

Dear Valued Client,

The financial services industry is currently undertaking one of the biggest transformations ever, the transition from interbank offered rates (IBORs) to alternative reference rates (ARRs). As a result, contracts that currently reference certain IBORs need to be amended to reference appropriate ARR or include provisions that allow for them to transition to ARRs at the appropriate time.

While we recognize the impacts of COVID-19 on the industry and our clients, we are reaching out to ensure you are aware that global financial market regulators continue to expect market participants to transition away from IBORs by the end of 2021. Additionally, given your history entering into derivatives transactions with Bank of Montreal (“BMO”) we want to inform you of the upcoming publication of the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol (“the Protocol”) and the Supplement to the 2006 ISDA Definitions (“Supplement”).

What is the Protocol and Supplement?

ISDA’s Protocol and Supplement will help facilitate the future transition from IBORs and other impacted rates, such as CDOR, to ARRs for derivatives and other similar products. To affect the transition, ISDA will be publishing these documents on October 23, 2020.

- The Supplement includes updated fallback language that addresses the permanent cessation of certain rates impacted by the transition.
- The Protocol allows the updated fallbacks to be incorporated into legacy derivatives transactions.
- Both will be effective on January 25, 2021.

What does adherence mean?

Adherence to the Protocol by both parties to a trade will allow the parties to incorporate ISDA-specified fallbacks into legacy derivatives transactions and permit those transactions to remain in place upon the discontinuation of the current rate.

While not all impacted reference rates will transition at the same time, the Protocol will amend all legacy derivatives contracts to include the updated fallback language. This will permit those transactions to remain in place upon the discontinuation of the current rate.

What is BMO doing?

BMO plans to adhere to the Protocol. Should you also choose to adhere, our existing derivatives agreement(s) will be amended automatically once the adherence is complete. As a result, when the impacted rate is no longer published, the updated fallback language will determine the new rate within the agreement.

What should you do?

It is important to note that the ARRs replacing IBORs will be calculated using different underlying references. As a result of these differences, the conversion to an ARR may impact the economics of each individual transaction.

We encourage you to begin reviewing your transactions for your organization or any entities that you are trading on behalf of to assess any potential impacts. Please feel free to reach out with any general questions on the transition or the Protocol as BMO is here as an informative resource. We do, however, encourage you to seek independent legal, financial, tax, accounting, regulatory or other appropriate advice.

Where can I find out more about the IBOR Transition?

For additional information on the Protocol or the IBOR Transition please visit [BMO's IBOR Transition website](#). Alternatively, please reach out to BMO's IBOR Transition Office at IBOR.TransitionOffice@bmo.com.

Sincerely,

BMO IBOR Transition Office