



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

10 July 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Reform of interest rate benchmarks

I am writing to update you on the latest results of the Survey on Reform of Interest Rate Benchmarks and the key milestones that authorized institutions (AIs) should endeavour to achieve in the transition to alternative reference rates (ARRs).

Latest survey results

The latest results of the survey showed that the amount of LIBOR-linked exposures maturing beyond 2021 and having no adequate fall-back provisions had grown in the six months ending 31 March 2020. This suggested that the risks associated with the benchmark reform continued to build up in the banking system. That said, AIs had made further progress in their preparation for the transition. By the end of March 2020, the proportion of AIs which had developed a bank-wide transition plan increased by 23% to 61%. In fact, all except a few smaller institutions have already come up with a transition plan, based on the most recent information collected by the Hong Kong Monetary Authority (HKMA). More details of the survey results can be found in **Annex 1**.

Transition milestones

Notwithstanding the outbreak of COVID-19, financial authorities around the world remain committed to the original transition timeline. The Financial Stability Board (FSB) issued a statement on 1 July 2020, reaffirming its view that firms across all jurisdictions should continue to remove remaining dependencies on LIBOR by the end of 2021. The Working Group on Sterling Risk-Free Reference Rates in the UK and the Alternative Reference Rates Committee in the US have issued further statements to supplement their earlier work plans with detailed transition milestones. These include clear timelines for financial institutions to offer non-LIBOR linked products and to cease issuing products referencing LIBOR. More details on recent major developments relating to the benchmark reform are contained in **Annex 2**.

Having regard to the developments in other financial markets, the HKMA has, in consultation with the Treasury Markets Association (TMA), developed the following transition milestones which AIs are expected to achieve: -

- (i) AIs should be in a position to offer products referencing the ARR to LIBOR from 1 January 2021;
- (ii) Adequate fall-back provisions should be included in all newly issued LIBOR-linked contracts that will mature after 2021 from 1 January 2021; and
- (iii) AIs should cease to issue new LIBOR-linked products that will mature after 2021 by 30 June 2021.

The HKMA expects AIs to endeavour to achieve the above transition milestones and put in place a detailed work plan (by products and by business lines) for this purpose. AIs having difficulties to meet this timeline should discuss with the HKMA as soon as they are aware of their inability to comply with this industry standard.

To assist AIs to prepare for the transition, the Asia Securities Industry and Financial Markets Association (ASIFMA), at the HKMA's request, has kindly agreed to develop a [transition guide](#). The HKMA is also working with the TMA to develop a [self-explanatory note](#) about the benchmark reform, which AIs can distribute to their corporate customers to impress upon them the need to make early preparations. The ASIFMA transition guide and the note for corporates will be uploaded to the TMA's dedicated webpage for the benchmark reform once they are ready. Separately, the HKMA, together with the TMA, are evaluating the need for suitable fall-back provisions for HIBOR contracts, although as pointed out in previous communications there is no intention to discontinue the local benchmark.

The HKMA will continue to engage the industry proactively to ensure a smooth transition to the ARRs. Should you have any questions about this letter, please contact Mr Gordon Wong on 2878-1272 or Mr Anthony Choy on 2878-1547.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl.