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RESERVE BANK OF INDIA

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Cessation of LIBOR: Transition arrangements

Today on July 08, 2021, the Reserve Bank of India (RBI) issued an [advisory](#) to banks and other RBI-regulated entities emphasizing the need for preparedness for the transition away from London Interbank Offered Rate (LIBOR). The key steps to be taken in this regard include:

- (i) Banks and financial institutions are encouraged to cease entering into new financial contracts that reference LIBOR as a benchmark and instead use any widely accepted alternative reference rate (ARR), as soon as practicable and in any case by December 31, 2021.
- (ii) Banks and financial institutions are urged to incorporate robust fallback clauses in all financial contracts that reference LIBOR and the maturity of which is after the announced cessation date of the LIBOR settings.
- (iii) Banks and financial institutions are encouraged to ensure that new contracts entered into before December 31, 2021 that reference LIBOR and the maturity of which is after the date on which LIBOR ceases or becomes non-representative include fallback clauses.
- (iv) Banks have also been advised to cease using the Mumbai Interbank Forward Outright Rate (MIFOR), a benchmark which references the LIBOR, as soon as practicable and in any event by December 31, 2021. In this context, Financial Benchmarks India Pvt Ltd (FBIL) has started publishing daily adjusted MIFOR rates from June 15, 2021 and modified MIFOR rates from June 30, 2021 which can be used for legacy contracts and fresh contracts respectively.
- (v) Contracts referencing LIBOR / MIFOR may generally be undertaken after December 31, 2021 only for the purpose of managing risks arising out of LIBOR / MIFOR referenced contracts undertaken on or before December 31, 2021.

Reserve Bank will continue to monitor the evolving global and domestic situation with regard to the transition away from LIBOR and proactively take steps, as necessary, to mitigate associated risks in order to ensure a smooth transition.

Background

The Financial Conduct Authority (FCA), UK, in a press statement dated March 05, 2021 announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- Immediately after December 31, 2021, in the case of all Pound sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- Immediately after June 30, 2023, in the case of the remaining US dollar settings.

The transition away from LIBOR and the adoption of ARR's developed in various jurisdictions is a significant event which needs to be carefully prepared for in order to manage potential customer protection, reputational and litigation risks as well as avoid disruptions to the safety and resilience of financial institutions and overall financial stability of the economy. In August 2020, the Reserve Bank had advised banks and financial institutions to assess their LIBOR exposures which will mature after the cessation of the LIBOR as also frame a Board-approved plan for the steps to be taken to address the risks arising from the LIBOR transition.

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