

FAQs- General Questions on IBORs/LIBOR

Q: What are IBORs and LIBOR?

LIBOR stands for London Interbank Offered Rate and IBOR stands for Interbank Offered Rate. In essence an interbank offered rate is the average rate at which major global banks could borrow and lend to one another in the interbank market. Both LIBOR and IBORs indicate the cost of funds to market participants and are used as a reference rate or benchmark. Examples of IBORs include CDOR (in Canada), HIBOR (in Hong Kong), EURIBOR (European Union), TIBOR (in Japan), LIBOR (several jurisdictions). LIBOR is the most widely-used and well-known interest rate benchmark and, similar to other IBORs, is calculated based on submissions from individual panel banks. LIBOR is published in British pound sterling (GBP), US dollar (USD), euro (EUR), Swiss franc (CHF) and Japanese yen (JPY). LIBOR is published in several tenors: overnight, one week, one month, two month, three month, six month and twelve month. Three month LIBOR being the most widely quoted and transacted.

Q: Why and when is LIBOR going away?

There are 4 reasons LIBOR is going away and they are inter-connected: (1) Regulation changes, (2) Declining transactions, (3) Rigging scandals, (4) It has been stated that it will cease by Regulatory Authorities. First, due to a number of significant market volatility events over the last 10 years, regulators made changes to the way in which banks fund. Banks are no longer able to fund on a short-term unsecured basis, they are required to fund on a longer term basis. This caused the number of transactions underlying LIBOR to decline and the reliance on expert bank submissions to increase. Two, due to the fact that the transactions underlying LIBOR have decreased the quality of LIBOR in the eyes of IOSCO (a global regulatory body that determines what can be a benchmark) has deteriorated to the extent that its viability as the reference rate for all financial instruments has become questionable. A benchmark this important must be robust. Three, increasing reliance on panel banks submission have led to manipulation of the rate or the LIBOR rigging scandals. Finally, Andrew Baily the Chief Executive Officer of the UK's Financial Conduct Authority (FCA) announced on July 27, 2017 that the FCA would no longer compel panel banks to submit the rates required to calculate LIBOR beyond the end of 2021. The Head of the Fed in the US has made a similar statement in 2018.

Q: What are the alternatives for LIBOR?

Working groups across the globe have conducted extensive analysis to identify, adopt and publish what are referred to as either alternative reference rates (ARRs) or risk-free rates (RFRs) as a replacement for IBORs. The IBOR transition is at different stages of progress in the different jurisdictions. Below is a chart of alternative rates by jurisdiction:

Jurisdiction	Old Benchmark	RFR	Secured or Unsecured	Underlying Asset	Rate Administrator	Publication Date
UK	GBP LIBOR	SONIA	Unsecured	Money Markets	Bank of England	April 2016 (Reformed April 23, 2018)
US	USD LIBOR	SOFR	Secured	Repos	Fed Res Bank of NY	April 3, 2018
Euro Area	EURIBOR, EONIA	€STR	Unsecured	Money Markets	EBC	October 2, 2019
SUI	CHF LIBOR	SARON	Secured	Repos	SIX Swiss Exchange	August 25, 2009
JPN	JPY LIBOR	TONAR	Unsecured	Money Markets	Bank of Japan	Late 2016
CAD	CDOR	Enhanced CORRA	Secured	Repos	Bank of Canada	June 15, 2020

Q: What industry work has been done to help in the transition away from LIBOR?

Industry working groups, market participants and other stakeholders are preparing and executing their transition plans and will likely continue to do so into 2022. Industry working groups in each jurisdiction have provided recommendations and publications to assist with the transition to RFRs. Key work remaining includes:

1. Drafting & implementing contractual fallback language
2. Recognizing business strategies and building liquidity
3. Developing methodology for how to build forward-looking term rates
4. Transition planning for migration of products from IBORs to RFRs
5. Operationalization of existing financial market and individual market participant infrastructure to accommodate RFRs

Disclaimer

This material has been prepared with the assistance of employees of Bank of Montreal (“BMO”) who are involved in derivatives sales and marketing efforts.

We are not soliciting any specific action based on this material. It is for the general information of our clients. It does not constitute a recommendation or a suggestion that any investment or strategy referenced herein may be suitable for you. It does not take into account the particular investment objectives, financial conditions, or needs of individual clients.

Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your unique circumstances, or otherwise constitutes an opinion or a recommendation to you. BMO is not providing advice regarding the value or advisability of trading in commodity interests, including futures contracts and commodity options or any other activity which would cause BMO or any of its affiliates to be considered a commodity trading advisor under the U.S. Commodity Exchange Act. BMO is not undertaking to act as a swap advisor to you or in your best interests and you, to the extent applicable, will rely solely on advice from your qualified independent representative in making hedging or trading decisions. This material is not to be relied upon in substitution for the exercise of independent judgment. Any recipient of these materials should conduct its own independent analysis of the matters referred to herein, together with its qualified independent representative, if applicable. Any discussion of tax matters in these materials (i) is not intended to be used, and cannot be used or relied upon, for the purposes of avoiding any tax penalties and (ii) may have been written in connection with the “promotion or marketing” of the transaction or matter described herein. Accordingly, the recipient should seek advice based on its particular circumstances from its own independent financial, tax, legal, accounting and other professional advisors (including, without limitation, its qualified independent representative, if applicable).

These materials are confidential and proprietary to, and may not be reproduced, disseminated or referred to, in whole or in part without the prior consent of BMO. Information presented in this material has been obtained or derived from sources believed by BMO to be reliable, but BMO does not guarantee their accuracy or completeness. BMO assumes no responsibility for verification of the information in these materials, no representation or warranty is made as to the accuracy or completeness of such information and BMO accepts no liability whatsoever for any loss arising from any use of, or reliance on, these materials. BMO assumes no obligation to correct or update these materials. These materials do not contain all information that may be required to evaluate any transaction or matter and information may be available to BMO and/or its affiliates that is not reflected herein.

BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments).

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. and Bank of Montreal Ireland p.l.c., and the institutional broker dealer businesses of BMO Capital Markets Corp., BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited in the U.S., BMO Nesbitt Burns Inc. in Canada and Asia, BMO Nesbitt Burns Ltée/Ltd. in Canada, BMO Capital Markets Limited in Europe and Australia, BMO Advisors Private Limited in India and Bank of Montreal (China) Co. Ltd. in China.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TO U.K./E.U. RESIDENTS: In the UK, Bank of Montreal London branch is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority and BMO Capital Markets Limited is authorized and regulated by the FCA. The contents hereof are intended solely for the use of, and may only be issued or passed on to, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 or to investors in any E.U. Member State, other than persons meeting the criteria for classification as professional client or eligible counterparty under the Markets in Financial Instruments Directive 2004/39/EC (and relevant implementing legislation in such E.U. Member State). Any U.K. person wishing to effect transactions in any security discussed herein should do so through Bank of Montreal, London Branch or BMO Capital Markets Limited; any person in the E.U. wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Limited.

TO PRC RESIDENTS: This material does not constitute an offer to sell or the solicitation of an offer to buy any financial products in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan, the “PRC”). BMO and its affiliates do not represent that this material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. This material may not be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

TO HONG KONG RESIDENTS: This material has not been reviewed or approved by any regulatory authority in Hong Kong. Accordingly the material must not be issued, circulated or distributed in Hong Kong other than (1) except for “structured products” as defined in the Securities and Futures Ordinance, in circumstances which do not constitute it as a “Prospectus” as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance, or (2) to professional investors as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules made thereunder. Unless permitted by the securities laws of Hong Kong, no person may issue in Hong Kong, or have in its possession for issue in Hong Kong this material or any other advertisement, invitation or document relating to the products other than to a professional investor as defined the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules.

TO SINGAPORE RESIDENTS: This document has not been registered as a prospectus with the Monetary Authority of Singapore and the material does not constitute an offer or sale, solicitation or invitation for subscription or purchase of any shares or financial products in Singapore. Accordingly, BMO and its affiliates do not represent that this document and any other materials produced in connection therewith may lawfully be circulated or distributed, whether directly or indirectly, to persons in Singapore. This document and the material do not and are not intended to constitute the provision of financial advisory services, whether directly or indirectly, to persons in Singapore.

TO THAI RESIDENTS: The contents hereof are intended solely for the use of persons qualified as Institutional Investors according to Notification of the Securities and Exchange Commission No. Gorkor. 11/2547 Re: Characteristics of Advice which are not deemed as Conducting Derivatives Advisory Services dated 23 January 2004 (as amended). BMO and its affiliates do not represent that the material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any regulatory requirements in Thailand, or pursuant to an exemption available under any applicable laws and regulations.

TO MALAYSIAN RESIDENTS: The Information contained herein is information which is publicly available. This report and the Information contained herein do not constitute nor should they be construed as an offer to sell or buy, or an inducement or solicitation of an offer to sell or buy, or a proposal in respect of, or a dealing in, any securities, currencies, derivatives or any other financial products ("financial products") in Malaysia. Bank of Montreal and its affiliates do not represent that the Information may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any applicable registration or other requirements in Malaysia, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution, offering or dealing in such financial instruments.

TO KOREAN RESIDENTS: This material is not provided to make a recommendation for specific Korean residents to enter into a contract for trading financial investment instruments, for investment advising, for discretionary investment, or for a trust, nor does it constitute advertisement of any financial business or financial investment instruments towards Korean residents. The material is not provided as advice on the value of financial investment instruments or any investment decision for specific Korean residents. The provision of the material does not constitute engaging in the foreign exchange business or foreign exchange brokerage business regulated under the Foreign Exchange Transactions Act of Korea.

TO INDONESIAN RESIDENTS: No registration statement has been filed with the Financial Services Authority (Otoritas Jasa Keuangan - OJK) and no information contained herein should be considered as an offer to sell or the solicitation of an offer to buy any financial products in a manner which constitutes a public offering under the Indonesian capital market laws and regulations. BMO and its affiliates do not represent that the Information may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any applicable registration or other requirements in Indonesia, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. You are advised to exercise caution in relation to the Information contained herein. If you are in doubt about any of the content of these documents, you should obtain independent professional advice.

TO PHILIPPINE RESIDENTS: This Information is intended for distribution only to "qualified buyers" as defined under in Section 10 (I) of the Securities Regulation Code of the Philippines. The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

TO VIETNAMESE RESIDENTS: This document is not a securities offering document and is not required to be registered with any relevant authorities of Vietnam. The contents hereof are intended solely for the use of, and may only be passed on to, persons with whom BMO has had agreement on provision of the Information. The Information is not provided as advice on the value of financial investment instruments, to make a recommendation for specific Vietnamese residents to enter into a contract for trading financial investment instruments, for money broking, for asset management, for settlement and clearing services or for a trust, nor does it constitute advertisement of any financial business or financial investment instruments towards Vietnamese residents. BMO and its affiliates do not represent that the Information may be lawfully imported, distributed, or that any financial products may be lawfully offered, in Vietnam, in compliance with applicable laws of Vietnam, and do not assume any responsibility for facilitating any import, distribution or offering thereof. The Information is only for private use of recipients and may not be reproduced, distributed or published in Vietnam in any form, except under circumstances that will result in compliance with applicable laws of Vietnam.

In Asia, Bank of Montreal is licensed to conduct banking and financial services in Hong Kong and Singapore. Certain products and services referred to in this document are designed specifically for certain categories of investors in a number of different countries and regions. Such products and services would only be offered to these investors in those countries and regions in accordance with applicable laws and regulations. The Information is directed only at persons in jurisdictions where access to and use of such information is lawful.

™ - "BMO (M-bar roundel symbol) Capital Markets" is a trade-mark of Bank of Montreal, used under licence.