المدير التنفيذي للرقابة المصرفية
Executive Director - Banking Supervision

مصرف البحرين المركزي
Central Bank of Bahrain

EDBS/KH/C/53/2020
29th July 2020

The Chief Executive Officers/General Managers
All Banks
All Financing Companies
Manama
Kingdom of Bahrain

Dear Sir/Madam,

Transition from LIBOR

This has reference to CBB's Circular No. EDBS/KH/C/5/2020 and the impact analysis that each licensee has submitted to CBB with regards to the potential transition from London Interbank Offered Rate (LIBOR).

Given the potential impact of such transition on many of our licensees, CBB hereby requires that all licensees, to whom this circular is addressed, establish a dedicated team to develop a comprehensive plan (with clearly laid out responsibilities, dependencies and milestones) and, subsequently, oversee the implementation of the plan such that the transition does not lead to any disputes, operational or business disruptions and/or other avoidable events or surprises.

In developing such a plan, licensees must consider all relevant risks, to avoid any unintended consequences during the transition phases. In this regard, both the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) have published several reports and papers which would serve as guidance. The principal risks identified by FSB thus far mainly fall within the categories: Operational, Legal, Conduct, Litigation, Reputational, Hedging, Accounting and Prudential.

The plan must consider the licensee's approach to addressing issues arising from the relevant contractual arrangements and, consequently, the legal, technological, accounting and regulatory implications among other issues. Licensees must also consider taking urgent measures to introduce the necessary fallback language that determines how the replacement of a discontinued reference rate would be handled for legacy and future new contracts following negotiations and appropriate communications with the relevant counterparties, as soon as practicable. In particular, licensees should consider the legal implications and various market standards that may apply to different instruments such as cash loans (local and syndicate), derivatives and issuances (local and international).

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Updating existing contracts to include fallback language, or directly adjusting contracts to reference a new benchmark rate may expose banks to additional risks at the time of transition (such as basis risk and valuation risk), and this could impact existing hedge accounting arrangements and introduce volatility in the financial position of Licensees. All such potential impacts need to be taken into consideration and carefully monitored by the Licensee while transitioning to new reference rates to ensure prevailing regulatory, risk and accounting requirements are met.

Licensees should also consider how internally developed and vendor-provided systems and services that they use would accommodate the alternative reference rates.

Non-financial services customers would need appropriate briefings and education by the licensee to raise their awareness of the developments in this regard and the impact such a transition will have on them well ahead of the contract amendment /negotiation process. CBB requires that such negotiations are conducted keeping in view not only their best interests, but also the interests of their customers. The principles of fair treatment and full transparency in disclosures are important in this regard. See also relevant rules in Module PB: Principles of Business Module and Module BC: Business and Market Conduct Module).

Licensees are hereby required to confirm in writing to CBB that the above measures have been established by the end of September 2020 and submit monthly progress reports within 10 days of each month end commencing September 2020.

Should you have any queries in this regard, please contact your normal supervisory point of contact at CBB.

Yours faithfully,

Khalid Hamad Al-Hamad

cc: Bahrain Association of Banks
External Auditors