IBOR Risk Disclosure – Derivative Transactions

Derivative transactions may refer to an interbank offered rate (IBOR). A number of IBORs are being reformed or, in some cases, are being discontinued. If an IBOR is being reformed, it may perform differently from the way it currently performs. If an IBOR is discontinued (as is expected to be the case with the London Interbank Offered Rate (LIBOR)), a fallback rate may apply which is likely to operate differently from the IBOR. The reform or discontinuation of an IBOR may impact the payments due under and/or the value of derivative transactions as well as the way in which derivative transactions seek to hedge any other position you may have.

ISDA has published a protocol pursuant to which the fallbacks for certain IBORs in existing transactions between adhering parties will be updated to provide that, in the event of a permanent discontinuation, references to the IBOR will be replaced with references to a rate based on the risk-free rate (RFR) in the same currency compounded over the relevant period plus a spread. Adopting those fallbacks may cause the value of derivative transactions to change and mismatches may arise if a derivative transaction is used to hedge a product which does not deal with the discontinuation of the relevant IBOR in the same way as the derivative transaction. This may also have broader consequences, such as on tax or accounting.

Please refer to the ISDA Benchmark Reform and Transition from LIBOR website at https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/ for more details of the risks associated with the reform or discontinuation of IBORs referenced in derivatives transactions. We also recommend that you monitor future developments and seek independent professional advice on the potential impact of the reforms (including discontinuation) on your products with Bank of Montreal or any of its affiliates as well as your organisation more generally.