



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

25 March 2021

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Reform of interest rate benchmarks

I am writing to inform you of an update the Hong Kong Monetary Authority (HKMA) has made to the transition milestones in relation to the reform of interest rate benchmarks.

In consultation with the Treasury Markets Association (TMA), the HKMA developed in July 2020 the following transition milestones with respect to which authorized institutions (AIs) should endeavour to achieve:

- (i) AIs should be in a position to offer products referencing the alternative reference rates (ARRs) to LIBOR from 1 January 2021;
- (ii) Adequate fall-back provisions should be included in all newly issued LIBOR-linked contracts that will mature after 2021 from 1 January 2021; and
- (iii) AIs should cease to issue new LIBOR-linked products that will mature after 2021 by 30 June 2021.

The HKMA's latest survey indicates that the vast majority of AIs have substantially achieved the first two transition milestones. Specifically, most of them are now in a position to offer financial products referencing Secured Overnight Financing Rate (SOFR) or Sterling Overnight Index Average (SONIA) and nearly all of them have signed up to the International Swaps and Derivatives Association's (ISDA) IBOR Fallbacks Protocol.

As regards the third transition milestone, the UK Financial Conduct Authority (FCA) confirmed earlier this month that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and

- immediately after 30 June 2023, in the case of the remaining US dollar settings.

Following the FCA's announcement, other authorities including the US Federal Reserve have indicated publicly that financial institutions should cease entering into new LIBOR contracts as soon as practicable and in any event by 31 December 2021.

Meanwhile, a number of international banks have indicated to the HKMA that they have encountered difficulties in offering products referencing ARRAs because client awareness in this region has yet to be raised and some term ARRAs remain unavailable. They are concerned that restricting the issuance of LIBOR-linked contracts prematurely may result in a fragmentation of markets.

In light of the latest developments and taking into account the industry's feedback, the HKMA and the TMA agree that it is no longer appropriate to stick to the earlier timeline of ceasing to issue new LIBOR-linked products by the end of June. That said, AIs should continue to press ahead with their transition preparations and should cease to issue new LIBOR-linked contracts by the end of this year.

The HKMA will continue to engage the industry proactively to ensure a smooth transition away from LIBOR. 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)