



LIBOR TRANSITION

Letter of Credit Discounting



The LIBOR Transition is taking effect, and we wanted to highlight some process changes taking place as the London Interbank Offered Rate comes to an end and is replaced by alternative Risk Free Rates (RFRs). The following illustrative example shows how the discounting charge for a 3 month deferred payment LC denominated in USD would be calculated:

CURRENT CALCULATION USING LIBOR London Interbank Offered Rate



Please do not hesitate to contact us tradefinance@bacb.co.uk. Relationship managers are on hand to provide guidance and discuss the impact on BACB offered services.

NEW CALCULATION UNDER TERM SOFR Secured Overnight Financing Rate



Ahead of year-end 2021 transition date, we will continue to provide timely updates to our clients on the latest developments as they arise. Further information see www.bacb.co.uk/compliance/libor-transition

This differential in the margin is the credit adjustment spread, added to bridge the gap between the discontinued benchmark and the new benchmark. The market favoured methodology is the ISDA five-year historical median spread differences, which has since been fixed for each tenor following the announcement by the FCA.