

Transition from LIBOR: An Update from Thailand

The Bank of Thailand currently administers and publishes two reference rates:

- i) the Thai Baht Interest Rate Fixing (“THBFIX”), which uses USD LIBOR as a component, and is more widely used as a reference rate for (a) derivatives, notes and loans, and (b) market-to-market valuations; and
- ii) the Bangkok Interbank Offered Rate (“BIBOR”), which is a forward looking interest rate benchmark reflecting the Thai Baht local market that was introduced in 2005 but, due to a lack of underlying liquidity, is not often preferred.

The demise of LIBOR in 2021 will affect the THBFIX reference rate but not BIBOR, which will continue to be published by the Bank of Thailand.

In October 2019, the Bank of Thailand took the first steps to address the impact of the cessation of THBFIX and, together with the Thai Bankers Association and Association of International Banks, established the Steering Committee on Commercial Bank's Preparedness on LIBOR Discontinuation (the "LIBOR Committee"), which is charged with providing guidance to commercial banks on various issues relating to the cessation of THBFIX and setting the direction for the use alternative reference rates.

In April 2020, the LIBOR Committee and the Bank of Thailand announced that the country would discontinue the use of THBFIX and the adopt the Thai Overnight Repurchase Rate (“THOR”) as the alternative benchmark rate. However, it was not until August 2020, that Thailand's largest commercial bank, Kasikornbank, and CIMB Bank Thailand issued the first inter-bank swap referencing THOR, and in October 2020, Siam Commercial Bank conducted the first swap with a Thai corporation.

To expedite the transition to THOR, on 17 November 2020, the Bank of Thailand and the LIBOR Committee issued [Transition Milestones](#) for financial institutions to move away from THBFIX. The proposed timetable recommends that:

- i) from 1 April 2021, all financial institutions be able to offer interbank derivative products referencing THOR, especially interest rate swaps and THOR/SOFR cross currency swaps;
- ii) from 1 July 2021, all financial institutions stop offering new loans and debt securities that reference THBFIX; and
- iii) all financial institutions complete all necessary processes and modifications to amend existing THBFIX or LIBOR loans to include fallback reference rates from 1 July 2021.

For legacy contracts, however, the Bank of Thailand intends to publish a modified version of THBFIX (referred to as “Fallback THBFIX”) until end-2024, which will be calculated using SOFR plus a spread (referred to as “Fallback SOFR”). It will replace USD LIBOR in the original calculation formula for THBFIX, in line with the practice recommended by the International Swaps and Derivatives Association, and will be calculated as follows:

$$\text{Fallback THBFIX} = \left\{ \frac{\text{Spot Rate} + \text{Forward Points}}{\text{Spot Rate}} \times \left(1 + \frac{\text{Fallback SOFR} \times \text{\#days}}{360} \right) - 1 \right\} \times \frac{365}{\text{\#days}} \times 100$$

For new contracts, and unlike THBFIX, THOR will reflect the local Thai Baht currency and will not be based on the USD. Therefore, in the short term at least, the lack of market liquidity may affect the speed of adoption of THOR. Going forward the use of THOR, particularly in respect of cross border activities, will be depend on how readily counterparty country systems can accommodate the local Baht reference rates.