



# Frequently Asked Questions (FAQs)

## What is a Benchmark Rate?

Benchmark Rates are used in financial transactions throughout our economy, for example, to calculate interest rates for loans.

## What are IBORs?

Interbank Offered Rates represent an estimate of how much it would cost a bank to borrow money from other banks. IBORs are published in several currencies and for a variety of interest periods.

## What is LIBOR?

The London Interbank Offered Rate. This is calculated from estimates submitted by a selection of banks in London.

## What are Alternative Reference Rates (ARRs)?

They are benchmark rates which are being developed as an alternative to IBORs.

## Why are IBORs being replaced?

IBORs are based on forward looking estimates of how much it costs for a bank to borrow money from other banks in the interbank lending market. The activity in this market has been declining gradually. ARR, such as Risk Free Rates, are being introduced because they are based on transactions which have already taken place in markets which are very active, making them more accurate and robust.

## What are Risk Free Rates?

Risk Free Rates are a type of ARR. They are overnight rates, based on transactions which have already taken place.

## How are Risk Free Rates different to IBORs?

Risk Free Rates are based on information from transactions which have already taken place. They will be less reliant on the judgement of banks, and therefore called "Risk Free".

## When do the changes to IBORs come into effect?

ARRs for certain IBORs need to be in place by 31 December 2021 and we are working with customers to ensure these changes are made before this date. No set timeline yet for replacing EURIBOR with €STR.

## What is SONIA?

The Sterling Overnight Index Average which is the new Risk Free Rate for Sterling transactions.

## What is SOFR?

The Secured Overnight Financing Rate which is the new Risk Free Rate for US Dollar transactions



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## What is SARON?

The Swiss Average Rate Overnight which is the new Risk Free Rate for Swiss Franc transactions.

## What is €STR?

The Euro Short Term Rate which is a new Risk Free Rate for Euro transactions.

## What is EURIBOR and how is it changing?

The Euro Interbank Offered Rate. EURIBOR has been reformed to meet the requirements of the EU Benchmarks Regulation, to include in its calculation, information based on transactions that have already taken place. No set timeline yet for replacing EURIBOR with €STR.

## Are all Banks impacted?

All banks which offer products based on IBOR rates are impacted.

## What are we doing to get ready for this change?

We are complying with regulatory guidance and putting a strategy in place. We will provide customers with further information as things progress and share updates and guidance on a regular basis.

## What does this mean for me?

If you have a contract with us that relates to an IBOR, we have, or will be communicating with you to advise you what your rate options are when moving away from the IBOR rate.

## What if I am unsure about these changes?

Regulators have instigated the move from IBORs to Risk Free Rates because they believe it is best for customers. RFRs are calculated based on real transactions, are more transparent and have proved more stable over time. All banks will be moving customers to the new Risk Free Rates over the course of 2021.

Should you wish to discuss the impact of IBOR transition on any of the products you hold with us, please contact us as outlined below.

If you are in any doubt as to the impact of these reforms, you are encouraged to seek independent advice (legal, financial, tax, accounting or otherwise), from your own professional advisors, based on your own particular circumstances.

## What are the next steps?

Whether you are an existing customer or you are taking out a new product, we are making you aware that IBOR Transition will require us to make changes to products and documents. If you are affected by these changes we will communicate with you.

## How is IBOR transition being guided by regulators?

The purpose of the transition to ARR is to more accurately reflect current interbank market activities. As a consequence, several industry bodies and both private and public sector working groups have been established in various countries to choose suitable ARR and to provide guidance to banks to help them with the transition.



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## Does this change only affect GBP LIBOR products?

No. While GBP LIBOR, which seeks to measure lending in sterling on the London interbank market, is a widely recognised benchmark rate, IBORs are used to measure interbank lending in lots of other currencies, for example US Dollar.

## What official guidance is being given to banks in relation to the timing of Sterling LIBOR?

The Sterling Risk Free Rates Working Group (RFRWG) set an objective for banks and other financial providers that no new GBP LIBOR based cash products, such as loans, maturing after 31 December 2021, were to be entered into after 31 March 2021.

## How will my IBOR contract be changed to one which incorporates an RFR?

This will depend on the kind of product you hold with us and the terms of your contract. You should review your documents carefully and seek independent advice (legal, financial, tax, accounting or otherwise), from your own professional advisors, based on your own particular circumstances. The amendment process may be different for each product type. If you are affected we will contact you.

## What will the outcome be for transition away from LIBOR?

The Bank of England have stated that steps should be taken to ensure customers have been treated fairly when transitioning from LIBOR. This means that LIBOR discontinuation should not be used to move customers with continuing contracts to replacement rates that are expected to be higher than what LIBOR would have been, or otherwise introduce inferior terms.

The regulator also states that firms receiving LIBOR-linked interest are not expected to give up the difference between LIBOR and SONIA. Both of these factors must be considered as part of the move to SONIA.

## Will there be any changes to the terms of my current documentation?

Depending on the expiry date of your current facility, we may need to make a change to your documentation to bring it in line with the new benchmark. If you are affected, your Relationship Manager will be in touch.

## Who will bear the cost of repapering legal documentation?

As it's possible that both AIB (NI) and its customers are likely to incur legal costs, these will be paid by each individual party.

## How do I know if these changes will affect me?

These changes affect customers with products where the applicable reference rate is solely comprised of LIBOR. If changes to documentation are required, your Relationship Manager will be in touch.



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## What options are available for customers who are transitioning away from LIBOR?

The default option will be Risk Free Rates, but there may be alternative options depending on your circumstances. If you would like to discuss these, please contact your Relationship Manager.

## Will the new calculation affect my interest payment date?

No, this will remain as previously agreed. But there may be alternative options depending on your circumstances. If you would like to discuss these, please contact your Relationship Manager.

## What if I don't want to amend my product?

If you do not amend your facility, your facility agreement may contain fallback wording that could apply to amend the rate once LIBOR has ceased or has become non-representative. You should give careful consideration, including with your independent advisers (legal, financial, accounting or otherwise), as to whether any such fallback rate would be appropriate for you in light of your own circumstances. In particular, you should be aware that, if LIBOR is replaced with a fallback rate, the rate you pay may be subject to change, depending on market conditions and, if applicable, the cost of each lender's own credit.

## What is the current status of legislative proposals in relation to IBOR transition?

Legislation is being considered, or has already been proposed in various jurisdictions which might allow regulatory authorities to designate 'statutory successors' for certain IBORs and/or amend how certain IBORs are calculated, and/or create certain 'synthetic' IBOR rates. Whilst legislation to this effect has been adopted in certain jurisdictions, the relevant regulatory authorities are currently gathering feedback from market participants on how they will be able to exercise these powers. As the legislative proposals have not yet been finalised, the outcome and potential impact of the legislation is not yet certain. As a result, and in accordance with relevant regulatory guidance on transition, we are taking active steps now to transition our products away from the relevant IBORs in light of their upcoming cessation and/or non-representativeness dates.

## Where can I go for more information?

IBOR.QUERY@aib.ie or your Relationship Manager.

In addition the following websites may be useful:

### **UK**

<https://www.bankofengland.co.uk/>

### **Europe**

<https://www.ecb.europa.eu/home/html/index.en.html>

### **US**

<https://www.newyorkfed.org/>

### **Switzerland**

<https://snb.ch>



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Recipients of this guide should be aware of statements made by the Financial Conduct Authority and other international regulators, that LIBOR will cease to be published between now and the end of 2021. We encourage you to understand how the provisions of your product(s) with AIB Group (UK) p.l.c. and any linked products will operate should LIBOR or other applicable benchmarks be discontinued, have their use restricted, if any published benchmark rate ceases to be in customary market usage, or if there are changes to the way in which the benchmark is calculated, and bear in mind that amendments to your contract and any contract for linked products may be required in the future.

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We encourage you to keep up to date with the latest regulatory and industry developments in relation to IBOR transition and to consider its impact on your business. You should consider, and continue to keep under review, the potential impact of IBOR transition on any existing product you have with AIB Group (UK) p.l.c., any new product you enter into with AIB Group (UK) p.l.c., and any other products you hold.



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