

The purpose of this document is to provide Emirates Islamic's customers and counterparties with an overview of the discontinuation of the London Interbank Offered Rate ("LIBOR"). This information is provided for information only and it is not complete or exhaustive. Emirates Islamic is not providing any legal or regulatory advice or recommendation in this document and you should, together with your own independent professional advisors, conduct your own analysis on the potential impact of benchmark rate reform, including LIBOR discontinuation, on your business.

## Background

LIBOR is a widely used benchmark for short-term rates. LIBOR is administered by ICE Benchmark Administration Limited and is used to determine rates and payment obligations for a vast number of financial products.

LIBOR is based on submissions from certain banks (referred to as LIBOR "panel banks"), which indicate the average rates at which they could obtain financing from other banks on an unsecured basis for set periods of time and in particular currencies. LIBOR is currently produced for five currencies (CHF, EUR, GBP, JPY and USD) and seven tenors or time periods (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months and 12 Months).

## What is happening to LIBOR?

As fewer banks are providing financing to each other on an unsecured basis, LIBOR is often calculated by reference to "expert judgment" by LIBOR panel banks. In 2017, it was announced that LIBOR panel banks would no longer be compelled to contribute to LIBOR calculations beyond the end of 2021.<sup>1</sup>

Therefore, LIBOR is to be discontinued. Regulators and public and private sector working groups in several jurisdictions have been discussing a transition to alternative "risk-free rates" ("RFRs") to replace LIBOR.

## What is happening to the Emirates Interbank Offered Rate or "EIBOR"?

We are not aware of any current plans for discontinuation of EIBOR, the benchmark rate which is published by the UAE Central Bank in respect of UAE Dirham. As the UAE Dirham is not a LIBOR currency, we do not expect EIBOR to be directly affected by the discontinuation of LIBOR.

## Will LIBOR discontinuation affect other benchmark rates?

Several other interbank offered rates ("IBORs") and benchmarks are being reformed or, in some cases discontinued. For some currencies, the relevant IBOR will continue alongside the RFR. For other currencies, the relevant IBOR will likely cease to be provided and so the principal benchmark rate will be the RFR.

A number of RFR working groups have been set up across a range of countries and the RFR which has been chosen by those working groups for each LIBOR currency is shown below:

<sup>1</sup>(<https://www.fca.org.uk/news/speeches/the-future-of-libor>)

LIBOR Currency	Proposed replacement rate
Sterling	SONIA (Sterling Overnight Index Average)*
Euro	€STR (Euro Short-Term Rate)*
US Dollar	SOFR (Secured Overnight Financing Rate)*
Swiss Franc	SARON (Swiss Average Rate Overnight)*
Japanese Yen	TONAR (Tokyo Overnight Average Rate)*
+ Based on secured transactions * Based on unsecured transactions	

## Will the proposed alternative RFRs differ from LIBOR?

RFRs are overnight benchmark rates which are considered by regulators to be more representative and reliable than LIBOR. They differ from LIBOR in two main ways:

- Alternative RFRs are "backward-looking" overnight rates which are published at the end of the overnight period. In contrast, LIBOR is a "forward-looking" term rate (i.e. it is a rate for a period of time such as 1, 3 or 6 months) which is published at the beginning of the relevant period; and
- LIBOR includes a premium for interbank credit risk (i.e. an additional amount to account for the risk that the bank obtaining the financing may not be able to repay the inter-bank financing). RFRs, which are overnight rates and, in some cases, secured do not include this premium or include a reduced premium.

## What are the next steps?

Given that LIBOR is widely used, its discontinuation may impact, amongst other things, the payments under and/or the value of the products you currently have or that you may obtain in the future, your systems and processes, hedging arrangements and tax and accounting treatment. The implications of LIBOR discontinuation will differ depending on the product or service that you use.

You should consider the impact of LIBOR discontinuation on your business, review your existing products to understand where LIBOR is used and monitor future developments. You should also consider seeking independent professional advice on the potential impact of LIBOR discontinuation and benchmark rate reform on your business and your products with Emirates Islamic.

For any queries relating to the discontinuation of LIBOR, please contact your Relationship Manager.