Transition Milestones to THOR

November 2021

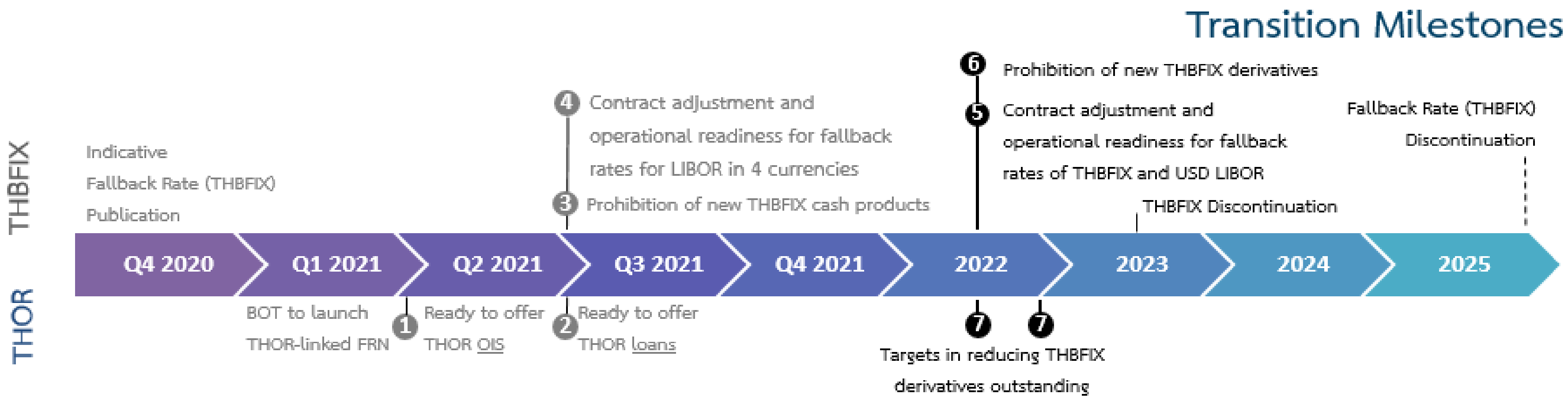
The discontinuation of the London Interbank Offered Rate (LIBOR) has a significant impact on a Thai reference rate known as Thai Baht Interest Rate Fixing (THBFIX). THBFIX is a swap-implied rate which uses USD LIBOR as one of the calculation inputs. As a consequence, THBFIX will be discontinued along with USD LIBOR.

In preparation for the transition to Thai Overnight Repurchase Rate (THOR), the alternative reference rate launched in April 2020, the Steering Committee on Commercial Banks' Preparedness on LIBOR Discontinuation (the Committee) and the Bank of Thailand (BOT) set out transition milestones for financial institutions to transition away from THBFIX and to expedite the adoption of THOR. For THBFIX legacy contracts, a fallback rate for THBFIX, named Fallback Rate (THBFIX) will be provided as a temporary stopgap until end-2025.

The publication and usage of Fallback Rate (THBFIX) is only meant for THBFIX legacy contracts, and is prohibited to be used in new derivatives and cash products. The BOT has started publishing Fallback Rate (THBFIX) in December 2020 on an indicative basis (i.e. prior to the USD LIBOR cessation). The use of the indicative rate is intended for all market participants as a preliminary assessment of the potential impacts on rate replacement and preparing system alterations. It should not be referenced in any financial transactions. Fallback Rate (THBFIX) will become effective only when USD LIBOR is discontinued (or no longer considered to be representative of the underlying market and economic reality). In this regard, the announcement by the Financial Conduct Authority (FCA) to confirm the non-representativeness of USD LIBOR after 30 June 2023[1] means that THBFIX will be officially discontinued on 1 July 2023 onwards. However, as Fallback Rate (THBFIX) is not allowed to be referenced in new transactions (derivatives and cash products), market participants should migrate existing THBFIX contracts especially those maturing after end-2025 to THOR or other reference rates before the cessation of THBFIX. At the same time, the Committee and the BOT recommend all market participants to actively prepare to adopt THOR in their floating rate contracts.

---

[1] https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf



Transition Milestones	Key dates
1. FIs should be ready to offer Interbank Interest Rate Swap referencing THOR	1 Apr 2021
2. FIs should be ready to offer loans referencing THOR.	1 Jul 2021
3. FIs <u>must not</u> issue/offer new loans and bonds structured products referencing THBFIX with maturity after 30 Jun 2023. *Note: Fallback Rate (THBFIX) is not allowed in new derivative or cash products (including loans, bonds, or structured products)* 4. FIs should be ready for the transition to fallback rates of CHF/EUR/GBP/JPY LIBOR, e.g. - All CHF/EUR/GBP/JPY LIBOR contracts are amended to include fallback provisions (for products that mature after 31 Dec 2021). - All systems (trade, settlement, accounting, etc.) are adjusted to accommodate fallback rates.	1 Jul 2021
5. FIs <u>must not</u> undertaking new derivatives referencing THBFIX, such as Interest Rate Swaps (IRS) and Cross Currency Swap (CCS), except for risk management of THBFIX legacy contracts. 6. FIs should be ready for the transition to fallback rates of THBFIX and USD LIBOR, e.g. - All THBFIX and USD LIBOR contracts are amended to include fallback provisions (for products that mature after 30 Jun 2023). - All systems (trade, settlement, accounting, etc.) are adjusted to accommodate fallback rates.	1 Jul 2022
7. FIs should gradually reduce notional outstanding of their THBFIX derivatives maturing after 2025 as compared with the numbers at the end of June 2021. - Total outstanding should gradually be reduced to 50% by mid-2022 and 25% by end-2022. - Outstanding with clients should gradually be reduced to 30% by end-2022.	mid-2022 end-2022

Milestones:

1 April 2021 **1) Offering of derivative products referencing THOR**

All financial institutions should be able to offer interbank derivative products referencing THOR, especially interest rate swap. All relevant systems should be put in place. Other types of derivative products and other conventions that financial institutions tend to customize for their customers should be available on 1 July 2021.

1 July 2021 **2) Offering of loans referencing THOR**

All financial institutions should be able to offer loans referencing THOR with the primary convention, such as the pilot lending practice from an industry survey or the preferred convention of each financial institution.

At this stage, clients should be able to borrow referencing THOR and hedge their interest rate risk with OIS.

3) Prohibition of new THBFIX cash products with maturity beyond 30 June 2023

All financial institutions are prohibited from offering new loans, bonds, structured products and other securities referencing THBFIX that will mature beyond 30 June 2023. This aims to limit the outstanding of THBFIX legacy contracts needed to be managed during the transition.

4) Readiness for the transition (CHF/EUR/GBP/JPY LIBOR)

All financial institutions should complete all necessary preparations: for example, contract amendment, related system modification to fallback rates.

- All CHF/EUR/GBP/JPY LIBOR contracts that mature after 31 December 2021 should have fallback provisions in place. In this regard, the International Swaps and Derivatives Association (ISDA) has released IBOR Fallbacks Protocol on 23 October 2020 to facilitate derivative contract amendment under the ISDA agreement. The BOT encourages market participants to adhere to the protocol.

- All related system modifications (including, but not limited to, trading, settlement, risk management, valuation, accounting and tax) should be completed to support the use of fallback rates.

1 July 2022	**5) Prohibition of new THBFIX derivatives (both deliverable and non-deliverable)** All financial institutions are prohibited from undertaking new derivatives referencing THBFIX, such as Interest Rate Swaps (IRS) and Cross Currency Swap (CCS), except for risk management of THBFIX legacy contracts. **6) Readiness for the transition (THBFIX and USD LIBOR)** All financial institutions should complete all necessary preparations: for example, contract amendment, related system modification to fallback rates. - All THBFIX and USD LIBOR contracts that mature after 30 June 2023 should have fallback provisions in place. The BOT encourages market participants to adhere to the ISDA IBOR Fallbacks Protocol. - All related system modifications (including, but not limited to, trading, settlement, risk management, valuation, accounting and tax) should be completed to support the use of fallback rates.
Mid-2022 and End-2022	**7) Reducing notional outstanding of THBFIX derivatives with maturity beyond 2025** All financial institutions should gradually reduce total outstanding of their THBFIX derivatives maturing after 2025 as compared with the numbers at the end of June 2021. - Reduce total notional outstanding to 50% by mid-2022 and 25% by end-2022 - Reduce notional outstanding with clients to 30% by end-2022