue, we consider that it may also be prudent to include fallback provisions in our documentation should an IBOR cease to be published prior to the relevant transition being completed. This may take the form of a roadmap to determine a replacement rate or reference to a specific replacement rate. As the market develops in the alternative RFRs, it is possible that fallbacks could be triggered at different times and/or reference different rates across different product sets. Therefore, there is a risk that fallbacks may not apply in the same way across different or linked products which may result in additional costs to either party to the transaction.

What’s next?

We are working closely with our regulators, market participants, industry bodies and trade associations, to consider how the regulatory objective of eliminating reliance on IBORs to improve global financial stability can best be implemented.

We will continue to update you on developments throughout the transition process including how these market-wide changes are likely to affect your day-to-day relationship with Coutts & Co and the products that you have purchased or, may be considering purchasing from Coutts & Co.

We would advise you to seek independent advice on how the transition may affect you in respect of your particular arrangements.

Any questions?

If you would like to know more or have any questions, please contact your Private Banker.

Coutts

This document has been prepared by Coutts & Co exclusively for internal consideration by the recipient (the “Recipient” or “you”) for information purposes only. This document is incomplete without reference to, and should be viewed solely in conjunction with, any oral briefing provided by Coutts & Co. Coutts & Co and its affiliates, connected companies, employees or clients may have an interest in financial instruments of the type described in this document and/or in related financial instruments. Such interests may include dealing in, trading, holding or acting as market-maker in such instruments and may include providing banking, credit and other financial services to any company or issuer of securities or financial instruments referred to herein. Coutts & Co is not and shall not be obliged to update or correct any information contained in this document. This document is provided for discussion purposes only and its content should not be treated as advice of any kind. This document does not constitute an offer or invitation to enter into any engagement or transaction or an offer or invitation for the sale, purchase, exchange or transfer of any securities or a recommendation to enter into any transaction, and is not intended to form the basis of any investment decision. This material does not take into account the particular investment objectives, financial conditions, or needs of individual clients. Coutts & Co will not act and has not acted as your legal, tax, regulatory, accounting or investment adviser; nor does Coutts & Co owe any fiduciary duties to you in connection with this, and/or any related transaction and no reliance may be placed on Coutts & Co for investment advice or recommendations of any sort. Neither this document nor our analyses are, nor purport to be, appraisals or valuations of the assets, securities or business(es) of the Recipient or any transaction counterparty. Coutts & Co makes no representation, warranty, undertaking or assurance of any kind (express or implied) with respect to the adequacy, accuracy, completeness or reasonableness of this document, and disclaims all liability for any use you, your affiliates, connected companies, employees, or your advisers make of it. Any views expressed in this document (including statements or forecasts) constitute the judgment of Coutts & Co as of the date given and are subject to change without notice. Coutts & Co does not undertake to update this document or determine the accuracy or reasonableness of information or assumptions contained herein. Coutts & Co accepts no liability whatsoever for any direct, indirect or consequential losses (in contract, tort or otherwise) arising from the use of this material or reliance on the information contained herein. However, this shall not restrict, exclude or limit any duty or liability to any person under any applicable laws or regulations of any jurisdiction which may not be lawfully disclaimed. The information in this document is confidential and proprietary to Coutts & Co and is intended for use only by you and should not be reproduced, distributed or disclosed (in whole or in part) to any other person without our prior written consent.