

IBOR Transition Update

ISDA IBOR Fallbacks Protocol

Dear Valued Client,

Emirates NBD Bank PJSC (**ENBD**) is writing to you in connection with the discontinuation of interbank offered rates (**IBORs**) and your derivatives transaction(s) with ENBD and/or its affiliates.

ISDA Fallback Protocol and the ISDA Fallback Supplement

On 23 October 2020, the International Swaps and Derivatives Association (**ISDA**) published the [ISDA 2020 Interbank Offered Rate \(IBOR\) Fallbacks Protocol](#) (the **ISDA Fallback Protocol**) and the [ISDA Fallback Supplement](#).

The **ISDA Fallback Protocol** enables market participants which have adhered to the ISDA Fallback Protocol to incorporate new fallbacks into their legacy derivatives contracts entered into **prior to 25 January 2021**.

The **ISDA Fallback Supplement** amends ISDA standard definitions by providing for new fallbacks in contemplation of the cessation of IBOR options and the application of alternative reference rate (**ARR**) options. These amendments will apply automatically to derivatives contracts entered into on or **after 25 January 2021** that reference such ISDA definitions.

Adherence to the ISDA Fallback Protocol

Rather than having to amend each existing derivative contract individually, if the counterparties to derivative contracts each adhere to the ISDA Fallback Protocol, then those contracts are automatically amended so that the relevant ARRs apply once the relevant IBOR is discontinued.

The ISDA Fallback Protocol is open for adherence by counterparties to derivatives transactions and became effective on 25 January 2021. ENBD has adhered to the ISDA Fallback Protocol. You may wish to consider if adherence to the ISDA Fallback Protocol is appropriate for you.

The ISDA Fallback Protocol and the ISDA Fallback Supplement is each publicly available and can be accessed by clicking the links above. As of 25 January 2021, over 12,000 parties globally across 80 jurisdictions, including all major banks, have adhered to the ISDA Fallback Protocol. The list of such parties can be found here [ISDA 2020 IBOR Fallbacks Protocol – International Swaps and Derivatives Association](#).

Regulatory Guidance

The ISDA Fallback Protocol was developed by ISDA at the request of the Financial Stability Board (FSB) and in consultation with a wide range of market participants and international authorities.

Financial regulators, including the UK Financial Conduct Authority (FCA) and the Alternative Reference Rates Committee convened by the US Federal Reserve Board (ARRC), have encouraged market participants to adhere to the ISDA Fallback Protocol in order to help address individual and systemic risk in transitioning derivatives arrangements from IBOR to ARRs.

Frequently Asked Questions

The annexure attached sets out a summary of Frequently Asked Questions on the ISDA Fallback Protocol.

Thanking You

Kind regards

Emirates NBD Bank PJSC

Annexure: Frequently Asked Questions on the ISDA Fallback Protocol

What does the ISDA Fallback Protocol do?

Rather than having to amend each existing derivative contract individually, if the counterparties to derivative contracts each adhere to the ISDA Fallback Protocol, then those contracts are automatically amended so that the relevant ARR applies once the relevant IBOR is discontinued.

How are IBORs different to ARRs?

ARRs are structurally different to IBORs. IBORs are calculated by reference to forward-looking rates applicable to a future tenor and include a risk element for interbank lending (for example, term bank credit risk or liquidity premium for longer term exposure). ARRs, on the other hand, are overnight rates calculated on a compounded or weighted-average basis (so-called 'risk-free' rates (RFRs)), are backward-looking and do not take account of interbank lending risk.

What IBORs and ARRs are covered in the ISDA Fallback Protocol?

The IBORs set out in the table below and the corresponding replacement ARRs are covered by the ISDA Fallback Protocol (as well as other IBORs pertaining to certain lesser-used currencies).

IBOR	ARRs
USD LIBOR	Secured Overnight Financing Rate (SOFR)
GBP LIBOR	Sterling Overnight Index Average (SONIA)
EUR LIBOR	European Short-term Euro Rate (€STR)
CHF LIBOR	Swiss Average Rate Overnight (SARON)
JPY LIBOR / JPY / EuroYen TIBOR	Tokyo Overnight Average Rate (TONAR)
SIBOR / SOR	Singapore Overnight Rate Average (SORA)

How and when does the ISDA Fallback Protocol apply?

The ISDA Fallback Protocol applies where: (i) the relevant ISDA document (for example, master agreement, credit support document, or trade confirmation) incorporates the 2006 ISDA Definitions (or one of the equivalent earlier legacy ISDA definitions booklets); and (ii) the relevant document references an IBOR that is to be discontinued.

Some non-ISDA documents will also be within the scope of the ISDA Fallback Protocol, provided that such a document is listed in the ISDA Fallback Protocol as an 'Additional Master Agreement' or an 'Additional Credit Support Document'.

While the parties to derivatives contracts which reference ISDA definitions entered into before 25 January 2021 are required to take action for the ISDA Fallback Protocol to apply to those legacy contracts (i.e. to adhere to the ISDA Fallback Protocol), derivatives contracts which incorporate ISDA definitions entered into on or after 25 January 2021 will automatically contain the fallbacks set out in the ISDA Fallback Protocol.

What is the fallback solution?

Once the relevant IBOR is discontinued (or earlier, if the parties to the derivatives contract elect), that IBOR will be replaced with the aggregate of: (i) the term-adjusted corresponding ARR; and (ii) the ISDA Median Spread.

The term-adjusted ARR is calculated by compounding the ARR in arrears for the term equivalent to the tenor of the IBOR it replaces. The ISDA Median Spread is equivalent to the median difference over a historic five year period (ending two business days before the IBOR cessation date) between the relevant IBOR being replaced and the corresponding ARR compounded in arrears for the term equivalent to the tenor of the IBOR it replaces.

By way of example: 3m USD LIBOR would be replaced by the aggregate of: (i) SOFR Compounded in Arrears for 3m; and (ii) the ISDA Median Spread.

Where will the ARR information be published?

Bloomberg has been appointed to publish the term-adjusted ARRs and the applicable ISDA Median Spread for each currency and an IBOR tenor, and will also publish the 'all-in' fallback ARR, comprising the term-adjusted ARR and applicable ISDA Median Spread.

When will IBORs be discontinued?

There are two key triggers expected to follow in connection with the discontinuation of IBORs and the application of ARRs: a Pre-Cessation Event and a Cessation Event.

A Pre-Cessation Event occurs when the regulatory supervisor for the administrator of an IBOR (currently, the FCA in respect of LIBOR) announces publicly that the IBOR is non-representative or is otherwise no longer a reliable benchmark as of a specific date even though publication of the IBOR benchmark will yet to have ceased.

A Cessation Event occurs when the regulatory supervisor for the administrator of an IBOR announces publicly that it has ceased, or will cease, to provide the relevant IBOR permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to provide the relevant IBOR.

A Pre-Cessation Event occurred on 5 March 2021 when the FCA announced that the following LIBOR benchmark rates will either cease to be provided or will no longer be representative immediately after the following Cessation Dates:

- 31 December 2021: (i) in respect of Sterling, Euro, Swiss Franc and Japanese yen, all LIBOR benchmark rates; and (ii) in respect of United States dollars (USD), for one week (USD LIBOR 1w) and for two months (USD LIBOR 2m); and
- 30 June 2023, in the case of USD, all remaining LIBOR benchmark rates.

What is happening to the European benchmark rates, EURIBOR and EONIA?

EURIBOR is the interbank offer rate for Euro between European banks and EONIA is the Euro overnight index average. While EONIA will be discontinued on 3 January 2022 and "replaced by the €STR (being an overnight wholesale funding rate that is published by the ECB)," EURIBOR (having undergone reform in 2019 and been authorized by the competent authority as being compliant with the EU benchmark regulations) can continue to be used for new and legacy contracts after the Cessation Date for EONIA. We continue to monitor announcements for any change to the availability and use of EURIBOR.

Can the fallback be incorporated without adhering to the ISDA Fallback Protocol?

Yes.

Instead of adhering to the ISDA Fallback Protocol in whole where all derivatives contracts would automatically be amended, contractual parties may choose to adopt the ISDA Fallback Protocol between themselves. ISDA has published a set of template bilateral documents for this purpose.

How do I adhere to the ISDA Fallback Protocol?

Instructions on how to adhere to the ISDA Fallback Protocol can be found [here](#).

You can generate your form of Adherence Letter [here](#). You can then sign the Adherence Letter (you can sign electronically, no 'wet-ink' signature required).

What do I do next?

- 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 and/or service that you use. When entering into transactions with ENBD, you should consider the risks and benefits of using a particular benchmark and understand the consequences if such a benchmark is changed or discontinued. You should consider whether you have suitable contingency plans in place should any of the events described above happen. You should consider, and keep under review (on your own behalf or through independent professional advice), the potential impact and risks of any future changes to the relevant benchmark rates under the financial contracts and financial instruments that you have (or may in the future enter into) with ENBD. We recommend that you keep up to date with the latest industry developments in relation to the upcoming changes and the potential alternative benchmark rates that may be relevant to you. For any queries relating to the discontinuation of LIBOR, please contact your Relationship Manager.
- ENBD plans to be operational to transact new ARR products in line with regulatory guidance and market developments.
- ENBD will communicate with its clients at the relevant time for the purposes of amending existing LIBOR referencing contracts.

Where can I find more information on the ISDA Fallback Protocol?

On the ISDA website.

ISDA has published a dedicated page for the [IBOR Fallback Protocol](#) and for [FAQs](#). Further information and updates on the IBOR transition more generally can be found [here](#).

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