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1. What is LIBOR and why is it important?
The London Interbank Offered Rate, or LIBOR, is an interest rate benchmark that is administered by Intercontinental Exchange (ICE) Benchmark Administration, Inc. It began being referenced in the early 1990s.

LIBOR is the most used benchmark reference rate or Interbank Offered Rate (IBOR) in the global financial markets, underpinning more than $400 trillion in transactions globally. It is derived from a daily survey of large banks (referred to as LIBOR “panel banks”), who provide estimates of how much it would cost them to borrow from each other on an unsecured basis (i.e., without putting up collateral) for set periods of time and in particular currencies.

LIBOR is often referenced in loan, derivative, and bond documentation, as well as in other types of documentation (e.g., securitization products, mortgages, options, etc.), to calculate interest payments under those products.

Additional information about LIBOR is available at: https://www.theice.com/iba/libor.

2. Why is LIBOR being replaced?
The integrity of LIBOR was called into question in 2008, when several banks contributing to its calculation were accused of colluding to manipulate the rate.

In 2014, the Financial Stability Board published a report explaining that benchmarks, such as LIBOR, should be based on actual transactions to the greatest extent possible. Certain changes were therefore made to the way in which LIBOR is calculated to try and base it on transactions to a greater extent. However, since there are now fewer banks lending to each other on an unsecured basis, LIBOR is often calculated by reference to the “expert judgment” of panel banks (i.e., estimates regarding how much they think it would cost them to borrow from other banks).

In July 2017, the U.K. Financial Conduct Authority (FCA), the LIBOR regulator, announced that, despite efforts to base LIBOR more firmly on transactions, the underlying market that LIBOR seeks to measure (unsecured interbank lending) is no longer sufficiently active. As a result, while the panel banks had agreed to continue submitting to LIBOR until the end of 2021, after this date the FCA would not compel banks to submit to LIBOR. The FCA’s announcement initiated LIBOR’s phased discontinuation.

Since 2017 regulators began to urge global market participants to plan for the cessation of LIBOR by the end of 2021 and encouraged them to transition from LIBOR to alternative “risk-free” rates (RFRs).
On March 5, 2021, the FCA announced a staggered timetable for future cessation and loss of representativeness of the LIBOR benchmarks:

- **December 31, 2021** for most LIBOR settings, and
- **June 30, 2023** for remaining USD LIBOR benchmarks, including 3-month and 6-month USD LIBOR settings, to give legacy contracts sufficient time to wind down.

Despite the extension of publication for certain USD LIBORs to June 30, 2023, U.S. and UK regulators’ guidance remains that LIBOR should not be used for new contracts after 2021, except for limited circumstances. In conjunction with the FCA announcement, regulators have emphasized that new LIBOR exposures after December 31, 2021 will be deemed a safety and soundness issue. Alternative Reference Rates to LIBOR have been identified for all LIBOR settings in USD, EUR, GBP, CHF, and JPY, as listed below.

### Summary of Alternative Reference Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
<th>Current Benchmark Rate</th>
<th>Proposed Alternative Reference Rate</th>
<th>Nature of Transition</th>
</tr>
</thead>
<tbody>
<tr>
<td>🇺🇸</td>
<td>USD</td>
<td>USD LIBOR</td>
<td>Secured Overnight Financing Rate (SOFR)</td>
<td>Replacement by DEC 2021 for 1W &amp; 2M, Replacement by JUN 2023 for all other tenors</td>
</tr>
<tr>
<td>🇪🇺</td>
<td>EUR</td>
<td>EUR LIBOR</td>
<td>EONIA, EUR LIBOR</td>
<td>Replacement by 2021</td>
</tr>
<tr>
<td>🇬🇧</td>
<td>GBP</td>
<td>GBP LIBOR</td>
<td>Sterling Overnight Index Average (SONIA)</td>
<td>Replacement by 2021</td>
</tr>
<tr>
<td>🇯🇵</td>
<td>JPY</td>
<td>JPY LIBOR, JPY TIBOR, EUROYENTIBOR</td>
<td>Tokyo Overnight Average Rate (TONA - also called TONAR)</td>
<td>Replacement by 2021</td>
</tr>
<tr>
<td>🇨🇭</td>
<td>CHF</td>
<td>CHF LIBOR</td>
<td>Swiss Average Rate Overnight (SARON)</td>
<td>Replacement by 2021</td>
</tr>
</tbody>
</table>

#### 3. Which products and market participants are affected by the LIBOR transition?

All market participants, including the World Bank, that have any exposure to LIBOR-linked products such as loans, mortgages, bonds, derivatives, and securitization products are affected. This is a bigger issue than many people realize, as LIBOR has been embedded in the global market so extensively that most market participants—such as banks, manufacturers, brokers, insurers, and retail businesses—are exposed to LIBOR.

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#### 4. What will replace LIBOR? Is it likely to be a single new benchmark, or will there be differences in benchmarks across products, regions, and institutions? What are the main differences between LIBOR and the alternative benchmark(s)?

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LIBOR is being phased out across all its underlying currencies. The table below lists the alternative reference rates (ARRs) that regulators and financial market administrative bodies have proposed to replace LIBOR.

One notable exception is the Euro Interbank Offered Rate (EURIBOR),¹ which has undergone reforms and for the time being is expected to remain in use as a financing benchmark. However, whether EURIBOR is to be slowly supplanted by Euro Short-Term Rate (ESTR) or another risk-free rate in the future remains unknown at this time.

For U.S. dollar markets, efforts to determine the alternative benchmark rate are being led by the Alternative Reference Rates Committee (ARRC), which is comprised of private market participants convened by the Federal Reserve Board and the New York Fed. It includes a representative from the World Bank.

In 2017, the ARRC selected the Secured Overnight Financing Rate (SOFR) as the rate to represent best practices in U.S. dollar derivatives and financial markets. SOFR is based on observable repo rates—the cost of borrowing cash overnight collateralized by U.S. Treasury securities.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Alternative Reference Rate</th>
<th>Working Group</th>
<th>Rate Administrator</th>
<th>Rate Type</th>
<th>Tenor</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Secured Overnight Financing Rate (SOFR)</td>
<td>Alternative Reference Rates Committee (ARRC)</td>
<td>New York Fed</td>
<td>Secured*</td>
<td>Overnight</td>
</tr>
<tr>
<td>European Union</td>
<td>Euro Short-Term Rate (€STR)</td>
<td>Working Group on Risk-Free Reference Rates for the Euro Area</td>
<td>European Central Bank</td>
<td>Unsecured</td>
<td>Overnight</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Swiss Average Rate Overnight (SARON)</td>
<td>National Working Group on Swiss Franc Reference Rate</td>
<td>SIX Swiss Exchange</td>
<td>Secured*</td>
<td>Overnight</td>
</tr>
<tr>
<td>Japan</td>
<td>Tokyo Overnight Average Rate (TONA)</td>
<td>Study Group on Risk-Free Reference Rates</td>
<td>Bank of Japan</td>
<td>Unsecured</td>
<td>Overnight</td>
</tr>
</tbody>
</table>

*Collateralized – so it takes the credit component out of the rate

The key differences between the alternative reference rates (ARRs) under consideration and LIBOR relate to the term structure and credit risk.

¹ The Euro Interbank Offered Rate (EURIBOR) is a daily reference rate, published by the European Money Markets Institute (EMMI), representative of the rate at which credit institutions in the EU can borrow unsecured wholesale funds in euro. EURIBOR has term maturities: 1-week, 1-month, 3-months, 6-months and 12-months.
**Term structure:**

LIBOR’s term structure is forward-looking and well defined. LIBOR offers overnight, 1-week, 1-month, 2-month, 3-month, 6-month, and 12-month terms. By their nature, ARRs are backward-looking and have an overnight term structure, and as a result it is uncertain if or when term structures will develop, pending further growth in the ARR markets.

For SOFR, the lack of forward-looking term rates is expected to be a temporary developmental issue. With significant regulatory efforts underway to increase the adoption of SOFR, the growth in the SOFR derivative markets is expected to increase in the coming months.

If and when forward-looking term rates become available and mature for the proposed ARRs, the World Bank will determine whether it is beneficial for the World Bank and its borrowers to adopt the term rates for the proposed ARRs.

**Rate-setting methodology:**

LIBOR is set in advance for a variety of tenors (i.e., forward-looking term rates) and determined by the panel banks. By contrast, alternative reference rates are based on observable market transactions and compounded in arrears (i.e., backward-looking daily rates).

**Credit risk:**

LIBOR is unsecured. The Swiss franc and U.S. dollar alternative rates are secured and require calculating and applying a credit adjustment for CHF and USD when making the transition.

5. **Why will EURIBOR not be replaced along with the other LIBORs? How is it being reformed?**

Unlike LIBOR, which depending on the tenor is to be terminated by December 31, 2021 and June 30, 2023, EURIBOR has been reformed and is expected to remain as a financing benchmark and continue to be published by the European Money Markets Institute (EMMI)\(^2\) beyond 2021. The reform is comprised of moving to a “hybrid” Benchmark Regulation (BMR)\(^3\)-compliant methodology\(^4\) and reformulating the EURIBOR specification.

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\(^2\) On 3 July 2019, EMMI was granted the authorization and administration of EURIBOR by the Belgian Financial Services and Markets Authority (FSMA) under Art.34 of the EU BMR.

\(^3\) The EU Benchmarks Regulation (EU BMR) introduces a regime for benchmark administrators, contributors, and users, in order to ensure accuracy and reliability of indices used as benchmarks in financial instruments and contracts, or to measure the performance of investment funds in the European Union. It was published in June 2016 and most rules have started to apply as of January 1, 2018, with transitional provisions until January 1, 2020.

\(^4\) The hybrid methodology for EURIBOR is anchored in transactions to the extent possible and follows a hierarchical approach consisting of three levels. Each day, each individual panel bank’s contribution, for each defined tenor, will be determined on the basis of one of the three levels: level 1 contributions are based solely on eligible transactions in the underlying interest at the defined tenor. Level 2 contributions are based on transactions in the underlying interest across the money market maturity spectrum and from recent TARGET days, using a defined range of formulaic calculation techniques provided by EMMI. Level 3
European Money Markets Institute (EMMI) has reformed the EURIBOR benchmark for two main reasons: 1) because the benchmark regulation and the guidelines of international organizations on the administration of benchmarks require that benchmarks be based on arms-length transactions to the extent possible; and 2) to adapt the methodology to the evolving circumstances in the market that EURIBOR seeks to measure. With the reform, EURIBOR is now considered a more transparent, robust, and representative index, while minimizing the risk of market manipulation.

Whether or not EURIBOR will be slowly supplanted by €STR or another risk-free rate in the future remains unknown at this time.

6. How has the Financial Conduct Authority’s (FCA’s) March 5, 2021 confirmation of the staggered cessation of LIBOR affected the World Bank’s LIBOR transition timeline and outreach to borrowers?

While the UK Financial Conduct Authority (FCA) initially announced in 2017 its plan for discontinuation of the London Interbank Offered Rate (LIBOR) by December 31, 2021, on March 5, 2021, the FCA confirmed that all the LIBOR settings will either cease to be provided by any administrator or no longer be representative according to the following timeline:

- All sterling, euro, Swiss franc and Japanese yen LIBOR settings, and the 1-week and 2-month USD LIBOR settings, will cease immediately following publication on December 31, 2021.

- All remaining USD LIBOR settings, including the 6-month USD LIBOR, used as the reference rate for IBRD and IDA loans, will cease immediately following publication on June 30, 2023.

The announcement provides certainty on when the LIBOR panels will end and means that market participants – including the World Bank – must soon complete their transition plans. The regulators are clear that the delay in the publication of the USD LIBOR rates beyond December 31, 2021 is a concession to allow market participants to transition certain existing contracts, but no new LIBOR contracts should be entered into after December 31, 2021.

The time between December 31, 2021, and June 30, 2023 is commonly referred to as the transition period for the USD LIBOR. The World Bank continues preparing for the transition from every perspective: lending, funding, investments, accounting, operations, information technology, and legal, as well as borrower outreach; considering portfolios of loans and other instruments that use LIBOR as a benchmark.

Contributions are based on transactions in the underlying interest and/or other data from a range of markets closely related to the unsecured euro money market, using a combination of modelling techniques and/or the panel bank’s judgment.
The LIBOR omnibus amendment process remains critical as most of the Bank’s loan book will not mature by June 30, 2023 and putting in place appropriate fallback provisions remains a top priority.

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7. Why does LIBOR and its transition matter to borrowers?
The LIBOR transition will impact all market participants, including the World Bank and borrowers, in all industries in various ways, both operationally and financially.

IBRD loans and IDA non-concessional loans use LIBOR or Euro Interbank Offered Rate (EURIBOR\(^5\)) as reference rates. Interest charged to borrowers is based on the reference rate plus a variable or fixed spread.

Since the announcement of LIBOR’s discontinuation, institutions with LIBOR-linked financial products must prepare to shift to alternative reference rates (ARRs).

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8. What is the impact of LIBOR transition on loans to the World Bank and its clients?
Post LIBOR transition, all new and existing LIBOR-based loans will be referenced to new reference rates. The World Bank’s Board of Executive Directors has approved the use of these rates and the transition schedule.

To ensure a smooth transition, the World Bank is taking a proactive approach to mitigate the risks of the LIBOR transition, for the World Bank and its clients. The World Bank has completed an impact assessment and is closely monitoring industry developments. It also continues to engage with the Board and borrowers and has set up working groups to develop solutions that minimize the implications of the transition, both for borrowers and the Bank.

Preserving alignment between the reference rates used by the Bank to fund itself and lend to clients is an important component in passing through the most stable and cost-effective rates to borrowers. This is consistent with the “principle of fairness” and the “principle of equivalence” with respect to implementing the new market reference rates in loans, which reflects the cost pass-through of IBRD’s actual funding costs.

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\(^5\) The Euro Interbank Offered Rate (EURIBOR) is a daily reference rate, published by the European Money Markets Institute (EMMI), representative of the rate at which credit institutions in the EU can borrow unsecured wholesale funds in euro. EURIBOR has term maturities: 1-week, 1-month, 3-months, 6-months and 12-months.
9. **Which alternative reference rates will the World Bank use moving forward?**

World Bank (IBRD/IDA) will be using alternative reference rates (ARRs) to support World Bank’s asset and liability management. Note that for IDA, LIBOR transition affects only the non-concessional financing, which is offered on IBRD Flexible Loans (IFL) terms.

The most common ARRs for five currencies (USD, EUR, GBP, JPY and CHF) have been identified by national working groups in respective jurisdictions. They are summarized below.

<table>
<thead>
<tr>
<th>Country</th>
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<th>Current Benchmark Rate</th>
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<th>Nature of Transition</th>
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<td>USD LIBOR</td>
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<td>Replacement by DEC 2021 for 1W &amp; 2M</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Replacement by JUN 2023 for all other tenors</td>
</tr>
<tr>
<td>Europe</td>
<td>EUR</td>
<td>EURIBOR</td>
<td>EUR Short-Term Rate (ESTR)</td>
<td>Replacement by 2021</td>
</tr>
<tr>
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<td>GBP</td>
<td>GBP LIBOR</td>
<td>Sterling Overnight Index Average (SONIA)</td>
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<td>CHF LIBOR</td>
<td>Swiss Average Rate Overnight (SARON)</td>
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The World Bank has decided to adopt the following alternative reference rates:
- SOFR for USD denominated loans
- SONIA for GBP denominated loans
- TONA for JPY denominated loans
- EURIBOR for legacy EUR denominated loans based on LIBOR

Note that EURIBOR will continue as the reference rate for EUR denominated loans.

10. **Will there be a new structure of pricing for existing IBRD Flexible loans?**

The pricing of IBRD Flexible Loans (IFL) is based on the cost of funding obtained by IBRD (currently in reference to LIBOR), to which contractual spreads and the applicable maturity premium are added.
When LIBOR ceases to exist, the current pricing structure of IFL will continue, except that it will be in reference to the new reference rates and include a necessary spread adjustment between LIBOR and the new reference rate, as illustrated below.

The World Bank will ensure that the current loan pricing policy remains intact with continued adherence to the principles of fairness and equivalence.

Variable-Spread IFL Lending Rate Components

Fixed-Spread IFL Lending Rate Components

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11. Daily Secured Overnight Financing Rate (SOFR) seems to fluctuate more than LIBOR. Will SOFR-based interest payments fluctuate as much as daily SOFR and possibly make interest payments more expensive when SOFR experiences extreme fluctuations?

The simple answer is “No.”

SOFR is derived from daily repurchase agreement data from multiple and diverse sources. Although it is true that these repurchase agreement rates experience seasonal volatility and fluctuate based on market activities, it will not affect interest payments, as loan interest payments will be based on an average of six months of the daily SOFR.

The graph below compares the volatility of daily SOFR (grey) to that of the six-month average SOFR (blue). As the graph indicates, the 6-month average SOFR rate does not appear to be affected much by the fluctuations observed in daily SOFR.

When LIBOR ceases to exist, the current pricing structure of IFL will continue, except that it will be based on SOFR as the reference rate for USD loans and the cost of funding will include a variable spread adjustment between LIBOR and SOFR for the variable spread loans and an ISDA determined spread adjustment for the legacy fixed spread loans at the time of switch-over to the new ARR.

This spread adjustment is required to keep the cost of loans for borrowers economically neutral after the transition to SOFR.

This spread is needed as LIBOR is an unsecured and estimate-based rate (i.e., it represents estimated rates at which banks purportedly borrow from one another, and thus includes a credit risk premium), whereas SOFR is a secured funding rate that is based on repurchase agreement transactions of U.S. Treasury securities (i.e., secured or risk-free rate). As these two rates are fundamentally different, a spread exists between LIBOR and SOFR. This spread needs to be considered for the new loan pricing to make the SOFR-based loan pricing economically comparable with LIBOR-based loan pricing.

The graph below compares the historical LIBOR (red) and SOFR (blue) and SOFR to LIBOR spreads (gap between red and blue line). As the graph indicates, a spread adjustment is required to make the new SOFR-based loan pricing comparable to the current LIBOR-based loan pricing.
12. Are there options for borrowers to mitigate the risk of interest rate fluctuations during the LIBOR transition process?

For the IBRD Flexible loan (IFL), the loan interest rate has two components - a market-based variable reference rate and spread that comprises a variable or fixed funding spread\(^6\) and a Board approved loan spread. Historically, the market-based reference rate component of the loan interest rate is more volatile than the Bank’s funding spread component. Borrowers can significantly minimize the interest rate risk and reduce most of the uncertainty in their IBRD loan interest rate by fixing the market-based reference rate component.

IBRD loans already have conversion options available to borrowers, including to fix the reference rate, throughout the life of their loan. The option to fix the market reference rate remains available to borrowers during the Bank’s LIBOR transition process, upon request. The Bank’s acceptance/approval of a borrower’s request to utilize any conversion option is subject to the Bank’s ability to hedge the underlying transactions.

\(^6\) Fixed Spread Terms are no longer offered effective April 1, 2021.
13. How is the World Bank handling the transition with borrowers?

The transition to new reference rates follows a phased approach and the first stage involves ensuring that there are provisions governing financial transactions (fallback provisions) in loan agreements to transition to new reference rates. The World Bank’s General Conditions were updated in 2018 to provide for the World Bank’s right to replace the reference rate under the loan if LIBOR or EURIBOR (i) permanently cease to exist or (ii) in the World Bank’s determination, become no longer acceptable for the World Bank’s asset and liability management purpose. The World Bank can affect such reference rate replacement by a unilateral notice to the borrower.

Beginning in July 2020, the World Bank began implementing a LIBOR omnibus amendment process with borrowers for pre-2018 loan agreements (i.e., legacy loans) to align the reference rate replacement mechanism for all legacy loans. Since then the World Bank has been working with borrowers to ensure that financing agreements for legacy loans have fallback provisions that will allow for the switch from LIBOR when the time comes. The World Bank and borrowers have made significant progress in heeding this urgent call to amend legacy loan agreements. As of the end of July 2021, 82% of IBRD/IDA borrowing countries have signed the LIBOR omnibus amendment. Signing of the LIBOR omnibus amendments by all the remaining borrowers as soon as possible remains essential for both the World Bank and the borrowers to have a smooth and effective transition from LIBOR to new reference rates.

While most loan agreements have been remedied through LIBOR omnibus amendments, a minority of unremedied loan agreements will require up to 6-month advance notice from the World Bank for any reference rate replacement proposal with a borrower’s right to object. The reference rate replacement becomes effective upon expiry of the notice period if the borrower does not object. The World Bank plans to provide advance notices of reference rate replacement to the borrowers in all cases.

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14. What if a borrower with the right to object to the World Bank’s proposal objects to the proposal to change to alternative reference rates?

The loan will remain in LIBOR, which creates a potential asset and liability (ALM) mismatch for the World Bank and undermine its cost pass-through lending model that benefits all borrowers. The World Bank is counting on borrowers’ support in this important transition of its entire loan portfolio to the new reference rates. If any loan remains with the old reference rates due to a borrower’s objection, the World Bank will have to assess the ALM implications and consider further measures to address it.

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15. What will be the impact of the transition from LIBOR to alternative reference rates on the World Bank’s funding and derivatives?

Like all financial instruments, debt and derivatives will need to reference the alternative reference rates when the time comes. The World Bank will continue to follow market developments in transitioning its debt and derivative books out of LIBOR. For derivatives, IBRD and IDA adhered to the ISDA IBOR Fallbacks Supplement and Protocol in early 2021. The ISDA Fallbacks Protocol stipulates that the existing LIBOR reference rates will be converted into alternative reference rates upon their cessation. For debt referencing LIBOR, contract language identifies what happens when LIBOR ceases publication. New issuance has included appropriate fallback language for the last few years.

For the USD debt and derivative books of the World Bank, since the 6-month USD LIBOR will continue to be published until June 30, 2023, the existing debt and derivatives contracts linked to the 6-month USD LIBOR will continue with LIBOR until June 2023 while new debt and derivative contracts after December 31, 2021 will be in SOFR as mandated by the regulators. As a result, there will be a mixed LIBOR-SOFR debt portfolio for the period from January 1, 2022 to June 30, 2023.

For non-USD debt and derivative books of the World Bank, both the funding and derivative books of the World Bank will transition by December 31, 2021.

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16. How has the World Bank communicated with borrowers?

LIBOR Transition workshops were held during the 2020 and 2019 Annual Meetings. During the 2019 Annual Meetings, Anshula Kant, MDCFO, and Jorge Familiar, WFA VP, led a roundtable with IBRD’s top 10 borrowers in terms of loans outstanding (Argentina, Brazil, China, Colombia, Egypt, India, Indonesia, Mexico, Poland, and Turkey). The aim was to create awareness about the need to transition from LIBOR and agree on a principled approach to the LIBOR phase-out for IBRD’s legacy loan portfolio. Similarly, during the 2020 Annual Meeting, a high-level panel of distinguished speakers comprising Egypt’s Minister of International Cooperation, the Alternative Reference Rate Committee (ARRC) chairperson, a representative from Citibank, as well as representatives from the World Bank and InterAmerican Development Bank shared experiences and discussed ways to accelerate preparation efforts in light of LIBOR’s cessation.

Borrowers have also received regular communications from the World Bank on LIBOR related actions with respect to the World Bank’s IBRD Flexible Loan (IFL) (e.g., suspension of the fixed spread terms in IFL and related conversions effective April 1, 2021). This information is also made available to borrowers via FAQs and other resources in the Client Connection portal.

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7 Referring to ISDA IBOR Fallbacks Supplement and ISDA 2020 IBOR Fallbacks Protocol, which went into effect on January 25, 2021.
In addition, WFA, in collaboration with CMUs, LEG and TRE have been conducting bilateral meetings with borrowers since August 2020 as part of the LIBOR omnibus amendment initiative. Following the Board approval of Management’s proposals of the new reference rates, the World Bank will again provide an update to borrowers as well as begin the roll-out of the reference rate replacement notices to the borrowers with respect to their IBRD/IDA loans.

**17. What is the impact of the transition from LIBOR on other Multilateral Development Banks?**

The World Bank and other Multilateral Development Banks (MDBs) have agreed to collaborate and share knowledge and best practices on LIBOR transition.

The World Bank used the opportunity of the Annual MDB Controllers’ Forum and the MDCFO Roundtable at the 2020 and 2019 Annual Meetings to discuss consistent and coordinated approaches to managing loan portfolios and remediating legal agreements prior to the LIBOR transition.

The MDBs are committed to working together and sharing information throughout the transition period. While they acknowledge that there may be differences in approaches due to the unique characteristics of each organization’s funding and loan portfolios, structure of loan products, and terms and conditions for reference rate replacements, they will coordinate as much as possible to make the transition process easier, more consistent, and smoother for their borrowers.

The World Bank has organized an MDB LIBOR Community of Practice that includes IFC as well as the African Development Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, New Development Bank, and the Islamic Development Bank.

This group meets quarterly to ensure that MDBs are providing aligned and consistent messages to common borrowers. Most recently, the focus has been on ensuring alignment across the MDB transition plans and timelines, which is beneficial to common borrowers. The World Bank will continue to work together with the MDB community on shared pain points, and processes to coordinate messages and leverage synergies.
18. What is the timeline from regulators for USD LIBOR discontinuation and move to alternative reference rates?
On March 5, 2021, the Financial Conduct Authority (FCA), LIBOR’s regulator, confirmed the timetable for USD LIBOR discontinuation. December 31, 2021, for some tenors (one week and 2-month) and June 30, 2023, for other USD LIBOR benchmarks, including the 6-month USD LIBOR. This recent development extends the publication of 6-month USD LIBOR by an additional 18 months. The time between December 31, 2021, and June 30, 2023 is commonly referred to as the transition period for the USD LIBOR. However, the FCA (and as reinforced by US Fed) effectively prohibited financial institutions from issuing any new contracts that use 6-month USD LIBOR as a reference rate beginning January 1, 2022.

19. What is the timeline from regulators for EUR, GBP, JPY, LIBOR discontinuation and the move to alternative reference rate?
The date for discontinuation of EUR, GBP, JPY LIBOR is December 31, 2021.

20. What are the alternative reference rates that the World Bank will adopt for new loan offers based on the transition guidance provided by the regulators?
- USD: Secured Overnight Financing Rate (SOFR)
- GBP: Sterling Overnight Index Average (SONIA)
- JPY: Tokyo Overnight Average Rate (TONA)
There is no change to the reference rate of the EUR loan offers at this time, as they are currently referenced to EURIBOR, which has been reformed and will continue to be published after 2021.

21. When will the World Bank cease to offer the Variable Spread Loan (VSL) based on LIBOR reference rates and start offering VSL based on the new reference rates?
The World Bank will stop offering the VSL based on LIBOR reference rates on December 31, 2021 and will start offering the VSL based on the new reference rates on January 1, 2022.

22. When will the World Bank switch the existing VSLs based on LIBOR reference rates to VSLs based on the new reference rates?
Starting from January 1, 2022, the reference rates for the existing VSLs based on LIBOR will be replaced by the following reference rates:
• SOFR for USD denominated loans;
• SONIA for GBP denominated loans;
• TONA for JPY denominated loans; and
• EURIBOR for legacy EUR denominated loans based on LIBOR.

The switch over from LIBOR to alternative reference rates for the existing individual VSLs will occur on each loan’s first loan reset date falling on or after January 1, 2022, such that most VSL portfolio will be switched out of LIBOR by June 30, 2022.

23. When will the World Bank switch the existing fixed spread loans (FSLs) based on LIBOR reference rates to FSLs based on the new reference rates?

The World Bank suspended the offering of new FSL on April 1, 2021.

Starting from January 1, 2022, LIBOR for the existing FSLs denominated in GBP, JPY and EUR will be replaced by the following reference rates:

• SONIA for GBP denominated loans;
• TONA for JPY denominated loans; and
• EURIBOR for legacy EUR denominated loans based on LIBOR.

Like VSLs, the switch over from LIBOR to alternative reference rates for such existing individual FSLs will occur on each loan’s first applicable loan reset date falling on or after January 1, 2022, such that most FSL portfolio in non-USD will be switched out of LIBOR by June 30, 2022.

For the existing FSLs denominated in USD, LIBOR will be replaced by SOFR effective on July 1, 2023. The switch over from LIBOR to SOFR for the existing individual USD FSLs will occur on each loan’s first applicable loan reset date falling on or after July 1, 2023, such that most FSL portfolio in USD will be switched out of LIBOR by December 31, 2023.

24. Why is the switch-over date different for the existing FSLs denominated in USD?

December 31, 2021 was the initial date for discontinuation of USD LIBOR. However, on March 5, 2021, the Financial Conduct Authority (FCA), LIBOR’s regulator, confirmed the new timetable for LIBOR discontinuation. December 31, 2021, for some tenors of USD LIBOR (one week and 2-month) and June 30, 2023, for the remaining USD LIBOR settings, including the 6-month USD LIBOR.
Accordingly, the World Bank determined to switch the USD FSLs to SOFR starting July 1, 2023, in line with the LIBOR debt and hedging instruments funding these loans, which will also gradually transition out of LIBOR by December 31, 2023.

25. What will be the guiding principles of pricing during the transition period for the USD denominated VSL offering?

The World Bank will follow the “principle of fairness” and the “principle of equivalence” with respect to implementing the new alternative reference rates. The equivalency principle upholds that any replacement reference rate, together with other pricing elements in each loan, must reflect the World Bank’s overall funding cost to achieve fairness to the World Bank and its borrowers.

The switching of the World Bank’s existing funding pool from USD LIBOR to SOFR extends from December 31, 2021, to June 30, 2023. However, per the regulator’s guidance, starting January 1, 2022, the World Bank will no longer fund itself in LIBOR and will gradually switch its funding portfolio from LIBOR to SOFR during the transition period. As a result, the World Bank will have a funding pool based on both LIBOR (which will gradually decrease) and SOFR (which will gradually increase) for USD denominated VSLs during the transition period. Three key aspects of the pricing of USD denominated VSL during this transition period are as follows:

(i) The long-standing World Bank pricing principle which calls for passing through its funding cost will remain.

(ii) During the transition period from January 1, 2022, to June 30, 2023, the USD denominated VSLs, both new and existing, will have one uniform pricing based on the combined LIBOR and SOFR funding pool. A weighted average funding spread based on the average SOFR funding spread and LIBOR funding spread (adjusted using the LIBOR-SOFR spread) will be calculated. The pricing will be based on SOFR, plus a spread to account for IBRD’s average funding spread.

(iii) At the end of the transition period, the cost-pass-through principle will remain based on a spread over SOFR, as the legacy LIBOR funding will have all switched to SOFR at that time.

26. What will be the guiding principles of pricing during the transition period for the VSL denominated in EUR, GBP, JPY?

IBRD loan portfolio has limited exposure to GBP and JPY and as a result the spread over SONIA and TONA, respectively, will be derived from the spread over SOFR. Given the fundamental difference between EURIBOR and SOFR, whereby EURIBOR is not secured and
has a credit premium component, the pool of VSL denominated in EUR\textsuperscript{8} will have its own pricing based on the cost-pass through principle of IBRD in EUR instead of the current practice of averaging the overall funding cost that combines all currencies together. Therefore, EUR-denominated VSL will have a different spread over EURIBOR than the spread of USD, GBP and JPY denominated VSL over their respective new reference rates. Since the EUR funding spread is currently considerably lower than the USD funding spread, this separation of the EUR pool may cause an initial fluctuation in the EUR lending rate in Jan 2022 (i.e. a decrease in the interest rate charged to EUR loans).

27. **How will the loan pricing structure work during the transition period for VSL?**

The cost-pass through formula during the transition period will follow the same pricing as of today, which consists of:

(i) A reference rate index;
(ii) A spread over the reference rate index based on the relevant IBRD average funding spread, adjusted for the new reference rate (see below);
(iii) The standard contractual lending spread;
(iv) The applicable maturity premium.

Any applicable interest waivers will continue to apply.

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\textsuperscript{8} accounts for approximately 20\% of IBRD’s loan portfolio.
28. How will the loan pricing structure work after the transition period for VSL?
   The cost-pass through formula after the transition period will follow the same pricing as of today, which consists of:
   (i) A reference rate index;
   (ii) A spread over the reference rate index based on the relevant IBRD average funding spread;
   (iii) The standard contractual lending spread;
   (iv) The applicable maturity premium.

29. How will the pricing work after the transition to the alternative reference rates for FSL?
   The World Bank suspended the offering of new FSL on April 1, 2021.
   The World Bank will switch the existing LIBOR-based FSL denominated in GBP, JPY, and EUR on January 1, 2022:
   • For EUR LIBOR loans, the new reference rate will be EURIBOR.
   • For GBP and JPY loans, the new reference rates will be SONIA and TONA, respectively. The pricing will be calculated based on the ISDA IBOR Fallback Supplement and Protocol recommendation to adjust GBP and JPY LIBOR with respect to SONIA and TONA.
   • The fixed spread for the FSLs will continue to apply as set forth in the loan agreements at signing (or, at conversion, if a VSL was spread-fixed after the loan agreement signing).
   • The contractual lending spread, maturity premium, if any, and any applicable interest waivers will continue to apply.

   The World Bank will switch the existing LIBOR-based FSL denominated in USD on July 1, 2023, and the pricing will be calculated based on the ISDA Fallback Protocol recommendation to adjust USD LIBOR to SOFR. Similarly, the fixed spread, contractual lending spread, maturity premium and applicable interest waivers, if any, will continue to apply.

30. What will be the transition process to the new reference rates for LIBOR-based VSL with a pre-existing conversion for fixing the reference rate against LIBOR? What about any existing conversions on the loan terms?
   The transition process will be similar to the transition process of VSL, and the principle of passing through the IBRD funding cost to borrowers will remain. However, the existing conversion terms will continue to apply post switch over.
31. What will be the transition process to the new reference rates for LIBOR-based VSL with a pre-existing conversion to fix the spread component of the loan?
The transition process for these loans will be similar to the transition process for the existing FSL (see Question 23).

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32. Will the conversion provisions in the IBRD Flexible Loan (interest rate and currency conversions) remain available after the World Bank transitions out of the LIBOR?
These conversion features will continue after the World Bank transitions to the new reference rates, based on the World Bank’s ability to intermediate such conversions.

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33. How will the transition process work for IDA loans?
IDA provides grants, concessional and non-concessional loans to IDA countries. IDA concessional loans have fixed interest rates and are not subject to the LIBOR transition. IDA non-concessional loans are governed by IBRD pricing terms and will follow the same transition process as IBRD loans.

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34. Will there be any changes to borrowers’ current billing cycle after the World Bank transitions to the new reference rates?
The current billing practice of invoicing borrowers 60 calendar days in advance of the billing due date will be maintained. The new SOFR reference rates are backwards looking, as opposed to LIBOR’s forward-looking term rates. Therefore, to enable the Bank to continue billing clients 60 calendar days prior to the due date, the actual observed SOFR rates from the fourth month (of the six month billing period) will be used to compute the amount to be billed for the last 60 days of the billing cycle. This estimate represents a timing difference only and will be adjusted to reflect the actual historical SOFR reference rate in the next billing cycle after the new reference rate is fully observed.

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35. Who in the World Bank can be contacted for more information regarding the LIBOR transition?
Within the project task teams, TRE bankers will provide guidance and support. TRE and WFA Client Services (WFACS) will consult other units as needed to ensure timely response to the CMU, CDs and clients.
TRE – Ghislain Yanou (gyanou@worldbank.org), Miguel Navarro-Martin (mnavarromartin@worldbank.org);
WFA – Michael Ochieng (mochieng1@worldbank.org), David Tan (dtan@worldbank.org).