NATIXIS
BEYOND BANKING

NOTICE

LIBOR CESSATION INFORMATION UPDATE

As of July 21st, 2021

The interest rate benchmarks reform is currently underway. Natixis would like to inform its clients of the latest relevant information on the discontinuation of certain interbank offered rates ("**IBORs**"), including in particular the LIBORs and the implementation of alternative reference rates ("**RFRs**").

Future cessation and loss of representativeness of LIBOR benchmarks

On March 5, 2021, the Financial Conduct Authority (the "FCA"), publicly announced (the link) the future cessation or loss of representativeness of the LIBOR benchmarks.

The FCA confirmed that all LIBOR settings will either cease to be provided by the IBA, the administrator of LIBOR, or no longer be representative:

- Immediately after December 31, 2021, for all EUR, GBP, CHF, JPY LIBOR settings (and 1W & 2M USD LIBOR settings).
- Immediately after June 30, 2023, for remaining USD LIBOR settings (O/N, 1, 3, 6 and 12-months).

The FCA also announced that it would consult on requiring IBA to continue to publish 1-month, 3-month and 6-month GBP LIBOR settings after December 31, 2021 for a further period on a changed methodology basis ("**synthetic basis**") and 1-month, 3-month and 6-month JPY LIBOR settings after December 31, 2021 for one additional year on a synthetic basis.

On June 24, 2021, the FCA published a consultation on its proposed decision to require IBA to continue to publish 1-month, 3-month and 6-month GBP LIBOR and 1-month, 3-month and 6-month JPY LIBOR settings on a synthetic basis. The consultation is scheduled to close on August 27, 2021.

With respect to the 1-month, 3-month and 6-month USD LIBOR settings, the FCA stated on March 5, 2021 that it will consider the case for using its power to require continued publication on a synthetic basis of these settings for a further period after June 30, 2023.

European supervisory and regulatory guidance in relation to the transition and cessation of LIBOR rates

On June 24th, 2021, a joint press release was issued by the European Commission, the European Central Bank ("**ECB**") in its banking supervisory capacity, the European Banking Authority ("**EBA**") and the European Securities and Markets Authority ("**ESMA**") to:

(i) Encourage market participants to actively reduce their exposures to LIBOR and not wait for the exercise by the European Commission of its new powers to designate a replacement for LIBOR pursuant to Article 23b of Regulation (EU) 2016/1011 in order to ensure a smooth transition away from LIBOR, and

(ii) Encourage strongly market participants to use the time remaining until the cessation or loss of representativeness of USD LIBOR, GBP LIBOR, JPY LIBOR, CHF LIBOR and EUR LIBOR to substantially reduce their exposures to these interest rates.

In order to achieve these objectives, the EU agencies strongly encourage the following actions:

- Stop using the 35 LIBOR settings, including USD LIBOR, as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021;

- Limit the use of any LIBOR setting published under a changed methodology (also known as "synthetic" LIBOR) only to contracts that are particularly difficult to amend ahead of LIBOR's cessation (commonly referred to as "tough legacy"); and

- In all contracts referencing LIBOR, include robust fallback clauses which specify alternative rates.

The European Commission, ESMA, ECB Banking Supervision and EBA will continue to closely monitor the situation and LIBOR exposures.

Derivatives Implication - ISDA

Several professional associations, including, in particular, the International Swaps & Derivatives Association, Inc. ("**ISDA**") and the French Banking Federation (*Fédération Bancaire Française*, "**FBF**"), have published documents, protocols and contractual templates to assist in connection with LIBOR transition and the use of RFRs.

In particular, ISDA published a new set of templates designed to facilitate the remediation of legacy transactions and the incorporation of fallback provisions in new transactions. On October 23, 2020, ISDA published, the IBOR Fallbacks Supplement (Supplement 70 to the 2006 ISDA Definitions) and the ISDA 2020 IBOR Fallbacks Protocol, both of which became effective on January 25, 2021. The purpose of the Protocol is to enable market participants to incorporate fallbacks into certain legacy non-cleared derivative contracts referencing IBORs with other counterparties who elect to adhere to the Protocol. Natixis adhered to the Protocol on December 21, 2020. For legacy derivative transactions which are not covered by the Protocol (in particular with counterparties that have not adhered to the Protocol), bilateral amendments will be required to effect the transition. The IBOR Fallbacks Supplement automatically applies to new derivative transactions which incorporate the 2006 ISDA Definitions and which are entered into on or after 25 January 2021.

ISDA also published new RFR definitions and the related provisions for use in new derivative transactions.

As far as the French law FBF derivatives framework is concerned, FBF published new sets of definitions (Technical Schedules) which are largely equivalent to the IBOR Fallbacks Supplement provisions and to the RFR-related documentation published by ISDA. This will allow market participants using both frameworks to benefit from a harmonised documentation approach.

Announcements and Recommendations

GBP LIBOR

The **FCA** and **Prudential Regulation Authority** have published their "Dear CEO Letter" to Senior Managers at regulated firms on March 26th, 2021 to ensure that:

- As of April 1st, 2021 firms cease issuing new GBP LIBOR-linked loans, bonds, securitizations and linear derivatives that expire after the end of 2021 (except for risk management of existing positions).
- All legacy GBP LIBOR contracts be, where possible, amended by end Q3 2021 to include at the least a contractually robust fallback (or, preferably, an agreed on conversion to a robust alternative reference rate).
- With respect to the GBP LIBOR futures and non-linear derivatives, firms should take active steps to build further liquidity in these products in advance of the upcoming RFRWG milestone to cease issuing new GBP LIBOR futures and non-linear derivatives by end-Q2 2021.

The **Working Group on Sterling Risk-Free Reference Rates** (RFRWG) (Roadmap) priorities for end of 2021 are as follows:

- Be fully prepared for the end of GBP LIBOR by the end of 2021.
- Continue to enable and promote widespread use of SONIA compounded in arrears throughout wholesale sterling markets.
- By end-Q1 2021, cease initiation of new GBP LIBOR-linked loans, bonds, securitisations and linear derivatives that expire after the end of 2021 (except for risk management).
- By end-Q1 2021, complete identification of all legacy GBP LIBOR contracts expiring after end 2021 that can be actively converted, and, where viable, complete active conversion by end-Q3 2021.
- Take steps to enable a shift of volumes from GBP LIBOR to SONIA in non-linear derivative markets:
  - By end-Q2 2021, cease initiation of new GBP LIBOR-linked non-linear derivatives that expire after the end of 2021.
  - By end-Q3 2021, complete active conversion, where viable.

USD LIBOR

The **Federal Reserve Board** (Federal Reserve Board's letter) encourage banks to stop entering into news contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. Any issuance in 2021 should either utilise a reference rate other than LIBOR or have a robust fallback language that includes a clearly defined alternative reference rate that would apply after LIBOR's discontinuation.

ARRC has recommended replacing USD LIBOR with use of the Secured Overnight Financing Rate (SOFR). On June 8th, 2021, ARRC (Recommended Transition to SOFR) stated its support for the Interest Rate Benchmark Reform Subcommittee ("**Subcommittee**") of the Commodity Futures Trading Commission's (CFTC) Market Risk's "SOFR First" recommendations. The Subcommittee voted to recommend a market best practice for switching interdealer trading conventions from LIBOR to the SOFR for U.S. Dollar (USD) linear interest rate swaps. ARRC has recommended that interdealer brokers change USD linear swap trading conventions from USD LIBOR to SOFR on July 26, 2021.

Once the convention switch is implemented, ARRC expects that its market indicators for the creation of a SOFR term rate will likely be met, allowing the ARRC to formally recommend the CME SOFR term rates shortly thereafter.

CHF LIBOR

FINMA (Guidance) recommends that supervised institutions are fully prepared for discontinuation of CHF LIBOR by December 31st, 2021. The transition roadmap will involve new systems and processes, mitigation of risks for remaining "tough legacy contracts" and all new contracts based on alternative reference rates (ARR) by March 31st, 2021.

The **National Working Group on Swiss Franc Reference Rates (NWG)** has indicated that the Swiss Average Rate Overnight (SARON) is the Risk Free Rate to replace CHF LIBOR.

JPY LIBOR

The roadmap published by the **Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks** (Roadmap) includes the following milestones:

- By end-Q2 2021, cease the issuance of new loans and new bonds referencing JPY LIBOR.
- During Q3 2021, adopt the new quoting conventions for the interest rate swaps based on Tokyo Overnight Average Rate (TONA).

- By end-Q3 2021, cease the initiation of new interest rate swaps referencing JPY LIBOR and significantly reduce the amount of loans and bonds referencing JPY LIBOR.

In March 2021, the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks stated that TONA "*shall be the main alternative benchmark for the JPY interest rate swaps market. However, market participants are not necessarily precluded from using other alternative benchmarks including the Tokyo Term Risk Free Rate (TORF) and TIBOR…*" (Link).

Since April 26, 2021 the Tokyo Term Risk Free Rate (TORF) is calculated and published for use in trading. (TORF).

NATIXIS' SUPPORT

The IBOR Transition will impact certain products and services that Natixis offers to its clients. Natixis is supportive of the milestones of the reform set by different regulators. It continues to actively work on the remediation of existing contracts and adapts the product offering in order to promote the use of RFRs for new transactions.

Natixis remains at the client's disposal to answer questions regarding the IBOR Transition. Please reach out to: bal-ibortransition@natixis.com or your usual sales representative or relationship manager.

However, other than as expressly agreed in writing between you and Natixis, Natixis makes no representation, warranty or assurance, and does not owe you any duty, nor have any liability to you, in relation to any IBOR reform-related developments, nor is Natixis able to advise you in relation to any IBOR reform-related developments or in relation to individual products/services that might be impacted. We encourage you to keep up to date with IBOR reform, and the alternative reference rates developments, and to consider their impact on you, using independent professional advisors (financial, tax, accounting, legal or other) as you consider necessary. This material is not intended to be, and should not be relied upon, as a representation, warranty or other assurance or as financial, tax, accounting, legal or other advice.

This material is also not intended to be comprehensive and material developments may have occurred since the date stated above.

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