



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

16 October 2020

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Reform of interest rate benchmarks

I am writing to request authorized institutions (AIs) to take early action to adhere to the IBOR Fallbacks Protocol (the Protocol) published recently by the International Swaps and Derivatives Association (ISDA).

ISDA announced on 9 October 2020 that it would launch the Protocol and the IBOR Fallbacks Supplement (the Supplement) on 23 October 2020 to implement fallbacks for existing and new derivatives contracts referencing key interbank offered rates (IBORs). The Protocol and the Supplement will take effect on 25 January 2021.

The launch of the Protocol and the Supplement marks an important step for derivatives markets in the transition from LIBOR to alternative reference rates (ARRs). The HKMA expects AIs to adhere to the Protocol before it takes effect and take proactive steps to encourage their counterparties to do the same. For existing LIBOR-linked derivatives contracts to which the Protocol is not applicable, AIs should continue to work with their counterparties to transition to ARR. As for new derivatives contracts, all those referencing the 2006 ISDA Definitions and executed on or after 25 January 2021 will automatically incorporate fallbacks.

The HKMA earlier requested AIs to endeavour to include adequate fallback provisions in all newly issued LIBOR-linked contracts that will mature after 2021 from 1 January 2021. In the light of the latest development, AIs may achieve this transition milestone for derivatives contracts within January 2021.

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)