



Frequently Asked Questions (FAQs)

What is a Benchmark Rate?

Benchmark Rates are used in financial transactions throughout our economy, for example, to calculate interest rates for loans.

What are IBORs?

Interbank Offered Rates represent an estimate of how much it would cost a bank to borrow money from other banks. IBORs are published in several currencies and for a variety of interest periods.

What is LIBOR?

The London Interbank Offered Rate. This is calculated from estimates submitted by a selection of banks in London.

What are Alternative Reference Rates (ARRs)?

They are benchmark rates which are being developed as an alternative to IBORs.

Why are IBORs being replaced?

IBORs are based on forward looking estimates of how much it costs for a bank to borrow money from other banks in the interbank lending market. The activity in this market has been declining gradually. ARR, such as Risk Free Rates, are being introduced because they are based on transactions which have already taken place in markets which are very active, making them more accurate and robust.

What are Risk Free Rates?

Risk Free Rates are a type of ARR. They are overnight rates, based on transactions which have already taken place.

How are Risk Free Rates different to IBORs?

Risk Free Rates are based on information from transactions which have already taken place. They will be less reliant on the judgement of banks, and therefore called "Risk Free".

When do the changes to IBORs come into effect?

ARRs for LIBOR need to be in place by 31 December 2021. A timeline for having ARR for EURIBOR is unclear at this time.

What is SONIA?

The Sterling Overnight Index Average which is the new Risk Free Rate for Sterling transactions.

What is SOFR?

The Secured Overnight Financing Rate which is the new Risk Free Rate for Dollar transactions.

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What is €STR?

The Euro Short Term Rate which is a new Risk Free Rate for Euro transactions.

What is EURIBOR and how is it changing?

The Euro Interbank Offered Rate. EURIBOR has been reformed to meet the requirements of the EU Benchmarks Regulation, to include in its calculation, information based on transactions that have already taken place. €STR may replace EURIBOR in the future, however it is likely that in the short term, banks will continue to use EURIBOR.

Are all Banks impacted?

All banks which offer products based on IBOR rates are impacted.

What are we doing to get ready for this change?

We are monitoring this situation and will provide customers with further information as things progress and share updates and guidance on a regular basis.

What does this mean for me?

If you have a contract with us that relates to an IBOR, this might need to be amended at some stage in the future. If this is the case, we will communicate with you.

What if I am unsure about these changes?

Should you wish to discuss the impact of IBOR transition on any of the products you hold with us, please contact us as outlined below.

What are the next steps?

Whether you are taking out a new product, or you are an existing customer, we are making you aware that IBOR transition will require us to make changes to products or documents. In either case, whether you are taking out a new product, or you are a new customer, if you are affected by these changes we will communicate with you.

How is IBOR transition being guided by regulators?

In 2017, the Financial Conduct Authority (FCA) announced that they would no longer compel panel banks to submit quotes for LIBOR beyond the end of 2021. Since this announcement the FCA have provided guidance to banks to assist them with the transition from IBORs to ARR.

The FCA has been assisted in this task by the Bank of England (BoE) and the working group on Sterling Risk Free Rates (RFRWG), which is a subset of the BoE.

The purpose of the transition to ARRs is to more accurately reflect the current interbank market activities. As a consequence, several industry bodies and private and public sector working groups have been established in various countries to choose suitable ARRs and to provide guidance to banks to help them with the transition.



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Does this change only affect GBP LIBOR products?

No. While GBP LIBOR, which seeks to measure lending in sterling on the London interbank market, is a widely recognised benchmark rate, IBORs are available to measure interbank lending in lots of other currencies, for example USD.

What are regulators advising banks in order to assist IBOR transition?

In November 2019, the Risk Free Rates Working Group (RFRWG) set an objective for banks and other financial providers that no new GBP LIBOR based cash products, such as loans, maturing after 31 December 2021, are to be entered into after 30 September 2020.

This means that from this date, it is unlikely that banks will be able to offer customers LIBOR as an interest rate on their loans. The FCA and the BoE both fully support this recommendation from the RFRWG.

What is the Bank doing based on the new Bank of England guidance?

We will work towards meeting the objectives set by regulators. We are also working on a strategy so we can offer a new product based on ARR's.

What options are being proposed for new products and when will they be in place?

We are currently working on both a new product strategy, and a plan to transition existing customers with contracts linked to LIBOR to ARR's, such as an RFR. We will provide an update once a path has been clearly established.

How will my IBOR contract be changed to one which incorporates an RFR?

This will depend on the kind of product you hold with us and the terms of your contract. You should review your documents carefully and seek independent professional advice (legal, tax, accounting etc.) as needed. The amendment process may be different for each product type. If you are affected we will contact you.

Where can I go for more information?

IBOR.QUERY@aib.ie or your Relationship Manager.

In addition the following website may be useful:

<https://www.bankofengland.co.uk/>