



## JSA Prism Banking and Finance

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### RBI amends the ECB framework on account of LIBOR discontinuation

The Reserve Bank of India (“**RBI**”) has made changes to its directions on external commercial borrowings (“**ECBs**”) by its circular dated December 8, 2021 (“**Circular**”) on account of discontinuation of LIBOR.

Under the Circular, the RBI has notified the following changes to the all-in-cost requirements and ceilings for foreign currency ECBs (“**FCY ECB**”) and trade credits (“**TCs**”):

1. **Benchmark Rate:** The benchmark rate for FCY ECB and TC has been modified to any widely accepted interbank rate or alternative reference rate (“**ARRs**”) of 6-month tenor, applicable to the currency of the FCY ECB.
2. **All-in-cost for new FCY ECBs and TC:** The all-in-cost ceiling has been increased by 50 basis points for new FCY ECBs and TCs. Accordingly, the revised all-in-cost ceiling will be 500 basis points over the benchmark rate for new FCY ECBs and 300 basis points over the benchmark rate for new TCs.
3. **All-in-cost for existing FCY ECBs and TC:** For all existing FCY ECBs and TCs which are linked to LIBOR and whose benchmarks are changed to another benchmark rate, the RBI has provided a one-time upward revision in the all-in-cost ceilings by 100 bps for a smooth transition from LIBOR to another benchmark rate. Accordingly, the revised all-in-cost ceiling will be 550 basis points over the benchmark rate for such FCY ECBs and 350 basis points over the benchmark rate for such TCs.

However, there is no change to the all-in-cost ceiling for Indian rupee denominated ECBs and TCs.

#### Impact of the Circular:

The Circular was much awaited given that certain LIBOR settings will not be available after December 31, 2021 and globally, banks and financial institutions are shifting away from using LIBOR as the benchmark rate for lending transactions. Previously, the RBI had appraised banks and financial institutions to be ready for de-linking their foreign currency exposure from LIBOR. However, there was no clarity on a successor benchmark rate for ECBs. The Circular provides the required clarity and flexibility to ECB lenders and borrowers to link their all-in-cost ceilings to ARR or any widely accepted interbank rate.

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