

# Notice of LIBOR Cessation

Dear Customer,

The ICE Benchmark Administration (hereinafter referred to as “IBA”), the administrator of the London Interbank Offered Rate (hereinafter referred to as “LIBOR”), announced on March 5, 2021 that it would cease the publication of LIBOR settings for five currencies and seven tenors with a total of 35 benchmark rates in the near future. The financial market will officially enter the post-LIBOR era. This notice explains the LIBOR transition background, cessation timeline, and the potential impact of each alternative rate on you and your transactions with CUB, so that you can understand relevant information about LIBOR cessation and your rights and interests.

## 1. Background and timeline of LIBOR cessation

LIBOR was originally used as an interest rate for unsecured loans between banks. With the development of the financial market, it has gradually become a benchmark rate widely used in the financial market. For example, floating rate notes (FRNs) and corporate loans with floating rates often use LIBOR as the benchmark rate, and the interest cost of a period is calculated after adding a fixed spread. However, after the financial crisis in 2008, interbank lending has gradually switched to secured lending, and the transaction volume of unsecured lending has gradually decreased. As a result, LIBOR settings for some tenors were not based on actual transactions, but on the decision of traders or models. In addition, with the development of the international financial market, contracts using LIBOR as the benchmark rate continued to increase, but the volume of transactions using LIBOR as the benchmark rate continued to decrease. The British authority, Financial Conduct Authority (hereinafter referred to as “FCA”) thus believed that LIBOR had gradually lost its representativeness as the benchmark rate in the financial market and publicly announced in July 2017 that the FCA will cease to compel banks to provide LIBOR quotes by the end of 2021. Since then, the international financial market has carried out a series of reforms in benchmark rate transition. The IBA, LIBOR’s administrator, announced the final release dates of LIBOR settings on March 5, 2021, setting a clear timeline for LIBOR cessation.

The following table is the LIBOR cessation timeline issued by IBA:

LIBOR Settings		Last date of publication/representativeness
CHF LIBOR all tenors		2021/12/31
GBP LIBOR all tenors		2021/12/31
EUR LIBOR all tenors		2021/12/31
JPY LIBOR all tenors		2021/12/31
USD LIBOR	1W, 2M	2021/12/31
	O/N, 1M, 3M, 6M, 12M	2023/6/30

## 2. Alternative reference rates for LIBOR transition

In response to the cessation of LIBOR, the competent authorities of the five LIBOR currencies (USD, GBP, EUR, CHF and JPY) have respectively proposed alternative reference rates (ARRs), and a consensus has been reached in the international financial market. CUB proposes to refer to international standards and adopt the benchmark rates in the following table as the ARR for each LIBOR currency:



Currency	ARRs	Administrator
USD	Secured overnight financing rate (SOFR)	Federal Reserve Bank of New York
EUR	Euro short-term rate (ESTR)	European Central Bank
GBP	Sterling overnight interbank average rate (SONIA)	Bank of England
CHF	Swiss average rate overnight (SARON)	Swiss Stock Exchange
JPY	Tokyo overnight average rate (TONA)	Bank of Japan

### 3. The difference between LIBOR and ARR

The main differences between LIBOR and ARR are as follows:

- (1) Difference in term structure: LIBOR has seven tenors, such as one month, three months, and six months; ARR are overnight rates only.
- (2) Difference between forward-looking and backward-looking: LIBOR's seven tenors reflect the market's expectations of future interest rates at the time when a contract is drawn up; therefore, LIBOR is called a forward-looking interest rate. ARR are overnight rates, and interests are calculated at the end of a period; therefore, ARR are called backward-looking interest rates. For contracts that accrue interests based on LIBOR, the interest cost can be known at the beginning of the interest accrual period; however, for contracts that accrue interests based on ARR, the interest cost can only be calculated at the end of the period.
- (3) Difference in risk premium: LIBOR is the interest cost of unsecured interbank lending, and there are multiple rates for different tenors, which reflect banks' credit risk premium and term premium for different tenors; ARR are overnight rates for secured lending in the market, which do not factor in banks' credit risk premium and term premium for different tenors. To reflect risk premium, under the same conditions, the credit spread markup of contracts using ARR may be higher than that of contracts using LIBOR for interest calculation.

The following table is a summary list of the main differences:

	LIBOR	ARRs
Generated based on	Mainly relies on traders' decisions or model calculations	Calculated based on actual transactions
Forward-looking/backward-looking	Forward-looking interest rate	Backward-looking interest rates
Term structure	Seven tenors	Overnight rates only
Credit risk premium	Reflects banks' credit risk premium	Do not reflect banks' credit risk premium
Term premium	Reflects term premium	Do not reflect term premium

### 4. The significance of LIBOR cessation to customers and the potential risks that customers need to be noted

The products and contracts currently held by customers at CUB, as well as products and contracts that CUB will

provide for customers in the future may be impacted by the cessation of LIBOR. You can review your existing products/contracts or the products/contracts you intend to purchase based on the following items, and note the potential risks.

- (1) Product type: After the cessation of LIBOR, different products, such as derivatives, corporate loans, and floating rate notes (FRNs), will be handled by different approach.
- (2) Effective date of LIBOR transition and contract period: Whether the contract expiry date is later than LIBOR cessation.
- (3) Whether there is any LIBOR fallback term in the contract: Does the contract stipulate the processing method in the case of LIBOR cessation? Is there an agreed alternative rate? What is the calculation method for the alternative rate? How is credit spread adjusted? And so on.

If you still would like to use LIBOR as the benchmark rate for new contracts, you should pay attention to the following risks:

- (1) Except for some USD settings that will be ceased on June 30, 2023, other Libor settings will be ceased by the end of 2021. If the expiry date of a contract is later than the cessation date of its applicable interest rate, you must pay attention to relevant terms regarding how the contract handles LIBOR cessation. If the contract does not provide a provision handling LIBOR cessation, after Libor cessation, the contract may not be executed or the economic value of the contract may be different from your original expectations.
- (2) Although the contract stipulates the handling of LIBOR cessation, the economic value of the contract may still change due to changes in product valuation and pricing methods.

If you would like to use ARRs as the replacement, please pay attention to the following description:

- (1) ARRs are backward-looking rates. The interest cost thus can only be confirmed at the end of the interest accrual period, which is significantly different from LIBOR. You should make corresponding adjustments while considering your own operating procedures, systems, cash flow management, etc.
- (2) ARRs markets are still under development, and the conditions (such as interest calculation method and interest payment date adjustment) are different for different products. You must carefully and thoroughly review and understand your products' conditions.

Please note that the preceding description only lists some of the major risks related to LIBOR cessation. You should review the terms of your existing contracts to find out whether you have loan contracts using LIBOR as the reference rate, or investment products or derivatives using LIBOR as the reference rate for pricing. You are recommended to consult professional consultants about the possible impact of LIBOR cessation on current or future financial products.

## 5. CUB's response measures

In response to the upcoming LIBOR cessation and international benchmark rate reforms, CUB is committed to the execution of tasks related to LIBOR transition. At the same time, CUB proactively participates in various LIBOR transition activities and discussions among financial institutions to ensure that it is in line with the latest development of LIBOR transition in the international market at any time. CUB has formulated LIBOR transition governance and implementation plans to continuously evaluate and resolve the impact of LIBOR transition on CUB's businesses and customers. Since LIBOR transition is an ongoing task, CUB will inform customers of the latest LIBOR cessation information and CUB's response measures from time to time through our website or by sending notice(s).



## 6. Other reference information:

The Financial Supervisory Commission (FSC) in Taiwan issued a press release on February 25, 2020, urging financial institutions to prudently respond to the risk of possible LIBOR cessation in 2022. The URL is as follows:

[https://www.fsc.gov.tw/ch/home.jsp?id=2&parentpath=0&mcustomize=news\\_view.jsp&dataserno=202002250002&dtable=News](https://www.fsc.gov.tw/ch/home.jsp?id=2&parentpath=0&mcustomize=news_view.jsp&dataserno=202002250002&dtable=News)

If you wish to have a more in-depth understanding of the background information on LIBOR transition or the reform of five ARRAs replacing LIBOR, please refer to the description provided by the Financial Conduct Authority (FCA) or the working groups of administrators of various ARRAs through the following websites.  
FCA

<https://www.fca.org.uk/markets/libor>

Administrators of ARRAs

1. USD: SOFR

<https://www.newyorkfed.org/arrc/index.html>

2. EUR: ESTR

[https://www.ecb.europa.eu/paym/initiatives/interest\\_rate\\_benchmarks/WG\\_euro\\_risk-free\\_rates/html/index.en.html](https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html)

3. GBP: SONIA

<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>

4. CHF: SARON

[https://www.snb.ch/en/ifor/finmkt/fnmkt\\_benchm/id/finmkt\\_reformrates](https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates)

5. JPY: TONA

[https://www.boj.or.jp/en/paym/market/jpy\\_cmte/index.htm/](https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/)

If you still have questions about LIBOR cessation as well as your rights and interests, please contact CUB's Account Managers. We would be happy to answer the questions.

### Disclaimers

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