



Benchmark rate reform and transition to risk free rates

IBOR discontinuation and reform

Interbank Offered Rates (IBORs) are a series of benchmark interest rates, used globally for pricing loans, debt securities and derivatives. Following recommendations made by the Financial Stability Board in 2014, global initiatives were undertaken to reform such benchmarks and to transition to alternative benchmark or reference rates. LIBOR for all currencies and tenors has now been discontinued, albeit (i) non-representative synthetic GBP LIBOR for the 3M tenor and (ii) non-representative synthetic USD LIBOR for the 1M, 3M and 6M tenors, continue to be published for the time-being. (Please see below under "Synthetic LIBOR".)

Risk free rates (RFRs) are the recommended replacement rates due to their transparency and limited exposure to manipulation. RFRs are calculated on a different basis and are not like-for-like replacements for IBORs. RFRs are overnight rates which traditionally are retrospective, i.e. they are published after the period to which they relate, as opposed to IBORs, which are set at, or prior to, the commencement of the period to which they relate.

As of 3 July 2023, the below IBOR rates have been discontinued or deemed non-representative in specific tenors, and relevant RFR replacements are available as follows:

Currency	IBOR	Tenor	Replacement RFR
 GBP	GBP LIBOR	All tenors*	SONIA
 JPY	JPY LIBOR	All tenors	TONAR
 EUR	EONIA / EUR LIBOR	All tenors	€STR
 CHF	CHF LIBOR	All tenors	SARON
 USD	USD LIBOR	All tenors **	SOFR

*Non representative synthetic GBP LIBOR rates for 3 month tenor are available until (and including) 31 March 2024 (see next section for more detail).

**Non representative synthetic USD LIBOR rates for 1,3 and 6 month tenors are available until 30 September 2024 (see next section for more detail).

Synthetic LIBOR

The FCA confirmed that, provided the contract allows, it will continue to permit the temporary use of synthetic Sterling and Dollar LIBOR rates in legacy LIBOR contracts, other than cleared derivatives. However, such synthetic rates are not representative of the underlying market or economic reality that they are intended to measure.

The FCA has made it very clear that market participants should continue focusing on actively transitioning away from LIBOR and minimising reliance on synthetic LIBOR. Synthetic LIBOR is a temporary safety net only and should be used only where it has not been possible to transition in time, and may be neither possible nor suitable for some contracts (for example where there is a



potential for mismatches for hedging transactions). Active transition is the best way for parties to maintain control over the economic terms of their contracts.

Mizuho's policy is not to permit the use of LIBOR in any currency in new contracts.

GBP LIBOR

On 30 June 2022, the FCA published a consultation paper requesting views on whether the 1- and 6-month sterling LIBOR settings could cease in an orderly fashion at end-March 2023 and when it would be possible for the 3-month sterling LIBOR setting to cease in an orderly fashion.

More recently, the FCA confirmed that publication of 1- and 6-month sterling LIBOR settings would cease after end-March 2023, with only the 3-month setting being published after that date, with the intention being that it would cease permanently after end-March 2024.

USD LIBOR

On 23 November 2022, the FCA announced that it was proposing to require LIBOR's administrator, IBA, to continue to publish the 1-, 3- and 6-month US dollar LIBOR settings under an unrepresentative 'synthetic' methodology until end-September 2024 and that after this, publication would cease permanently. The FCA published its response to this consultation on 3 April 2023 and confirmed that as from 1 July 2023 it would require IBA to calculate the 1-, 3- and 6-month synthetic US dollar LIBOR settings using the relevant CME Term SOFR Reference Rate plus the respective ISDA fixed spread adjustment – which will be permitted for use in all legacy contracts except cleared derivatives (and not permitted for new issuance).

On 16 December 2022, the Federal Reserve Board adopted the final rule that implements Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR (Secured Overnight Financing Rate) that will replace LIBOR in certain "tough legacy" financial contracts governed under U.S. laws after 30 June 2023.

Derivatives Transition

The International Swaps and Derivatives Association (ISDA) launched the ISDA 2020 IBOR Fallbacks Protocol (the Protocol) on 23 October 2020 for adhering parties, which is a multilateral method to amend legacy derivatives (and certain other trading contracts), and the IBOR Fallbacks Supplement (Supplement 70) to the 2006 ISDA Definitions (the 2006 Definitions) to implement robust fallbacks to IBORs into legacy and new transactions incorporating the 2006 Definitions. The Protocol and Supplement 70 took effect on 25 January 2021. The provisions of Supplement 70 have been substantively ported into the 2021 Definitions alongside additional fallback related provisions. Mizuho Bank, Ltd. and Mizuho International plc have both signed up to the Protocol.

The announcement made by the FCA on 5 March 2021 constitutes an "Index Cessation Event" for all LIBOR settings under the Supplement and the Protocol, and as a result the fallback spread adjustment was fixed as of 5 March 2021 for all euro, sterling, Swiss franc, US dollar and yen LIBOR tenors. To assist with compliance with the EU and UK Benchmarks Regulations, ISDA published the ISDA 2018 Benchmarks Supplement to provide generic fallbacks for use in relation to benchmarks that do not have their own specific fallbacks. At the time of the Index Cessation Event the LIBOR Floating Rate Options, as referenced in transactions incorporating the terms of



the IBOR Fallbacks or the Protocol, include a reference to a concept defined or otherwise described as an “index cessation event” which in effect means that a “Priority Fallback” of the ISDA 2018 Benchmarks Supplement will apply to the relevant transactions.

“Consequences of a Benchmark Trigger Event” of the ISDA 2018 Benchmarks Supplement will apply only to the extent the “Priority Fallback” fails to provide a means of determining the index level.

Timely adherence to the Protocol was encouraged by national working groups, including the Alternative Reference Rates Committee (as convened by the Federal Reserve Board and the New York Fed) (the ARRC), FCA and ISDA, as well as international bodies such as the Financial Stability Board. The Protocol remains open to adherence by market participants with no cut-off date, albeit ISDA can designate a cut-off date by giving 30 days' notice on its website.

In May 2021 ISDA published Supplement 74 to the 2006 ISDA Definitions for stand-alone overnight RFR Rate Options for SONIA, SOFR, €STR, TONA, SARON, AONIA, CORRA, HONIA, SORA, THOR, NZOIA and NOWA, and Supplement 75, which includes compounding/averaging provisions for new RFR definitions and adopts conventions that more closely match the conventions adopted by the loan market.

To assist with the USD LIBOR transition, ISDA also published Supplement 84 in respect of USD-SOFR CME TERM, a USD term benchmark based on SOFR. Its use is limited to facilitate transactions entered into by counterparties seeking to hedge cash products that reference term SOFR benchmarks. (See next section for more detail.

Transition of LIBOR-referencing derivatives has been guided by the ISDA Protocol mechanism, active bilateral transition and CCP transition events.

Mizuho Bank, Ltd. and Mizuho International plc transitioned their cleared non USD LIBOR-referencing derivatives portfolio throughout October and December 2021 and their cleared USD LIBOR-referencing portfolio in April and May 2023 via the following transition events:

- LCH USD LIBOR to SOFR migration – 21 April 2023
- LCH USD LIBOR to SOFR migration – 19 May 2023

CCPs will not be clearing in discontinued rates following the transition events.

All clients of Mizuho International plc with bilateral derivatives exposure to non-USD LIBOR agreed to transition their LIBOR referencing portfolios pursuant to central counterparty (CCP) conversion events, adherence to the Protocol and bilateral agreement in line with relevant ISDA documentation. This transition was completed in December 2021.

Mizuho continues to seek to transition its remaining bilateral USD LIBOR-referencing portfolios as soon as possible pursuant to adherence to the Protocol or bilateral agreement in line with relevant ISDA documentation..

Loans Transition



Mizuho is in a position to offer non-LIBOR linked products and no longer offers products based on LIBOR in line with the requirements and recommendations of regulators and industry bodies, while transition continues to take place for legacy LIBOR contracts as required.

In relation to syndicated loans, the Loan Market Association (LMA) has published recommended versions of its forms of facility agreement for loans referencing RFRs as part of its library of recommended forms (the LMA Recommended Forms). The LMA Recommended Forms (which were previously in circulation as exposure drafts) reflect the recommendations of the £RFR WG and are being widely adopted by the loan market. The LMA Recommended Forms are being used for both term and revolving loans (in sterling and other currencies) and are also being adopted for use in bilateral transactions. In the majority of cases, the LMA Recommended Forms are being adopted with minimal amendments, which indicates that lenders are becoming broadly comfortable with the LMA's approach. The most recent up-to-date forms of the LMA Recommended Forms can be found on the LMA's website <https://www.lma.eu.com/>

The syndicated loan market does not have a protocol system (i.e. a multi-lateral method) for amendments (such as that which is operated by ISDA) given the multilateral nature of syndicated loans and so loan agreements referencing LIBOR typically need to be individually amended to refer to a replacement rate. On 25th October 2019, to help streamline the amendment process, the LMA published an exposure draft reference rate selection agreement for use in relation to legacy transactions transitioning from LIBOR to a RFR. The LMA published the reference rate selections agreement as a recommended form on 4 June 2021.

On 29 July 2021, ARRC formally recommended the use of term SOFR as a primary fallback for market participants' use in the transition of legacy contracts and entering into new contracts where the use of overnight SOFR and SOFR averages proves to be difficult. Such use is confirmed in a number of specified financial products, including business loans; particularly multi-lender facilities, middle market loans and trade finance loans. Other regulators have followed suit in permitting such usage. In all cases, ARRC and other regulators nonetheless continue to recommend as a general principle that market participants in the first instance seek to use overnight SOFR and SOFR averages given their robustness.

On 12 October 2022, the LMA published exposure draft multicurrency term and revolving facilities agreements incorporating term SOFR for use in investment grade transactions and developing market jurisdictions, to assist the market with transitioning loans to term SOFR as permitted as outlined above.

The Loan Syndication and Trading Association (LSTA) has published a suite of SOFR Concept Documents, including those that reference Daily Simple SOFR, Daily Compounded SOFR and Term SOFR. These documents are updated from time to time.

Further information

If you would like any further information, please contact your relationship manager at Mizuho Bank, Ltd. or Mizuho International plc.

You can find further information from the USD Alternative Reference Rates Committee (ARCC) <https://www.newyorkfed.org/arrc>, the Working Group on Sterling Risk-Free Reference Rates <https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/working-group-on-sterling-risk-free-reference-rates>, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm and the EURRFR Working Group https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html.



You can also find publications from the LMA <https://www.lmalloyds.com/> and from ISDA <https://www.isda.org/> and from the LSTA <https://www.lsta.org/>

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