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PRESS COMMUNIQUÉ

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CBS and the banking community prepare for LIBOR transition

The Central Bank of Seychelles (CBS) is working with the banking community to ensure a smooth transition from the London Interbank Offered Rate (LIBOR) to alternative reference rates. LIBOR, one of the main interest rate benchmarks used globally in financial markets for over 30 years, will be phased out from the end of December 2021.

LIBOR is regulated by the United Kingdom's Financial Conduct Authority (FCA) and administered by the Intercontinental Exchange Benchmark Administration. It is derived from the rates at which a group of panel banks indicate they are willing to lend to each other on an unsecured basis. LIBOR is published daily in five different currencies – United States Dollar (USD), Euro (EUR), Pound Sterling (GBP), Swiss Francs (CHF) and Japanese Yen (JPY), and in seven different tenors, notably overnight, 1-week, 1, 2, 3, 6, and 12 months. Financial institutions use the published rates as a benchmark for various financial products and contracts, such as loans, bonds, and others.

It is to be noted that it was in 2017 that the FCA formally announced that it would no longer compel the banks to submit rates for the calculation of the LIBOR after 2021, given that following the global financial crisis in 2008, the market for unsecured wholesale borrowing from which LIBOR was being derived, was no longer sufficiently active.

In March 2021, the FCA announced that the publication of all GBP, EUR, CHF, JPY and the 1 week and 2 months USD LIBOR will cease after December 31, 2021. Publication of the USD overnight, 1 week, 1, 3, 6 and 12 months LIBOR will be discontinued after June 30, 2023. As such, no new transactions or contracts referencing LIBOR should be initiated after 2021 and market participants are being encouraged to start making use of the alternative rates.

Alternative benchmark reference rates that have been developed as potential replacement to the current LIBOR are outlined below:

LIBOR	Alternative Reference Rates
USD	Secured Overnight Financing Rate (SOFR)
EUR	Euro Short Term Rate (ESTR)
GBP	Sterling Overnight Index Average (SONIA)
JPY	Tokyo Overnight Average (TONA)
CHF	Swiss Average Rate Overnight (SARON)

The transition to the proposed alternative rates will directly impact individuals and institutions that have investments and contracts in foreign currency, which use LIBOR as the reference rate, and with maturity dates beyond December 2021.

Like regulators in other countries, CBS has been closely monitoring developments surrounding the transition process and the impact on Seychelles' financial market. Through engagement with the banking community, it has been established that there are about 230 clients across three commercial banks - ABSA Bank (Seychelles) Limited, Mauritius Commercial Bank (Seychelles) Limited and Nouvobanq who have exposure to LIBOR through foreign currency denominated facilities.

The three banks have developed their respective action plans, which include reviewing the contracts of their impacted clients as well as informing them of the effect of the transition on their existing contracts and the appropriate steps that need to be taken.

It is important to note that the CBS does not regulate LIBOR and cannot enforce the adoption of a particular replacement rate by the individual banks locally. Nevertheless, CBS will continue to engage with the banks to ensure that they are effecting the transition to alternative rates and keeping their clients well informed throughout this process.