



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

19 August 2021

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Reform of interest rate benchmarks

I am writing to update you on a few recent developments relating to the reform of interest rate benchmarks.

The US Alternative Reference Rates Committee (ARRC) announced on 29 July that it formally recommended CME Group's forward-looking SOFR term rates for adoption by market participants. The Hong Kong Monetary Authority (HKMA) understood from its ongoing industry outreach that some corporates were hesitant to migrate from LIBOR to SOFR because of the lack of a commonly accepted term structure. Riding on the ARRC's latest recommendation, authorized institutions (AIs) are expected to step up their efforts to encourage customers to transition to SOFR.

Consistent with the guidance provided by banking regulators around the world, the HKMA has required AIs to cease to enter into new LIBOR-linked contracts after 2021. As certain USD LIBOR settings will continue to be published for an additional 18 months after 2021, it is recognised that there may be a need for AIs to issue new USD LIBOR-linked contracts under certain exceptional circumstances until June 2023 in order to manage (or help customers manage) risks associated with pre-existing USD LIBOR-linked contracts. The HKMA notes that banking regulators in several jurisdictions have specified the exceptional circumstances under which their banks are permitted to issue new USD LIBOR-linked contracts after 2021. Having consulted the Treasury Markets Association and other relevant industry bodies, we set out below the circumstances under which AIs are permitted to issue new USD LIBOR-linked contracts after 2021:

- (i) transactions that reduce or hedge an AI or its clients' USD LIBOR exposures connected with contracts entered into before 1 January 2022;

- (ii) market making in support of client activities related to USD LIBOR transactions executed before 1 January 2022;
- (iii) novations of USD LIBOR transactions executed before 1 January 2022; and
- (iv) transactions executed for purposes of required participation in a central counterparty auction procedure in the case of a member default, including transactions to hedge the resulting USD LIBOR exposure.

If AIs come across other exceptional circumstances necessitating the issuance of new USD LIBOR-linked contracts after 2021 for risk management purposes, they should approach the HKMA to discuss how these cases should be handled. The HKMA will continue to monitor market developments and update the above list of exceptional circumstances as appropriate.

To ensure a smooth transition away from LIBOR, the HKMA will step up its surveillance of AIs' preparation from now on until the end of 2021. In this connection, the frequency of the Survey on Reform of Interest Rate Benchmarks will be increased from quarterly to monthly during the fourth quarter starting from the position of end-September 2021. To reduce the reporting burden on AIs, the HKMA will simplify the reporting template, which will be distributed to AIs shortly.

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)