

NRB's Notice on LIBOR Transition

On January 23, 2022, Nepal Rastra Bank (“NRB”), the central bank published a Notice notifying the revised reference rate for the calculation of interest applicable to foreign loans. NRB’s Notice came in the backdrop where global financial industry is transitioning to an alternative reference rate and phasing out the London Interbank Offered Rate (“LIBOR”) from this year.

As per the Notice, the interest rate shall now be calculated based on One Year Benchmark Interest. Previously, the reference rate for the calculation of interest on foreign loans was based on LIBOR. The Notice defines “**Benchmark Interest**” as follows:

- a) *New Borrowings* – In case of new borrowings, Benchmark Interest shall be determined as per the currency of transaction, i.e., Secured Overnight Financing Rate (“SOFR”) for USD denominated loans; Sterling Overnight Interbank Average Rate (“SONIA”) for GBP denominated loans; Swiss Average Rate Overnight (“SARON”) for CHF denominated loans; Tokyo Overnight Average Rate (“TONA”) for JPY denominated loan and Euro Short-Term Rate (“€STER”) for EUR denominated loans.
- b) *Prior Lending with Fallback Provisions* – In case the loan agreement contains a fallback provision, i.e., provision for replacement of LIBOR after December 31, 2021, the interest rate shall be calculated accordingly. Further, in case fallback provisions mentions SOFR, SONIA, SARON, TONA or €STER as reference rate, all-in-cost 50 basis points margin may be added in the previously approved LIBOR based margin rate at the agreement of both lender and borrower.
- c) *Prior Lending without Fallback Provisions* – In case the USD denominated loan agreement is bereft of fallback provision and LIBOR benchmark interest rate duration is of overnight, one month, three month, six month or 12 month, LIBOR will be the reference rate till June 30, 2023 (in the event such LIBOR benchmarks is published). Further, in case of GBP and JPY denominated Tough Legacy Contracts with LIBOR Benchmark interest duration of one month, three month or six month, LIBOR calculated through synthetic methodology will be the reference rate till December 31, 2022 (in the event such LIBOR Benchmarks is published).
- d) *Loan not Falling under (b) & (c)* – for loans not falling under category (b) and (c) above, after December 31, 2021 Benchmark Interest Rate SOFR (for USD denominated loans), SONIA (for GBP denominated loans), SARON (for CHF denominated loans), TONA (for JPY denominated loan) and €STER (for EUR denominated loans) shall be applicable in replacement to LIBOR. Further, while calculating Benchmark Interest rate, all-in-cost 50 basis points margin may be added in the previously approved LIBOR based margin at the agreement of both lender and borrower.

Accordingly, NRB also amended Nepal Rastra Bank Foreign Investment and Foreign Loan Bylaws 2078 (2021 AD) in order to give effect to the changes in reference rate.

Nepali version of the Notice may be obtained by clicking [here](#).

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For further information about the subjects covered in this Alert, please contact:



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