Introduction

Interest rate benchmarks are being reformed and, in some cases, discontinued as part of a global benchmark reform process. Different interest rate benchmarks are being reformed or discontinued at different speeds and in different ways. You should consult your own advisors and relevant for further information on the benchmark reform process as it is a rapidly developing area. More specific information on current developments of most relevance to Nomura clients is set out on our website below:


The purpose of this document is to advise you of certain general risks relating to the reform of interest rate benchmarks. These risks may affect transactions you enter into with any Nomura group company (being any direct or indirect subsidiary of Nomura Holdings, Inc.) (any such entity, and such entities collectively, “Nomura”) and/or financial instruments you purchase from us.

This document is not intended to be, and should not be relied upon as, legal, financial, tax, accounting or other advice. We are not providing you with any such advice and you should consult your own advisors for advice on risks relating to the reform of interest rate benchmarks.

This document is not intended to be comprehensive and was last updated in May 2021. Material developments may have occurred since this statement was last updated.

Where we make, or have made, specific risk or other disclosures (including by reference to any disclosures provided by industry associations or working groups) to you in relation to one or more specific transactions or types of transaction you enter into with Nomura, or financial products or instruments (or types of financial product or instrument) you purchase from us (whether prior to the date of this information statement, or at any time after such date), this information statement should be read in conjunction with such specific disclosures, except where the context otherwise requires.

There may also be other risks material to you relating to or arising from changes in interest rate benchmarks that are not specifically mentioned in this information statement.
Risk Disclosures

Your financial products and transactions may be affected by the interest rate reform process referred to above and, in particular, by the proposed replacement (from the end of 2021 onwards) of legacy rates (Interest Rate Indices that are to be discontinued) such as the various London Interbank Offer Rate (LIBOR) rates and EONIA by new Alternative Interest Rate Indices.

It is important that you take professional advice on the implications of interest rate reform on any transactions you enter into with Nomura and/or any financial products you purchase from us, including from a financial, legal, accounting and tax perspective.

During the transition process, we may agree to enter into new financial products and transactions with you based on or referencing Alternative Interest Rate Indices, or to amend existing financial products and transactions linked to Interest Rate Indices that are to be discontinued like IBOR, EONIA, LIBOR, 6-month CDOR and ZTIBOR to reference the Alternative Interest Rate Indices. We have set out below some of the general risks you should consider.

These risks are not intended to be comprehensive and are not tailored to any particular financial product, transaction or benchmark rate. You must assess the potential risks relating to the transition to the Alternative Interest Rate Indices including the consequences of: (a) a change in the methodology for calculation of an existing Interest Rate Index that is to be discontinued; (b) a decline in the representativeness of such existing benchmark rates, or any such existing rates being or having been declared unrepresentative by the relevant regulator or other authority; or (c) the discontinuation of such existing benchmark rates, including but not limited to any impact of any of (a) to (b) above on the liquidity or pricing of particular financial instruments or transactions, and/or on the appropriateness for you of any financial instruments or transactions so impacted.

We accept no responsibility or liability for, and make no representation or warranty, express or implied, as to, any such risks and/or consequences. We are not acting as your fiduciary or adviser and the provision of this information statement by us to you will not give rise to any duty of care.
1. Timing of Transition and Identity of Alternative Interest Rate Indices

Different currencies and different interest rates are transitioning at different speeds and significant uncertainty remains as to the overall pace of transition and end-state in respect of each currency. In some cases (see e.g. the announcements with respect to the discontinuation and/or non-representativeness of LIBOR in various currencies and tenors made by ICE Benchmark Administration (IBA) and the UK Financial Conduct Authority (FCA) on 5th March 2021), the relevant regulator or administrator has made public announcements on the likelihood that the existing rate may be discontinued after a specific date. In other cases, it remains unclear whether and (if applicable) when the existing rate will be discontinued.

The identity and structure of Alternative Interest Rate Indices may also be subject to uncertainty. For example, each of the following areas is subject to market developments and may develop in ways specific to the relevant currency and/or rate:

a. The methodologies for calculating the spread adjustment for moving from a legacy rate to an Alternative Interest Rate Index are in some cases still being developed and may vary depending on the applicable financial product or transaction and the context (e.g., actively transitioning to an Alternative Interest Rate Index prior to discontinuation of the legacy rate versus implementation of a fallback post-discontinuation of the legacy rate)

b. The conventions for referencing Alternative Interest Rate Indices in financial products and transactions are still developing and may differ by currency, financial product or transaction type, or region

c. It is not clear whether a forward looking term Alternative Interest Rate Index will develop for widespread use in respect of each currency and, if so, how, or for which specific financial products and transactions, such forward looking rate will be constructed or used

If you enter into new financial products and transactions linked to an Interest Rate Index that is to be discontinued you are exposed to uncertainty relating to whether and when such Interest Rate Index will be discontinued and the impact of such discontinuation on the relevant financial product. If you enter into new financial products and transactions linked to Alternative Interest Rate Indices, you are exposed to the risk that the relevant Alternative Interest Rate Index market develops more slowly or in ways that differ from your expectations.
2. Liquidity

Interest rate transition may adversely affect the liquidity of your financial products and transactions in a number of ways. In particular:

a. Liquidity that is concentrated in a single rate today may be split across multiple rates in future

b. Newly developed financial products or instruments linked to Alternative Interest Rate Indices may initially be less liquid due to lower trading volumes than products linked to comparative Interest Rate Indices that are to be discontinued

c. Liquidity in financial products or instruments linked to the Alternative Interest Rate Indices may develop less quickly than you anticipate when entering into such products if transition happens more slowly than expected

d. Amending legacy financial products or instruments to reference Alternative Interest Rate Indices may reduce the liquidity of such product compared to the position immediately prior to the amendment if the wider market has not transitioned

e. As the transition progresses, it may have a negative impact on the liquidity of financial products linked to Interest Rate Indices that are to be discontinued or instruments that have not transitioned

Any decrease in liquidity may significantly affect the value of financial products and transactions you have purchased from or entered into with Nomura or may in future purchase from or enter into with us.
3. **Alternative Interest Rate Indices may differ from Interest Rate Indices that are to be discontinued and there may be a transfer of value**

There are often fundamental differences between Interest Rate Indices that are to be discontinued and Alternative Interest Rate Indices including the Term and a possible Credit or Liquidity Spread.

The amounts payable under a financial product or transaction linked to an Alternative Interest Rate Indices are likely to differ from the amounts that would have been payable had the financial product or transaction been linked to an IBOR. Such difference may be adverse to you.

The absence of bank credit risk in the Alternative Interest Rate Indices may have an adverse effect on the pricing of financial products or transactions that you enter into. The transition of financial products and transactions linked to Interest Rate Indices that are to be discontinued to referencing Alternative Interest Rate Indices will require the inclusion of a spread adjustment so as to reduce the transfer of economic value because of the absence of a bank credit risk premium in the replacement Alternative Interest Rate Indices. There can be no assurance that the spread adjustment will fully mitigate the transfer of economic value between the parties and the proposed adjustment spreads are not intended, or able, to replicate the dynamic bank credit risk premium embedded in an IBOR.

If you enter into new financial products or transactions directly linked to Alternative Interest Rate Indices, the economics will differ from those of traditional IBOR linked financial products or transactions. For example, the fixed spread or margin element of the payment linked to the Alternative Interest Rate Index may be higher than the equivalent spread or margin element for an IBOR linked financial product.

Typically financial products and transactions linked to overnight Alternative Interest Rate Indices provide that the quantum of any Alternative Interest Rate Index linked payment is calculated shortly before the relevant payment date whereas legacy IBOR linked financial products and transactions would allow the payment to be determined earlier, at the beginning of each interest period. Therefore, unless forward looking term Alternative Interest Rate Indices develop for the relevant currency and financial product or transaction type, you will have significantly less notice of the amount you must pay or are entitled to receive for a calculation period where the relevant interest rate is determined by reference to an Alternative Interest Rate Index. Even if forward looking term Alternative Interest Rate Indices are produced, there is no assurance that such rates would be available for use in or for the particular financial products or transactions you wish to enter into.

Accordingly, there is no assurance that entering into new financial products and transactions linked to an Alternative Interest Rate Index or transitioning existing financial products and transactions to reference an Alternative Interest Rate Index will not be adverse to your economic interests.
4. Representativeness of IBORs and changes to the methodology for calculating IBORs

Even if an IBOR is not discontinued, it may cease to be representative because there is less available data for its calculation (or such data is unreliable) - for example, the UK FCA confirmed in its notice dated 5th May 2021 that LIBOR would cease to be representative with effect from the dates specified in that notice.

IBORs may also be calculated on the basis of the administrator’s contingency procedures with increasing frequency. Such contingency procedures may, for example, be based on historical rates rather than newly provided ones.

Financial market participants and industry working groups are recommending and/or including in relevant industry protocols (e.g. the ISDA 2020 IBOR Fallbacks Protocol) pre-cessation fallback provisions that enable a transition away from legacy rates at the point of time at which they are no longer representative (i.e. potentially earlier than actual discontinuation of that rate).

There is no certainty as to whether any such provisions will be adopted, or, if such provisions are adopted, as to the nature of the pre-cessation triggers. To the extent that your financial products and transactions either (i) include fallback provisions that are triggered only by the cessation of the legacy rate or (ii) do not include fallback provisions, then your financial products and transactions and the payments to be made under them may be linked to a non-representative rate for a significant period of time. The relevant rate may itself also be calculated on the basis of the administrator’s contingency procedures with increasing frequency (for example, by reference to historical rates).

Administrators of IBORs may also materially modify the methodology used to calculate the level of IBORs (for example, to try to reduce the risk that the rate becomes unrepresentative). These modifications may materially alter the process for calculating the relevant IBOR and ultimately affect the level of such IBOR.

Each of these issues may materially affect the amounts payable under, or the returns on, your financial products and transactions.
5. **Basis Risk**

The transition of financial products and transactions from legacy rates (Interest Rate Indices that are to be discontinued) to the replacement Alternative Interest Rate Indices may result in you being exposed to significant basis risk. For example:

a. Financial products and transactions linked to the same legacy rate may have different fallback provisions which are triggered at different times and result in different outcomes (e.g., overnight versus term Alternative Interest Rate Indices)

b. Interest Rate Indices that are to be discontinued for different currencies may transition at different speeds

c. The conventions for referencing Alternative Interest Rate Indices in financial products and transactions are still developing and may differ by currency, financial product, transaction type or region

d. The process for calculating the spread adjustment may diverge by currency, financial product or transaction type or by the timing of the transition of the particular financial product or transaction type (i.e., whether such transition occurs before or after cessation of the legacy rate)

e. Some financial products and transactions will be more straightforward to transition than others resulting in differing transition speeds. For example, the transition of bonds and syndicated loans may require consent from multiple parties which may be difficult to obtain whilst derivatives may transition through multilateral protocols or pursuant to the provisions of central counterparty rulebooks

You may face this basis risk at a broad portfolio level or at a specific transaction level where different elements within a transaction structure are impacted in different ways. Basis risk may also be exacerbated during the transition period as some financial products and transactions will remain linked to legacy rates for longer than others. For example, a derivative might cease to provide as good a hedge of the IBOR risk on a loan or bond as may previously have been the case because of mismatches in the timing or outcome of the transition across the loan or bond on the one hand and the derivative on the other hand.
6. Consent Processes

Some financial products and transactions require the consent of multiple parties to modify the interest rate under the financial product. There is no assurance that Nomura or any other third party will agree to any particular proposal to modify an interest rate in respect of a financial product. This may prevent some financial products and transactions that you have purchased or entered into, or may in the future purchase or enter into, from transitioning to a replacement rate or may increase the costs of such transition. Such risk may be heightened in relation to certain financial products and transactions, such as bonds or loans, where consent may be required from a large number of third parties or other parties to or holders of the same transaction or instrument.

7. Contractual Discretions to Select Alternative Rates

In certain financial products and transactions, the calculation agent (or equivalent) may have a broad discretion to select an alternative reference rate. In particular, this may be the case for those financial products and transactions which do not have express fallbacks that are capable of functioning after the discontinuation of a legacy rate (for example, the calculation of interest on cash collateral under margin arrangements or non-cleared derivative transactions that have not been subject to a protocol solution or a bespoke bilateral amendment).

You may not be the calculation agent and the calculation agent (which may be Nomura) may not take into account your specific circumstances when exercising such discretion. No assurance can be given as to whether or not the exercise of such discretion may result in a transfer of value which is adverse to you, or as to whether basis or other risks will be created as a result of the exercise of such discretion.
This document will be updated periodically.
For any further information, please contact your Sales Relationship Manager.