Mizuho Bank, Ltd.
(Incorporated in Japan with Limited Liability)
Singapore Branch
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Date: 11th December 2020

Dear Valued Customer,

We are writing to you in view of our existing International Swaps and Derivatives Association Master Agreement (**ISDA Master Agreement**) with you.

As you may already be aware, financial markets across the world are preparing for the transition of Interbank Offered Rates (**IBORs**) to alternative risk-free rates (**RFRs**)[1]. The UK Financial Conduct Authority (**FCA**) has reiterated that it will no longer require banks to submit rates used for the calculation of LIBOR after 2021, and has emphasized the need for businesses to proactively transition away from LIBOR before end-2021.

The Singapore Dollar Swap Offer Rate (**SOR**), which relies on USD LIBOR in its computation, is also expected to discontinue after end-2021. This follows from the FCA's statements that USD LIBOR would be discontinued or become non-representative after end-2021. The Steering Committee for SOR Transition to SORA (**SC-STS**) has identified the Singapore Overnight Rate Average (**SORA**) as the RFR to replace SOR, and businesses are likewise encouraged to transition to SORA before end-2021.

At the same time, regulators and key industry working groups have recognized the importance for market participants to put in place robust contractual fallbacks to address the risk of contractual frustration or settlement issues when IBORs (including LIBOR and SOR) are discontinued.

In this connection, ISDA has launched the supplement to the 2006 ISDA Definitions (**IBOR Fallbacks Supplement**) and the ISDA 2020 IBOR Fallbacks Protocol (**IBOR Fallbacks Protocol**) to implement contractual fallbacks for new and legacy derivative contracts, respectively. This is an important safety net for IBOR derivative contracts that are not able to transition to RFRs by end-2021.

Please refer to rest of this notification letter for further details on the ISDA contractual fallbacks and the implications to you under your ISDA Master Agreement entered with us. It is crucial that you consider the points set out in this communication, and that you seek your own independent professional advice on the potential impact of IBOR transition on your business, as appropriate.

Yours Sincerely,

Mizuho Bank, Ltd.
Singapore Branch

1 Our Bank had previously published on our Singapore Branch's website, a general communication which was purposed to help our customers better understand LIBOR transition. For your ease of reference, this communication may be assessed at: https://www.mizuhogroup.com/asia-pacific/singapore/about/compliance/libor-transition

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Introduction

Derivative transactions which reference an IBOR typically incorporate the 2006 ISDA Definitions (or earlier iterations) as published by the International Swaps and Derivatives Association, Inc. ("ISDA"). For a number of IBORs, this means that if the IBOR were to be unavailable, the rate would generally be determined by reference to quotations from other banks.

The 2006 ISDA Definitions generally do not address the consequences of no quotations being provided. If an IBOR were to be permanently or indefinitely discontinued, it is considered to be unlikely that quotations would be provided for the remaining term of the relevant derivative transaction. In 2016, the Financial Stability Board's Official Sector Steering Group requested ISDA to identify robust fallbacks for derivative contracts that reference certain IBORs. ISDA has subsequently carried out several industry consultations to finalise the methodology for fallbacks that take effect following the permanent cessation of certain IBORs and, in the case of LIBOR only, its non-representativeness.

On 23 October 2020, ISDA finalised a supplement to the 2006 ISDA Definitions (the "IBOR Fallbacks Supplement") and published the ISDA 2020 IBOR Fallbacks Protocol (the "IBOR Fallbacks Protocol").

If you would like to know more about the IBOR Fallbacks Supplement and the IBOR Fallbacks Protocol you can access useful information at the following weblink: https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/. We strongly encourage you to read these documents, together with the accompanying explanatory information on the ISDA website. These include the IBOR Fallbacks Fact Sheet (the "Fact Sheet") and the IBOR Fallbacks Protocol FAQs, which will help you to familiarise yourself with the operation of the IBOR Fallbacks Supplement and the IBOR Fallbacks Protocol.

What does the IBOR Fallbacks Supplement do?

Full details can be found on the ISDA website. At a high level, however, the IBOR Fallbacks Supplement includes, with respect to certain IBOR rate options[2], new triggers and fallback provisions which will apply if:

(i) one or more tenors for the IBOR cease to be provided permanently or indefinitely; and

(ii) in the case of one of more tenors for LIBOR in any of its five currencies, the FCA announces that it is no longer representative of the underlying market and economic reality that the rate is meant to measure.

2 The IBOR rate options are Sterling LIBOR, Swiss Franc LIBOR, US Dollar LIBOR, Euro LIBOR, EURIBOR, Yen LIBOR, Yen TIBOR, Euroyen TIBOR, the Australian Bank Bill Swap Rate, the Canadian Dollar Offered Rate, the Hong Kong Interbank Offered Rate, the Singapore Dollar Swap Offer Rate and the Thai Baht Interest Rate Fixing.

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If the relevant IBOR permanently ceases to be available or, in the case of LIBOR only, is no longer representative and it is not possible to interpolate between remaining tenors, then the relevant IBOR rate option will first fall back to a term adjusted RFR in the same currency plus a spread. The RFR will be adjusted by being compounded in arrears for the relevant term to reflect the fact that the IBOR is a term rate rather than an overnight rate. A fixed spread will also be added to that adjusted RFR, to reflect that IBORs include a degree of bank credit risk. The Fact Sheet provides more details on how the fallback rate will be calculated for a particular IBOR.

Separately, in respect of floating rate options that use USD LIBOR as an input (including SOR), the IBOR Fallback Supplement amends the 2006 ISDA Definitions to incorporate the relevant fallbacks if USD LIBOR is permanently discontinued or becomes subject to a "non-representative" determination. (*Please refer to section on Fallback Rate (SOR) below for specific details on the benchmark fallback for SOR derivatives.)*

Derivative transactions incorporating the 2006 ISDA Definitions that we enter into with you on or after 25 January 2021 (the "Supplement Effective Date") will automatically include the new fallback provisions as set out in the IBOR Fallbacks Supplement without any further action needed.

What does the IBOR Fallbacks Protocol do?

Derivative transactions incorporating the 2006 ISDA Definitions entered into prior to the Effective Date will not automatically include the new fallback provisions. ISDA has published the IBOR Fallbacks Protocol to enable parties to amend those existing derivative transactions as well as other specified documents which reference certain IBORs to include the updated rates and fallbacks.

What documents are covered by the IBOR Fallbacks Protocol?

The range of documents within the scope of the IBOR Fallbacks Protocol is broad. It covers documents beyond those that incorporate or reference a rate defined in the 2006 ISDA Definitions. For instance, it covers transactions that incorporate or reference a rate in one of the predecessors to the 2006 ISDA Definitions, such as the 2000 ISDA Definitions. It also covers a range of ISDA published master agreements and credit support documents.

Some non-ISDA documents include references to key IBORS. As such, some non-ISDA documents will be within scope of the IBOR Fallbacks Protocol but only if those documents are listed in the IBOR Fallbacks Protocol as "Additional Master Agreements" or "Additional Credit Support Documents". The IBOR Fallbacks Protocol will not amend any non-ISDA master agreements or non-ISDA credit support documents which are not included in these lists.

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What happens if you do not take any action?

Benchmark reform means that a number of benchmarks, particularly the IBORs, are being reformed and some benchmarks may disappear. If you do not adhere to the IBOR Fallbacks Protocol or otherwise bilaterally include robust fallbacks in derivatives documentation, existing fallbacks may not operate to allow parties to identify a fallback rate in the absence of a relevant IBOR.

Will the derivative be the same after a fallback rate is applied?

An RFR, even with the adjustment and addition of a spread, will not necessarily be a like-for-like replacement for the corresponding IBOR. This means that adopting the updated fallbacks in an existing derivative transaction or triggering the fallbacks may cause the value of the derivative to change. The spread that is added to the adjusted RFR will be a fixed spread, based on historic data. You should familiarise yourself with the methodology used for the calculation of the spread.

What might happen if you are using a derivative to hedge another product?

Mismatches may arise if a derivative transaction is used to hedge a product (e.g. a loan or a bond) which does not deal with the discontinuation of the relevant IBOR and the non-representativeness of LIBOR in the same way as the derivative transaction. These mismatches could arise whether you adopt the terms of the IBOR Fallbacks Protocol or not, i.e. fallbacks in existing documentation may not currently match the hedged loan or bond. Mismatches could also affect the tax and accounting treatment of a product.

Are any consents required to adopt the terms of the IBOR Fallbacks Protocol?

Adopting the terms of the IBOR Fallbacks Protocol is effectively an amendment to the ISDA Master Agreement or other covered agreement. The IBOR Fallbacks Protocol also contains a representation to the effect that relevant consents have been obtained. If there are any consents required to amend any of your derivative transactions, you will need to have obtained those consents before you adopt the terms of the IBOR Fallbacks Protocol. If your obligations under the agreement or transaction have the benefit of any guarantee or credit support document and such documents require the consent, approval, agreement, authorisation or other action of a third party to be obtained in respect of any amendment, you must ensure that you have obtained such consent, approval, agreement, authorisation or other action before signing up to or adopting the terms of the ISDA Fallbacks Protocol. The ISDA Fallbacks Protocol states that, on demand, you will deliver to Mizuho Bank such consent, approval, agreement, authorisation or other action.

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Will any security need to be retaken or re-registered?

If a security document is amended by the IBOR Fallbacks Protocol, you will need to consider whether to retake or re-register security as a result.

Can parties agree to bilaterally amend the terms or scope of the IBOR Fallbacks Protocol?

The IBOR Fallbacks Protocol is intended for use without negotiation and a party will not be able to amend specific additional provisions, conditions or limitations. However, parties will be able to bilaterally amend its terms or scope. ISDA has also published template language that enables parties to alter the scope of the IBOR Fallbacks Protocol.

Fallback Rate (SOR)[3]

What is the benchmark fallback for SOR derivatives?

Fallback Rate (SOR) is the fallback reference rate for SOR derivatives.

Similar to SOR, Fallback Rate (SOR) is an FX-implied rate, based on actual transactions in the USD/SGD FX swap market, and available in the same tenors as SOR (i.e. Overnight, 1-month, 3-month and 6-month). Fallback Rate (SOR) rates will use the fallback for USD LIBOR contracts[4] in place of USD LIBOR rates in their computation. Overnight Fallback Rate (SOR) will use SOFR in place of overnight USD LIBOR in its computation.

The calculation methodology for Fallback Rate (SOR) is available at the following weblink: https://abs.org.sg/docs/library/fallback-sor-calculation-methodology.pdf

What is the fallback adjustment for Fallback Rate (SOR)?

Fallback Rate (SOR) uses Fallback Rate (SOFR) as an input in its calculation. As such, because the spread adjustment for Fallback Rate (SOFR) is already factored in Fallback Rate (SOR), there is no further spread adjustment in relation to Fallback Rate (SOR).

3 For further information and details, you may refer to the Fallback Rate (SOR) Factsheet published by ISDA and ABS Co at the following weblink: https://abs.org.sg/docs/library/abs-co-amp-isda-fallback-rate-(sor)-factsheet.pdf
4 This refers to the “Fallback Rate (SOFR)” published by Bloomberg Index Services Limited (BISL), which is calculated by compounding USD Secured Overnight Financing Rate (SOFR) and adding the relevant spread adjustment.

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Under what circumstances will Fallback Rate (SOR) apply?

For derivatives that reference SOR, the Fallback Rate (SOR) would apply following a permanent cessation of USD LIBOR. In addition, the Fallback Rate (SOR) would also apply as a fallback following a determination by the UK FCA that USD LIBOR is no longer representative of its underlying market. These fallback triggers are aligned with those for USD LIBOR derivatives contracts.

An exception to the triggering of the fallback is when a particular tenor of USD LIBOR that has been permanently discontinued or determined to be non-representative is replaceable by a linear interpolation of a shorter USD LIBOR tenor and a longer USD LIBOR tenor that are not non-representative. In such an event, ABS Co will continue to publish SOR based on the interpolated USD LIBOR. SOR will be discontinued when such interpolation is no longer possible, i.e. when there are no available and representative shorter and/or longer USD LIBOR tenors. In such event, the relevant contractual fallbacks will then apply.

Adherence to the IBOR Fallbacks Protocol and next steps

Will Mizuho Bank, Ltd. be adhering to the IBOR Fallbacks Protocol?

After careful consideration of its own position, Mizuho Bank, Ltd. has adhered to the IBOR Fallbacks Protocol.

Therefore, if you decide to adhere to the IBOR Fallbacks Protocol, Protocol Covered Documents (as defined in the IBOR Fallbacks Protocol) between you and Mizuho Bank, Ltd. will be amended by the terms of the IBOR Fallbacks Protocol.

Even though Mizuho Bank, Ltd. has decided to adhere to the IBOR Fallbacks Protocol, you will need to make your own assessment of the impact of you adhering and the steps you should take in advance of adhering or otherwise adopting the terms of the IBOR Fallbacks Protocol.

Next steps

Any outstanding derivative transactions (as at the Effective Date, i.e. 25 January 2021) which were entered into under your ISDA Master Agreement with us, will not automatically include the new IBOR fallback provisions. As such, these existing derivative transactions should be amended to include the updated rates and fallbacks.

Your Relationship Manager will be speaking with you further if the above applies to any of your outstanding derivative transactions with us.

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Once you have fully considered the effect of adhering to the IBOR Fallbacks Protocol, taking any appropriate legal and other professional advice, could you please let us know whether you:

a) intend to adhere to the IBOR Fallbacks Protocol; or

b) do not intend to adhere to the IBOR Fallbacks Protocol but wish to enter into a bilateral agreement to incorporate the updated fallbacks; or

c) do not intend to adopt any of the above options.

If option c) applies, please let us know your reasons for this.

We would be grateful if you could respond to your Relationship Manager to advise of your intentions.

Questions

If you have any questions regarding the IBOR Fallbacks Protocol, the IBOR Fallbacks Supplement and any other aspect of IBOR transition, please contact your Relationship Manager for assistance.

Disclaimer

The information provided in this notification letter does not and is not intended to constitute legal advice. It does not address every consideration or take into account your specific circumstances. Mizuho Bank makes no representation or warranty with respect to the accuracy or completeness of this information. We are not providing any advice or recommendation or offering any product or services in this notification letter nor are we assuming any responsibility to provide advice. Any action that you take (or fail to take) in relation to the IBOR Fallbacks Protocol is your own decision and Mizuho Bank assumes no liability in relation to this. We would therefore encourage you to read the documents published by ISDA thoroughly and obtain any necessary professional advice on the action appropriate for your specific circumstances.