

# Interest rate benchmark changes – moving away from LIBOR

**We are writing to provide you with information about the anticipated cessation of the London Interbank Offered Rate (LIBOR) to help you prepare for this market change.**

## **What is LIBOR and how is it used?**

LIBOR is a benchmark rate, available in five currencies (USD, EUR, GBP, CHF, JPY) and seven tenors (overnight, 1 week, 1 month, 2 months, 3 months, 6 months, and 12 months). It's calculated based on submissions by panel banks to the Intercontinental Exchange (ICE; the LIBOR administrator), and used by the global financial services industry when calculating interest on financial products.

## **What is changing?**

From December 31, 2021, the UK's Financial Conduct Authority (FCA) will no longer compel panel banks to provide LIBOR submissions. It is then expected that LIBOR will cease to be an appropriate global reference rate for calculating interest on products that currently reference it. LIBOR-based contracts will move to an appropriate alternative, such as UBS base rates, UBS fixed rates, recently established Alternative Reference Rates (ARRs, for example the Swiss Average Rate Overnight – SARON, for Swiss Franc), Euro Interbank Offered Rate (EURIBOR) or central banks' policy rates.

There are some key differences between the alternatives and LIBOR:

LIBOR:

- Based on submissions by panel banks. Contains a premium, which banks have to pay when borrowing in order to compensate the lender for undertaking credit risk
- Available in forward-looking term rates
- Rates can be known in advance

ARRs:

- Broadly risk-free and fully based on transactions
- Currently only available on an overnight basis
- Only known at the end of the interest period

For some products, the UBS base rate may be appropriate. This rate typically reflects central banks' policy rates which are used to implement monetary policy in their countries.

## **What does this mean for you?**

The transition away from LIBOR is expected to affect existing and future transactions, including cash accounts, loans, mortgages, derivatives, bonds, structured products and other products that currently reference LIBOR. The impact for you will depend on the features of the products you hold.

UBS will continue to modify its products in line with the transition to the appropriate alternative rates. If the transition away from LIBOR affects your products, we will inform you in a separate communication, with details of the planned changes and any necessary action.

Your client advisor will be happy to answer any questions you might have. For more information, you can also visit <https://www.ubs.com/libortransition>.

---

The information contained in this document is for your information only and has been prepared based on publicly available information or information obtained from sources believed to be reliable. It is not a complete statement or summary of the financial market in question. All information contained in this document is subject to change without notice. UBS offers no warranty and accepts no liability that the information provided is correct, complete and up-to-date. The information herein is not intended to be and shall not be interpreted as legal advice. This document is generic in nature and does not consider the specific investment objectives, financial situation or particular needs of a specific recipient. Nothing in this document should be construed as a solicitation, offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction.

© UBS 2020. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.