LIBOR Transition

Frequently Asked Questions

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Summary

The FAQs herein provide an overview of the LIBOR transition as relates to BankUnited and our clients and is provided for information purposes only.

This is a working document and will be updated and revised as additional information develops.

A. Overview and Background

1. What is the difference between IBOR and LIBOR?

Interbank Offered Rate (IBOR) is a broad term which defines various reference rates used to determine the rate at which banks can lend and borrow from one another. For example, reference rates such as: EURIBOR, TIBOR and LIBOR could all be referred to as IBORs. The term LIBOR refers to a specific IBOR which is based on submissions from panel banks and denominated in five currencies (CHF, EUR, GBP, JPY and USD).

2. What is LIBOR?

The London Interbank Offered Rate or “LIBOR” is an interest rate benchmark that is widely used for short-term interest rates, providing an indication of the average rates at which certain banks (referred to as LIBOR “panel banks”) could borrow from other banks on an unsecured basis for set periods of time and in particular currencies. LIBOR is based on submissions from panel banks of the rates they either pay or would expect to pay to borrow from other banks.

3. How is LIBOR used?

LIBOR is used in many ways across the financial industry, primarily:

- To calculate interest payments for products such as loans, derivatives and bonds.
- As a performance target or benchmark for investment funds.
- To value certain products.
- In investment objectives.
- To calculate discount rates or performance ratios.
- To assess market expectations regarding central bank interest rates and liquidity in the interbank lending market.
- As an indicator of the health of the banking system.
- For operational activities, including valuation curves, stress testing, pricing and asset allocation models.

4. Why is LIBOR important?

LIBOR is by far the most prevalent floating rate index worldwide. For example, if a loan has a floating rate (an interest rate that fluctuates over the duration of the contract), then that interest rate will often be based on LIBOR. LIBOR is most frequently used for derivatives, which make up approximately 90% of the roughly US$350 trillion worth of financial products linked to LIBOR.

5. What currencies and time periods are used for LIBOR?

LIBOR is currently produced for **five currencies** (CHF, EUR, GBP, JPY and USD) and **seven tenors** or time periods (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months and 12 Months). A total of 35 rates across tenors and currencies are published every applicable London business day. Currently, each LIBOR calculation is based on interest rates (input data) received from a group of 11 to 16 panel banks for each of the five LIBOR currencies.

6. When will LIBOR be phased out?

The Financial Conduct Authority (FCA), the regulator that oversees LIBOR, indicated in 2017 that it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR after the end of 2021, with potential cessation confirmation announcements coming by the end of 2020.

The FCA and the ICE Benchmark Administration (IBA), LIBOR’s administrator, later proposed the extension of certain USD LIBOR tenors until 2023 to allow markets sufficient time to transition its LIBOR exposures to alternative reference rates.

On March 5th, 2021, the FCA and IBA confirmed the dates for ceasing the publication of each LIBOR tenor on a representative basis:

- **December 31st, 2021** for all Sterling, Euro, Swiss franc, and Japanese yen LIBOR settings; as well as the 1-week and 2-month USD LIBOR settings
- **June 30th, 2023** for every remaining USD LIBOR setting (i.e., overnight, 1-month, 3-month, 6-month, and 12-month tenors)

Thus, BankUnited and other market participants are acting now to address LIBOR discontinuation.

7. What caused the need to stop using LIBOR?

The integrity of LIBOR was questioned during the **2008 financial crisis** when several banks contributing to its calculation were **accused of rate manipulation.** A contraction in the **unsecured interbank lending market** has also occurred in the years since the financial crisis. Attempts to base LIBOR on actual transactions failed, as the underlying market which LIBOR seeks to measure is no longer sufficiently active. However, the FCA will ensure that panel banks continue to submit rates to LIBOR's administrator so that LIBOR can be calculated until the end of 2021, at which time LIBOR is expected to be discontinued and alternative reference rates (ARRs) will be utilized in its place. By contrast, these ARRs are based on overnight lending markets rates, which are generally considered to be more liquid.

8. What are the inherent issues with LIBOR and how will they be addressed in LIBOR's replacement?

LIBOR is inherently subjective **as panel bank submissions** are not necessarily rooted in actual transactions or data. Despite governance put into place since the financial crisis, LIBOR still relies on bank estimates. The LIBOR replacements, alternative reference rates, differ in how they function across the world (more on that in the Alternative Reference Rates section), but they seek to improve objectivity and transparency by being rooted in a large volume of actual transactions.

9. Who governs the LIBOR transition?

Working groups have been established in each of the jurisdictions that have LIBOR produced in their currency. For each currency LIBOR variant, the working groups have identified an alternative reference rate and are developing plans to transition each market to the new ARRs. While each working group is focused on their specific currency transition, there is a global effort to work across jurisdictions in recognition of the global impacts of LIBOR transition. The working group in the US is the Alternative Reference Rate Committee (ARRC). Additionally, the International Swaps and Derivatives Association, Inc. (ISDA) is focused on the transition of the derivatives markets to ARRs.

Below is a table highlighting the respective working groups in each major LIBOR jurisdiction along with their corresponding alternative rate characteristics:

Jurisdiction	IBORs	Working Group	Alternative RFR	Secured / unsecured	Overnight / term	Credit spread / no credit spread	Rate administrator	Subgroup
	USD LIBOR	Alternative Reference Rate Committee	Secured Overnight Financing Rate (SOFR)	Secured	Overnight	No credit spread	Federal Reserve Bank of New York	Sub-groups on cash products (loans, CLOS, FRNs, mtgs, other\) and outreach

B. Alternative Reference Rates: SOFR

1. **Who oversees the transition process away from LIBOR for USD-denominated instruments to SOFR, the USD LIBOR replacement and ARR?**
   The Alternative Reference Rates Committee (ARRC) is overseeing the transition and will lead the transition away from LIBOR in the United States. The ARRC is a group of private-market participants initially convened by the Federal Reserve (Fed) in December 2014, in cooperation with other US federal financial services regulatory authorities. The list of 2020 ARRC objectives and the ARRC recommended best practices set forth important transition activities and milestones.

   Additionally, ISDA is leading the transition of the USD LIBOR derivatives markets to SOFR. ISDA and the ARRC have worked closely together to confirm alignment in their goal: transitioning away from USD LIBOR.

2. **Who produces and administers SOFR?**
   The New York Fed publishes SOFR on its website daily, at approximately 8 a.m. EST. SOFR represents a broad measure of the cost of borrowing cash overnight in the repo market collateralized by Treasury securities. Publication of SOFR began in April 2018.

3. **What are the differences between LIBOR and SOFR?**
   LIBOR and SOFR are fundamentally different in several ways, such as how they are calculated and administered. Below is a comparison:

Characteristic	SOFR	LIBOR
Risk	Risk free rate (no credit risk)	Bank lending rate (includes credit risk)
Forward vs. Backward Looking	Overnight (backward looking)	Forward looking
Secured vs. Unsecured	Secured (collateralized)	Unsecured (no collateral)
Calculation and Publication	Calculated and published daily by the NY Fed	Calculated and published daily by ICE Benchmark Administration
Basis	Transaction based	Based on LIBOR panel bank submissions
Term Structure	No term structure (however note that the ARRC has a goal to develop term structures in H1 2021)	Term structure
Marketability	Measured the USD market only	Measures the same market in all currencies (i.e. the unsecured interbank lending market)

4. **Is SOFR available to use now?**
   Yes, there is ample liquidity in the SOFR linked based USD floating rate notes market. However, to date, there has been a limited number of SOFR-based derivative issuances. SOFR is continuing to develop and will have multiple variations. The Federal Reserve Bank of New York (FRBNY) publishes SOFR each morning on its website. As an extension of SOFR, the FRBNY publishes compounded averages of SOFR over rolling 30-, 90-, and 180-calendar day periods (collectively, the SOFR Averages) and a SOFR Index that measures the cumulative impact of compounding SOFR on a unit of investment over time. Market participants are encouraged to use the SOFR averages and Index to offer more complex SOFR products in the absence of a SOFR Term Rate. Term SOFR is under development and is not expected to be available in the near future. As LIBOR discontinuance nears, market adoption and liquidity are expected to grow.

5. **What are some of the consequences of moving from LIBOR to SOFR?**
   While there are many implications as a result of moving from LIBOR to SOFR, one of the most critical impacts is that an unintended “value transfer” can occur when transitioning existing LIBOR-based financial products to SOFR, as no replacement benchmark is likely to be neutral to all industry participants and counterparties. The ARRC has addressed the value transfer that may occur by recommending fallback language include a spread adjustment be added to SOFR when SOFR is used to replace LIBOR in an existing financial product.

On April 8th, 2020, the ARRC recommended a spread adjustment calculation methodology for cash products referencing USD LIBOR. This spread adjustment methodology is based on a historical median over a five-year lookback period calculating the difference between USD LIBOR and SOFR. This methodology aligns with ISDA's recommended spread adjustment methodology for derivatives.

6. **How has SOFR performed relative to LIBOR with the recent market volatility?**
   The difference between the LIBOR and SOFR can increase during times of stress. For example, in April 2020, the repo market and the SOFR rate saw falling interest rates, whereas the LIBOR rate increased during the same period.

7. **How can I learn more about SOFR?**
   BankUnited's LIBOR Transition program will coordinate with each client to provide them with the necessary information regarding the transition. This is intended to prepare and educate those impacted on how to best transition away from LIBOR to SOFR. Additional resources can be found on the ARRC website, such as "A User's Guide to SOFR" that details how to use SOFR in cash products.

C. Contracts & Fallback Language

1. **How will the transition from LIBOR impact my loan?**
   If you have a LIBOR based loan, line of credit or other product that is impacted by the timing of the transition, BankUnited will work with you to transition it to a new benchmark rate.

   Due to the anticipated discontinuation of LIBOR, recently originated or modified loans likely include fallback language outlining a detailed mechanism to amend the loan documents to incorporate a new reference rate to replace LIBOR, as well as a spread adjustments to account for differences between LIBOR and the new reference rate.

   As of January 2021, BankUnited's fallback language adopted a 'hardwired approach' that will specifically identify SOFR as the new reference rate.

2. **What is a "fallback"?**
   In this context, a "fallback" refers to the language in a document that lays out the process through which a replacement interest rate will be identified and implemented if the benchmark interest rate (e.g., USD 3-month LIBOR) referenced in the document is (a) permanently discontinued (a permanent cessation fallback) or (b) announced by an official source to be no longer representative of the underlying market (a pre-cessation fallback).

   Fallback language within a document acts as a how-to guide for identifying the replacement interest rate should the original benchmark rate be unavailable or non-representative. For example, a USD LIBOR fallback provision would have the document switch to SOFR as the benchmark rate plus a defined credit spread adjustment upon LIBOR becoming unavailable or non-representative.

3. **What is a 'trigger event'?**
   In this context, a 'trigger event' is a component of a fall back, and an event that brings about the need to use a fallback rate (such as the IBOR rate not being available or, in the case of LIBOR, such rate no longer being representative).

4. **What happens to fallback language if I have an existing swap or want to add a new swap?**
   On October 23, 2020 ISDA released an updated version of the ISDA Protocol, and within the protocol revised LIBOR definitions for new swaps. These definitions, based on numerous market consultations, provide that U.S. dollar LIBOR-based swaps will fall back to SOFR compounded in arrears rate plus a static spread adjustment that will be calculated as the median of the historical difference between a given tenor of U.S. dollar LIBOR and a compound average of the SOFR in arrears for the corresponding tenor. The median difference will be calculated using the five years of historical data preceding a "trigger event" such as a permanent discontinuation of LIBOR. BankUnited plans to provide methods to incorporate the revised LIBOR definitions into existing swaps and assist with implementing new swaps with the correct fallback language.

5. **What happens if I do not amend my IBOR impacted contract?**
   This will depend on many factors, including the contractual provisions for your product(s) and the ARR available at the time. There is a risk that, at the time of LIBOR cessation, there is no identified fallback approach or an ARR can be selected that is not favorable to the borrower, potentially exposing you to financial, legal, and operational risk. You should review your impacted portfolio carefully and contact your BankUnited Relationship Manager regarding the impact on your products.

6. **Why do I need to be concerned now about the LIBOR transition when it is not going away until June 2023?**
   Despite the formal cessation of most LIBOR tenors not occurring until June 2023, there are several activities that BankUnited is completing in advance to ensure readiness for LIBOR Cessation. To provide customers with a smooth transition away from LIBOR, our LIBOR Transition team is focused on:
   - Creating and releasing new ARR instruments
   - Improving systems and other infrastructure to prepare for these changes
   - Creating efficient processes for updating existing accounts
   - Communicating with customers about upcoming changes

Though most USD LIBOR tenors will continue being published until June 2023, the ARRC still recommends that firms cease new LIBOR originations that increase LIBOR risk as soon as practical, and in no instance beyond 2021.

Additionally, while June 2023 marks LIBOR discontinuance, the market will move to other ARRs in advance of that deadline to prevent a 'big bang' transition. For example, adoption of SOFR – the USD LIBOR replacement – has grown recently. Working groups and industry participants have planned interim milestones in advance of 2023 to monitor progress towards LIBOR discontinuance. A transition away from a rate as important as LIBOR is a multi-year endeavor, so while 2023 may seem far away, action is imperative now.

7. **Where can I obtain more information?**
   BankUnited will seek to update this page periodically as market developments occur and industry announcements are made. In addition, should you seek general information on the LIBOR transition, please consider reviewing published information from regulators, working groups and other industry bodies (refer to Section E). Relationship Managers will coordinate specific communication to each client to provide the necessary information. Additional questions can be raised to your BankUnited Relationship Manager.

8. **When my existing LIBOR contract transitions, will the new rate be "neutral" in comparison to LIBOR?**
   ARRs differ in fundamental ways from LIBOR. Fallback language is designed to address these differences through the use of a spread adjustment to account for the differences between ARRs and LIBORs. While the goal of the spread adjustment is to mitigate value transfer, there can be no assurances that the new rate construct would be neutral in comparison to LIBOR.

9. **What happens to existing LIBOR-linked products that mature after 2023?**
   Products with exposure to LIBOR that mature after the respective LIBOR tenor's cessation date will need to move to a new mechanism for determining an interest rate after that date. If approved fallback language is present in the loan agreement, it will set out the alternative rate(s), which may become the benchmark rate in place of LIBOR, once it is no longer available. Loan agreements without the proper fallback language will be amended, prior to cessation, to one of the approved BankUnited methodologies adopted to include SOFR or another approved base rate option.

10. **How do I change my LIBOR-linked contract to one which incorporates one of the recommended ARRs?**
    This will be determined on a per contract basis and depend on the financial product and the existing fallback language used. You should review your documentation carefully, contact your BankUnited Relationship Manager and seek independent professional advice (e.g., legal, tax, accounting, financial), as appropriate, when considering whether a transition to ARRs is best achieved by (1) amending the contract to introduce fallbacks, or (2) replacing the product with a financial product that references the preferred ARR.

    The amendment process is likely to be different for each product type you may have. Please contact your Relationship Manager if you have any questions.

11. **If new documents are needed, who will bear the cost?**
    New or updated legal documents may be required as a result of the transition. BankUnited will work with clients throughout that process to make it as seamless as possible. Both parties to a contract are expected to cover their transaction costs of restructuring the agreement.

12. **When will BankUnited stop using LIBOR?**
    There are many factors which impact investment decisions, such as product type and business line. The BankUnited LIBOR Transition Program Management Office is working with treasury and all applicable stakeholders to make this decision and will address this question as the program progresses.

13. **What do I need to do to prepare for the transition away from LIBOR?**
    No action is required of existing clients at this time. BankUnited will be reaching out to our customers who are impacted by this transition and will provide further updates in advance of any necessary changes. Please reference this website for additional resources on the LIBOR transition and industry developments.

D. Glossary

The BankUnited LIBOR Transition Program Management Office developed glossary of helpful to terminology leverage throughout the LIBOR transition.

Industry Working Groups & Regulators

Alternative Reference Rates Committee (ARRC)
The ARRC is overseeing the transition and will lead the transition away from LIBOR in the US. The ARRC is a group of private-market participants initially convened by the Federal Reserve (Fed) in December 2014.

Financial Accounting Standards Board (FASB)
An accounting guideline setting body in the US that is considering the impacts of LIBOR on financial statements.

Financial Conduct Authority (FCA)
The UK regulator that oversees LIBOR. The FCA has indicated that it will no longer persuade or compel panel banks to submit the rates required to calculate LIBOR after the end of 2021.

Financial Stability Board (FSB)
An international body that monitors and makes recommendations regarding the global financial system that has concluded continued reliance of global markets on LIBOR poses clear risks to global financial stability.

International Swaps and Derivatives Association
An industry association working with regulators on LIBOR fallback language reform, specifically with derivatives (global).

Securities Exchange Commission (SEC)
US financial system regulator that is also deeply involved in reviewing SEC registered firms' preparation for LIBOR discontinuation.

Rates

Alternative Reference Rate (ARR)
ARRs are the likely replacements for LIBOR. ARRs differ based on jurisdiction but generally are overnight interest rate benchmarks which are perceived by regulators to be more representative and reliable than LIBOR, as they are based on actual transactions.

Effective Fed Funds Rate (EFF)
In the United States, the Effective Fed Funds Rate is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis.

Interbank Offered Rate (IBOR)
An Interbank Offered Rate measures unsecured interbank lending. Examples of IBOR include EURIBOR, LIBOR and TIBOR.

London Interbank Offered Rate (LIBOR)
An interest rate benchmark that is a widely used for short-term interest rates, providing an indication of the average rates at which certain banks could borrow from other banks on an unsecured basis for set periods of time and in particular currencies. LIBOR is expected to be discontinued at the end of 2021.

Risk-Free Rates (RFRs)
Risk-Free Rates have been identified by the national working groups as alternatives to IBORs. RFRs are overnight risk-free (or near risk-free) rates measured from transactions in interbank unsecured lending markets or repo markets.

Secured Overnight Financing Rate (SOFR)
The Secured Overnight Financing Rate has been named by the ARRC as its recommended RFR alternative to LIBOR for US dollar denominated sums. SOFR is produced by the New York Fed and is a secured risk-free rate.

Instrument Specific Terms

Backward-looking term rates
Backward-looking overnight rates do not have a “term” element and are calculated by reference to historical transaction data. However, forward-looking term rates can be derived from backward-looking RFRs via the OIS or futures markets.

Compounded / averaged in arrear
The compounded / averaged in arrear method of calculating an interest rate involves compounding / averaging an RFR over an interest period (or an observation period) to produce a backward-looking rate.

Compounded / averaged in advance
The compounded / averaged in advance method of calculating an interest rate would involve compounding / averaging an RFR over the period prior to the interest period to produce a rate known in advance.

Fallback language
Fallback language sets out the alternative rates which may become the benchmark rate where the originally referenced benchmark rate (e.g. LIBOR) is no longer to be used. Fallback language in documentation is contingent on a trigger.

Forward-looking term rates
Forward-looking term rates are rates for an interest period that are known at the beginning of that period. For example, LIBOR is known at the beginning of each respective tenor and therefore the interest due at the end of an interest period is known at the beginning of that period.

Legacy LIBOR
Existing positions or instruments that reference LIBOR beyond 2021 (LIBOR cessation date) that will need to be remediated via fallback language once LIBOR is declared unrepresentative.

New LIBOR
New positions or instruments that investment teams choose to enter that reference LIBOR between now and the end of 2021 (LIBOR cessation date).

Observation Period
This is a period over which a compounded RFR applicable to any loan is calculated. It operates by reference to a specified lookback which determines both the first day of the observation period and the last day of the observation period.

OTC Derivatives
Over-the-counter (OTC) derivatives are contracts that are traded directly between two parties, without going through an exchange or other intermediary, including products such as swaps. OTC Derivatives frequently reference LIBOR.

E. Additional Information

We encourage you to contact your Relationship Manager for more information on how this transition may impact you.

Below are also several resources that may help you find the information you are looking for:

External Resources:

Alternative Reference Rate Committee (ARRC) – link to website

- Transition Overview
- SOFR Starter Kit
- An Updated User's Guide to SOFR
- Latest SOFR data

International Swaps and Derivatives Association (ISDA) – link to website

- Benchmark Reform and Transition from LIBOR
- ISDA Statement on UK FCA LIBOR Announcement

Financial Stability Board (FSB) – link to website

- Global Transition Roadmap for LIBOR

Financial Conduct Authority (FCA) – link to website

- Announcements on the end of LIBOR
- Transition from LIBOR