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BANK OF THAILAND

Update on Impacts of Benchmark Reform on Thai Institutions

LIBOR Transition and Benchmark Reform
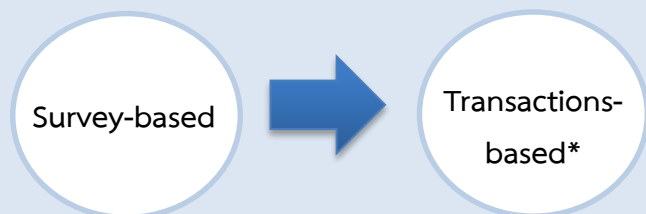
15 October 2019

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
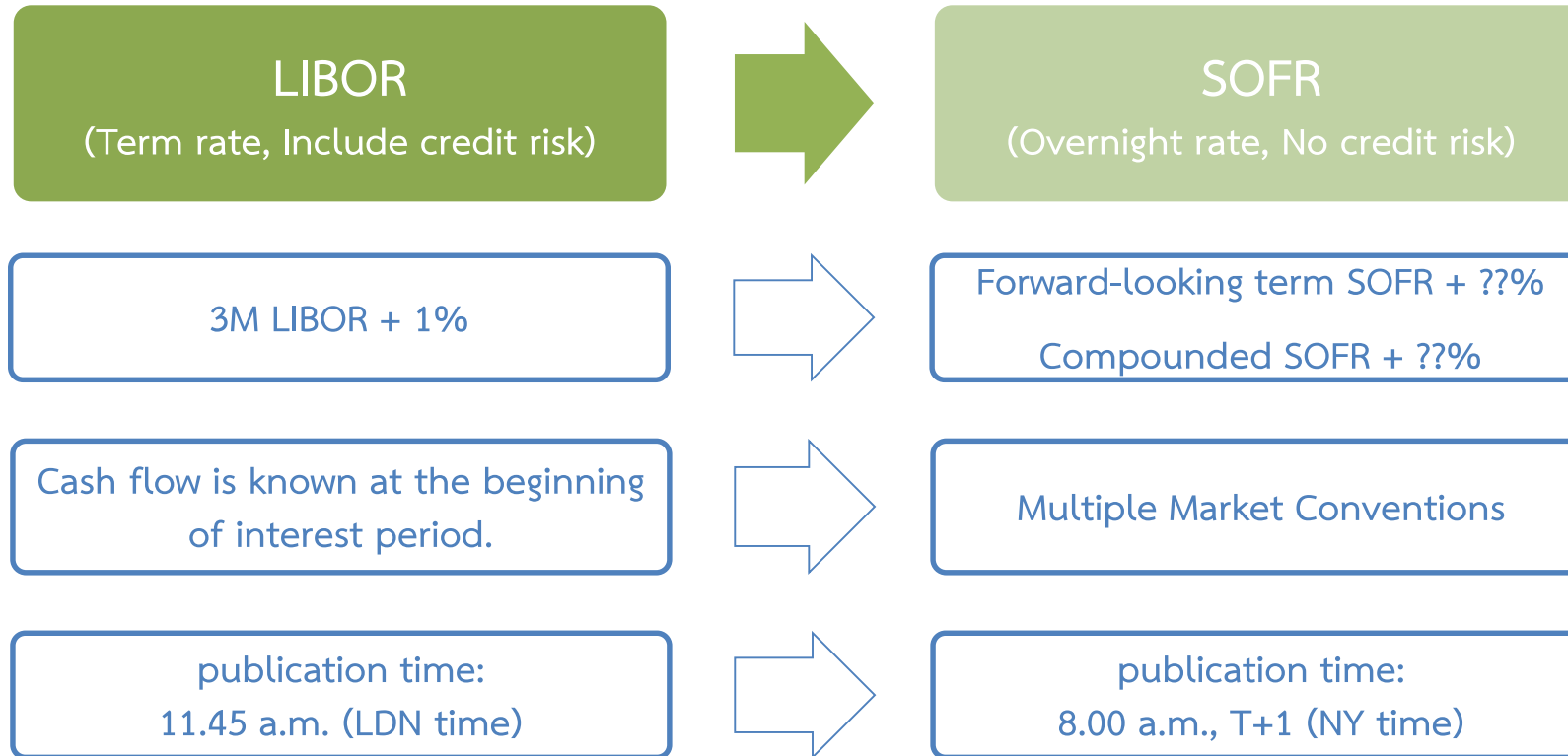
Scope of procedure and conduct guideline

Quality of Submission | Governance Policy | Conflicts of Interest | Accountability
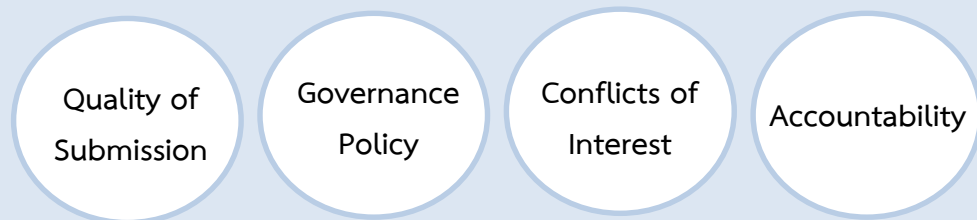
BIBOR

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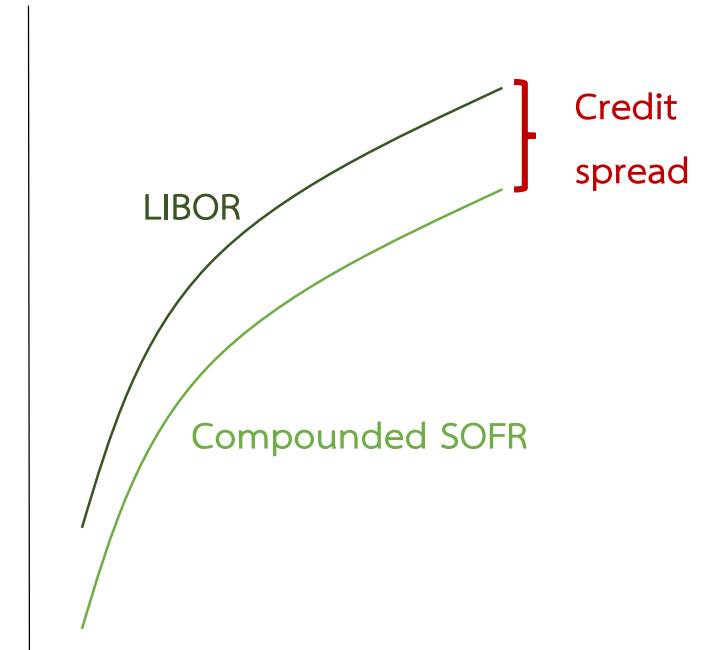
Overnight Rate

- 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)

Overnight Rate → OIS Market → Term Reference Rate from OIS

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LIBOR
(Term rate, Include credit risk)

SOFR
(Overnight rate, No credit risk)

3M LIBOR + 1%

Forward-looking term SOFR + ??%

Compounded SOFR + ??%

Cash flow is known at the beginning of interest period.

Multiple Market Conventions

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

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

LIBOR

Credit spread

Compounded SOFR

For illustration only

LIBOR's fallback suggested by ISDA
$\approx$ compounded SOFR +
historical diff(LIBOR – compounded SOFR)

$$\text{THBFIX} = \left\{ \left[\left(\frac{\text{Spot Rate} + \text{Forward Points}}{\text{Spot Rate}} \right) \times \left(1 + \frac{\boxed{\text{USD Rate}} \times \#\text{days}}{360} \right) \right] - 1 \right\} \times \frac{365}{\#\text{days}} \times 100$$

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Exposure

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

Floating Rate Products
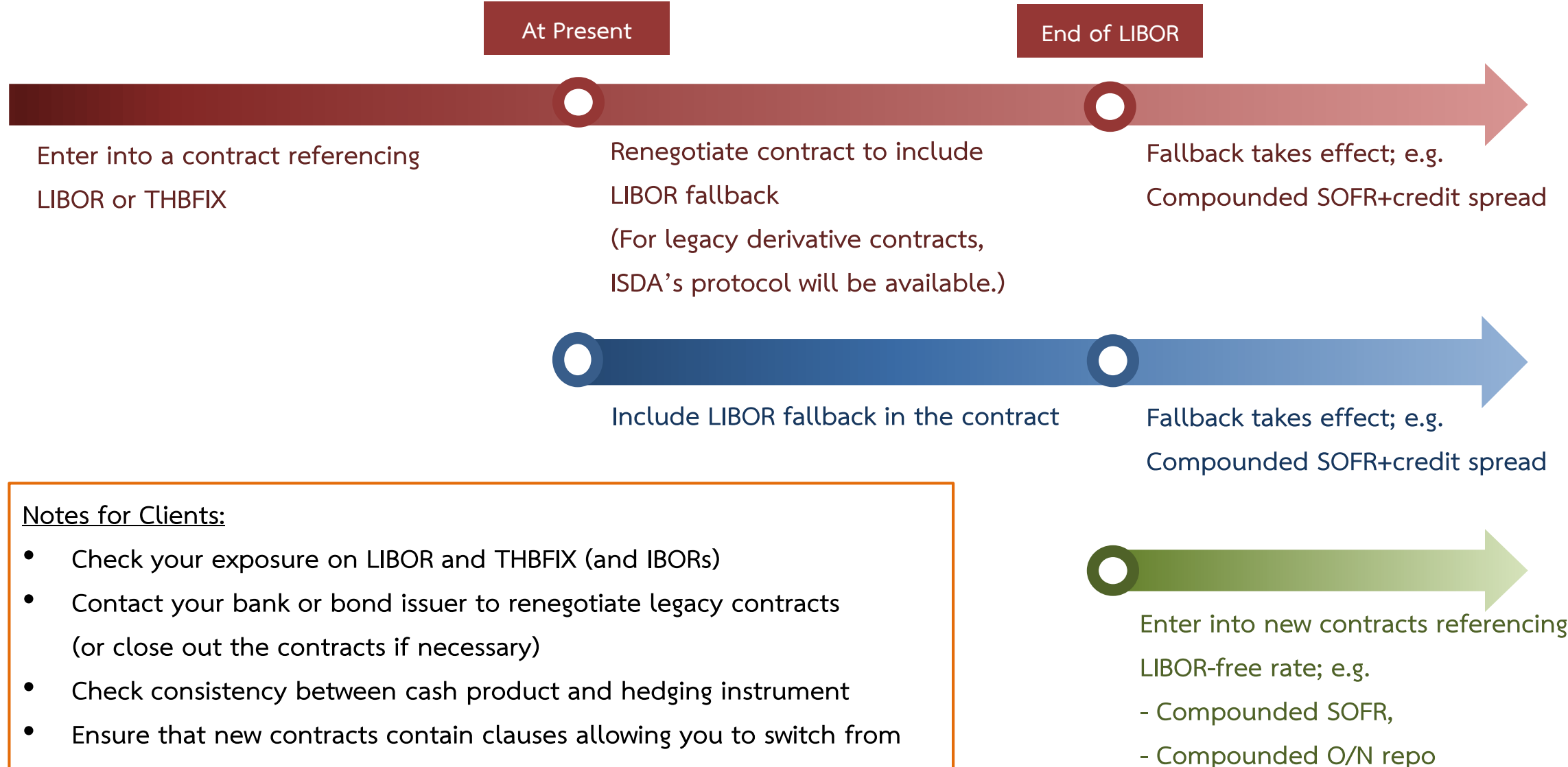
Derivatives   Bonds   Loans

Trade and Settlement System

Pricing and Risk Modelling

Contract Amendment

Reporting, Accounting and Tax

Staff Training and Client Communication

New Product Offering

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At Present

End of LIBOR

Enter into a contract referencing
LIBOR or THBFIX

Renegotiate contract to include
LIBOR fallback
(For legacy derivative contracts,
ISDA's protocol will be available.)

Fallback takes effect; e.g.
Compounded SOFR+credit spread

Include LIBOR fallback in the contract

Fallback takes effect; e.g.
Compounded SOFR+credit spread

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