Update on Interbank Offered Rates (IBORs)
Transition: Impact on IFAD and next steps

Note to Executive Board representatives

Focal points:

Technical questions:

Gulnara Yunusova
Director and Treasurer
Treasury Services Division
Tel.: +39 06 5459 2251
e-mail: g.yunusova@ifad.org

Natalia Toschi
Head of Funding Unit
Tel.: +39 06 5459 2653
e-mail: n.toschi@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 134th Session
Rome, 13-16 December 2021

For: Information
Update on Interbank Offered Rates (IBORs) Transition: Impact on IFAD and next steps

163rd Audit Committee, 23rd November 2021
The USD 6-month LIBOR rate will cease on 30 June 2023

No new contracts referencing LIBOR should be issued from 1 January 2022, as global markets prepare for the cessation

**Impact on IFAD**

**Amendments needed**

1. The pricing of IFAD’s *ordinary loans* denominated in USD and in SDR is linked to USD 6-months LIBOR
2. Some of the *swaps* in IFAD’s investment portfolio are linked to USD 6-months LIBOR
3. Some *financial instruments* are measured and reported based on interest rate curves derived from 6-month LIBOR

**No amendments needed**

1. IFAD’s *financing agreements* generically refer to IFAD’s reference rate therefore they do not need to be amended
2. IFAD’s *billing cycle* is semi-annual ex-post and will not be amended
Background information on LIBOR Transition

IBOR Benchmarks: LIBOR, EURIBOR, EONIA

Play an important role in financial markets and act as reference rate for loans, derivative products, bonds and other financial products

Reasons for the reform

LIBOR has been subject to manipulation, scandal, and methodological critique, making it less credible today as a benchmark rate

New principles for financial benchmarks by International Organization of Securities Commissions (IOSCO)

• Benchmarks should be robust, reliable and resilient

• Alternative reference rates are globally decided and will apply to every financial institution after cessation of existing IBORS

• Alternative Reference Rates Committee (ARRC) in 2017 recommended to replace USD LIBOR by a risk free rate (RFR), called Secured Overnight Financing Rate (SOFR) https://www.newyorkfed.org/arrc/sofr-transition

• Also other IBOR rates, like GBP LIBOR, CHF LIBOR will be replaced. EURIBOR is not scheduled to be discontinued
## Transition from existing benchmarks to alternative reference rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>USD LIBOR</td>
<td>SOFR (Secured Overnight Financing Rate)</td>
<td>Federal Reserve Bank of New York</td>
<td>Yes</td>
<td>Replacement by Dec 2021 for 1w and 2m Replacement by June 2023 for all other tenors</td>
<td></td>
</tr>
<tr>
<td>EUR</td>
<td>EONIA</td>
<td>€STR (Euro Short Term Rate)*</td>
<td>European Central Bank</td>
<td>Yes</td>
<td>Replacement by 2021</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EURIBOR</td>
<td>EURIBOR with new hybrid methodology</td>
<td>EMMI**</td>
<td>Partly</td>
<td>Reformed</td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td>GBP LIBOR</td>
<td>SONIA (Sterling Overnight Index Average)</td>
<td>Bank of England</td>
<td>Yes</td>
<td>Replacement by 2021</td>
<td></td>
</tr>
<tr>
<td>JPY</td>
<td>JPY LIBOR</td>
<td>TONAR (Tokyo Overnight Average Rate)</td>
<td>Bank of Japan</td>
<td>Yes</td>
<td>Replacement by 2021</td>
<td></td>
</tr>
<tr>
<td>CHF</td>
<td>CHF LIBOR</td>
<td>SARON (Swiss Average Rate Overnight)</td>
<td>SIX Financial Information AG</td>
<td>Yes</td>
<td>Replacement by 2021</td>
<td></td>
</tr>
<tr>
<td><strong>LIBOR</strong></td>
<td><strong>SOFR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is based partially on market-data and partially on expert judgement</td>
<td>Relies entirely on transaction data from over $700 billion in daily repo transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measures the cost of uncollateralized borrowing in the interbank market and incorporates a built-in credit-risk and liquidity component</td>
<td>Measures the cost of collateralized borrowing overnight based on interbank trades and secured by US Treasury securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A forward-looking rate, published daily, with term rates from 1 day to 1 year</td>
<td>A backward-looking rate, published daily</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
IFAD LIBOR Working Group

The LIBOR Working Group (WG) was established in May 2021 co-led by TRE and RMO

ToRs of the WG
• Assess impact of USD LIBOR Transition on all of IFAD’s operations/divisions
• Define steps to be undertaken so as to be prepared for cessation
• Coordinate steps and ensure communication of relevant information among parties
• Share market developments and trends

Decision
IFAD will stop using USD LIBOR as reference rate from 1 April 2022. SOFR will be the new reference rate

Summary of key issues identified
• Pricing of ordinary loans
• Communication with borrowers
• Billing cycle
• Financial instrument measurement and Reporting
• IFAD’s swap documentation
• Other corporate documents
Impact on IFAD
Pricing of Ordinary Loans denominated in USD and SDR

- IFAD will continue following IBRD’s loan pricing elements and, if approved by the Executive Board in December and endorsed by GC in 2022, apply IFAD maturity premia.

- For Ordinary loans denominated in USD and SDR: from 1 April 2022 onwards, IFAD will use the daily compounded SOFR as new reference rate and continue applying the other pricing elements of IBRD.

- For Ordinary loans denominated in EUR: Euribor 6m will not be discontinued so it will continue to be applied for EUR denominated loans.

### Transition to SOFR

<table>
<thead>
<tr>
<th>Variable, market based</th>
<th>Libor 6 m</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD funding cost over Libor</td>
<td></td>
</tr>
<tr>
<td>IBRD contractual spread</td>
<td></td>
</tr>
<tr>
<td>IBRD maturity premium</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable, based on IBRD</th>
<th>Daily compounded SOFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD funding cost over SOFR</td>
<td></td>
</tr>
<tr>
<td>IBRD contractual spread</td>
<td></td>
</tr>
<tr>
<td>IFAD maturity premium</td>
<td></td>
</tr>
</tbody>
</table>

Example

The transition from LIBOR to an RFR-based rate should avoid any transfer of economic value between the parties.
Impact on IFAD
Communication with borrowers

From 1 April 2022 onwards, IFAD will publish the quarterly spread for ordinary loans at the beginning of each quarter to be applied over daily compounded SOFR.

IFAD will roll out a communication plan to the replacement of USD LIBOR, that involves:

- Official communication to borrowers that USD LIBOR will be replaced by SOFR
- Updating IFAD’s website
- Creation of FAQ for borrowers in line with practice of other IFIs
- Updating the versions of the interactive toolkit and the Guidelines for IFAD Financing Terms and Conditions available on IFAD’s website
- Holding clinics and seminars upon request by the borrowers
Impact on IFAD
Billing cycle, financial instruments, reporting and Swaps

Billing cycle
The billing cycle remain unchanged. IFAD will continue billing every six months ex post. Preliminary tests on IFAD’s system show that they can support the upload of daily SOFR rates. IT impacts are under testing and so far not foreseen.

Financial Instrument measurement and Reporting
As of 2022, measurement of financial instruments denominated in USD or SDR will be based on zero coupon curves applied for various NPV calculations will be derived from swaps against the SOFR rate; curves are already published by financial data providers.

Swaps documentation
All IFAD swaps entered into on or after 25 January 2021 incorporate the 2006 ISDA definitions and the fallback clauses introduced in January 2021 with ISDA’s IBOR Fallbacks Supplement apply automatically to these swaps. For seven legacy swaps entered into traded before 25 January 2021, IFAD is liaising with its derivative counterpart amend these trades in order to incorporate contractual fallbacks.

Other corporate documents to amend (minimal changes)
• IFAD’s General Terms and Conditions for procurement contracts
• The General Conditions for Agricultural Development Financing, the Policies and Criteria for IFAD Financing and the recent Framework on IFAD Financing Condition
THANK YOU