Update on Impacts of Benchmark Reform on Thai Institutions

LIBOR Transition and Benchmark Reform
15 October 2019
Bank of Thailand
THBFIX

- Transactions-based Methodology: to improve reliability and transparency, as well as to reduce risk of manipulation

  Survey-based → Transactions-based*

*Administrated by BOT and calculated by Refinitiv (Thomson Reuters)

- Procedure and Conduct Guideline: to improve transparency and reliability

Scope of procedure and conduct guideline

  - Quality of Submission
  - Governance Policy
  - Conflicts of Interest
  - Accountability

BIBOR

- BIBOR Code of Conduct: to improve reliability by suggesting guideline for quoting rates based on transaction data

Overnight Rate

- Develop O/N rate as an alternative reference rate in Thailand (To be formally published in 2020)
- Extend the curve from O/N rate to term rate (if possible)
LIBOR
(Term rate, Include credit risk)

3M LIBOR + 1%

Cash flow is known at the beginning of interest period.

publication time: 11.45 a.m. (LDN time)

SOFR
(Overnight rate, No credit risk)

Forward-looking term SOFR + ??%
Compounded SOFR + ??%

Multiple Market Conventions

publication time: 8.00 a.m., T+1 (NY time)

From LIBOR to SOFR

LIBOR’s fallback suggested by ISDA
≈ compounded SOFR +
historical diff(LIBOR – compounded SOFR)
What to Prepare

Exposure

- Products
- Reference rates
- # of contracts
- $ or € amount
- Counterparty (Bank, Bond issuer/investor)

Floating Rate Products

- Derivatives
- Bonds
- Loans

Trade and Settlement System

Pricing and Risk Modelling

Contract Amendment

Reporting, Accounting and Tax

Staff Training and Client Communication

New Product Offering

What to Prepare
**How to Handle Your Contracts**

**At Present**
- Enter into a contract referencing LIBOR or THBFIX

**End of LIBOR**
- Fallback takes effect; e.g. Compounded SOFR+credit spread
  - Include LIBOR fallback in the contract

**Notes for Clients:**
- Check your exposure on LIBOR and THBFIX (and IBORs)
- Contact your bank or bond issuer to renegotiate legacy contracts (or close out the contracts if necessary)
- Check consistency between cash product and hedging instrument
- Ensure that new contracts contain clauses allowing you to switch from LIBOR or THBFIX to a new reference rate

- **Enter into new contracts referencing LIBOR-free rate; e.g.**
  - Compounded SOFR,
  - Compounded O/N repo
Thank you