Bank of America (BofA) IBOR Transition Statement

Introduction

In 2017, the U.K.'s Financial Conduct Authority (the **FCA**) announced that it would no longer persuade or require participating banks to submit rates for the London Interbank Offered Rate (**LIBOR**) after 2021. Since then, regulators, trade associations and financial industry groups comprising official sector entities and private market participants across jurisdictions (including the Alternative Reference Rates Committee (**ARRC**) in the U.S. and the Sterling Risk Free Rate Working Group in the U.K.) have identified replacement rates for Interbank Offered Rates (**IBORs**), established milestones for the transition from IBORs to alternative reference rates (**ARRs**) and published recommended contractual provisions and conventions to allow new and existing contracts and products to incorporate fallbacks or reference ARRs.

In the U.S., the banking regulators issued a statement in November 2020 encouraging banks to cease entering into new contracts that use U.S. dollar LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021, subject to certain limited risk management exceptions. Other regulators and official sector working groups have established similar milestones (with limited risk management exceptions to entry into new LIBOR-linked contracts) in relation to other LIBOR currencies.

A wide range of contracts, products and services require payments or calculations to be made by reference to IBORs or otherwise include provisions referencing IBORs (e.g. default interest and valuation/pricing provisions). In particular, IBORs are used in mortgages, consumer, corporate and commercial loans, derivatives, floating-rate notes, preferred securities, and other adjustable-rate products and financial instruments. The cessation of IBORs, including LIBOR, means that a significant number of IBOR-linked products and contracts, including related hedging arrangements, must be transitioned or implement fallbacks to ARRs.

LIBOR Cessation

On March 5, 2021, ICE Benchmark Administration Limited (**IBA**), the administrator of LIBOR, made a public announcement (the "**IBA announcement**") in which it stated that "*… without the intervention of the FCA to compel continued contributions to LIBOR, it is not possible for IBA to publish the relevant panel bank LIBOR settings on a representative basis beyond the dates for intended cessation set out in the consultation*".

On March 5, 2021, the FCA, as the regulatory supervisor for the IBA, publicly stated that (hereinafter referred to as the "**FCA announcement**"):

- IBA's publication of the following 26 LIBOR settings will cease immediately following the publication of that LIBOR setting on the dates set forth in the table below.

LIBOR Currency	LIBOR Tenors	Final Publication Date
EUR, CHF	All tenors	December 31, 2021
GBP	Overnight, 1 week, 2 month, and 12 month	December 31, 2021
JPY	Spot Next, 1 week, 2 month, and 12 month	December 31, 2021
USD	1 week, 2 month	December 31, 2021
USD	Overnight and 12 month	June 30, 2023

- The following 9 LIBOR settings will <u>become non-representative</u> immediately following the "Final Date of Representativeness" set forth in the table below. The FCA will consult on requiring IBA to continue publishing the below GBP and JPY LIBOR settings and consider the case for continued publication of U.S. dollar LIBOR settings, all on a synthetic basis for a period of time thereafter.*

LIBOR Currency	LIBOR Tenors	Final Date of Representativeness	Potential for Non-Representative, Synthetic Publication
GBP	1 month, 3 month, and 6 month	December 31, 2021	January 1, 2022 onward
JPY	1 month, 3 month, and 6 month	December 31, 2021	January 1, 2022 through December 31, 2022
USD	1 month, 3 month, and 6 month	June 30, 2023	July 1, 2023 onward

*While the FCA has made clear that the above LIBOR settings will become non-representative as of the dates indicated above, there is no certainty that these LIBOR settings will continue to be published on a synthetic basis after such dates. Note that (i) FCA's ability to exercise its powers to require IBA to continue publication on a synthetic basis is subject to the UK Parliament passing the proposed FCA powers under the Financial Services Bill and (ii) the FCA has made it clear that the use of synthetic LIBOR is only intended to assist legacy contract holders.

The FCA announcement and/or the IBA announcement may impact contracts or products that reference a LIBOR currency-tenor setting which will cease or will become non-representative on the dates identified above, including with respect to the calculation and setting of any spread adjustments and the date on which the replacement rate under such contract or product would become effective. With respect to derivatives and other relevant products and for all 35 LIBOR currency-tenor settings, as confirmed by ISDA in its March 5, 2021 statement: (i) the FCA announcement constitutes an "Index Cessation Event" for the purposes of and as defined in each of the Attachment to the ISDA 2020 IBOR

Fallbacks Protocol and Supplement 70 to the ISDA 2006 Definitions; and (ii) March 5, 2021 constitutes a "Spread Adjustment Fixing Date" under the Bloomberg IBOR Fallback Rate Adjustments Rule Book. The ARRC has separately confirmed that any U.S. dollar non-consumer cash products incorporating the ARRC-recommended fallback language will apply the same (now fixed) spread adjustment values to the fallback rates.

Please note that each relevant LIBOR-linked contract and product will transition to a replacement rate (e.g. based on the Secured Overnight Financing Rate (**SOFR**) or the Sterling Overnight Index Average (**SONIA**)) in accordance with the terms and fallback provisions (if any) contained therein. Under most industry working group recommended fallback provisions, the FCA announcement and the IBA announcement will not transition such contracts and products to an ARR on March 5, 2021. Note also that circumstances could change that could impact the timing and other information described herein and are subject to change without notice.

Potential Impact of the Transition

The FCA announcement, the IBA announcement, and IBOR reforms more generally, require market participants to consider and prepare for the impact of: (i) the potential or actual cessation of IBORs (including LIBOR in accordance with the FCA and IBA announcement above); and (ii) the transition to ARRs.

In particular, an IBOR may no longer be published (as has been announced with respect to the LIBORs referred to in the FCA and the IBA announcement), be calculated differently, become unavailable, and/or cease to be representative of the underlying market and economics that it is intended to measure. The impacts of such events may include, but are not limited to, those described below, any of which may impact your investments or transactions, as well as, any contracts, products or services that are linked to, or that reference, IBORs.

(1) Changes to calculation methodology

ARRs have compositions and characteristics that differ significantly from the IBORs they may replace. In some cases, the ARRs may have limited history and may demonstrate less predictable or different performance over time than the IBORs they replace. For example, while IBORs are forward-looking term rates, certain ARRs that have been proposed to replace IBORs are backward-looking (i.e., they are published after the period to which they relate) overnight rates and therefore do not comprise a "term" element. In addition, most ARRs are calculated on a compounded or weighted average basis, may involve operationally complex calculations and, unlike IBORs, do not reflect bank credit risk and therefore may require a spread adjustment. Although certain forward-looking ARR-linked term rates have been proposed and are currently available, including Term SONIA Reference Rates, there is no guarantee that a forward-looking term rate will be developed for all ARRs.

(2) Impact on liquidity and pricing

The potential or actual cessation of IBORs and the transition to ARRs may adversely impact the value and/or performance of an IBOR-linked contract and/or product, and cause market dislocations, fragmentation and disruptions. In addition, IBOR-linked products are likely to become less liquid as the transition process develops and other unforeseen consequences may arise if such products are held beyond relevant IBOR cessation dates. New financial products linked to ARRs may initially be less liquid if trading volumes are lower than the trading volumes of corresponding existing IBOR-linked products. There is no guarantee that liquidity in ARR-linked products will develop.

(3) ARRs may perform differently from IBORs

There can be no assurance that ARRs (including any methodologies for adjustments) will be similar to, or produce the economic equivalent of, the IBORs they seek to replace, particularly as several ARRs have characteristics that differ significantly from the IBORs they seek to replace (as discussed above). In addition, certain ARRs have limited history and it is possible that ARR-linked products may perform differently to IBOR-linked products during times of economic stress, adverse or volatile market conditions and across the credit and economic cycle.

(4) Impact on hedging and other linked products

ARRs may vary across, or even within, categories of contracts, products and/or services. The formulation of an ARR (e.g. a backward-looking rate, a simple daily rate, a compounded rate or a forward-looking term rate) or the process for calculating the spread adjustment may diverge by currency, financial instrument and/or the timing of the transition. These differences may have an economic impact, including the ability to maintain effective hedges of certain contracts, products and/or services, and therefore create an economic mismatch.

(5) Existing fallbacks or contract remediation

Certain IBOR-linked contracts, products and/or services include a process to transition to using an ARR in the event of an IBOR cessation event (e.g. the FCA announcement).

However, these terms may have been developed: (i) prior to the announcements regarding the permanent cessation of certain specified IBORs; or (ii) if following such announcements, in an environment where it is not yet certain how an ARR will operate in practice. Therefore, it may be difficult to determine, at this time, the specific successor or fallback rate that applies, when it applies and whether it will have an adverse economic impact on your IBOR-linked products.

In addition, where existing IBOR-linked contracts, products and/or services do not already include a process to transition to an ARR or where the transition process may benefit from adjustment, such contracts, products and/or services may need to be amended in accordance with their terms, which may require your consent or the consent of the relevant third parties (which may include BofA).

Some outstanding IBOR-linked products and contracts are particularly challenging to modify, for example, due to the requirement that all impacted parties consent to such modification. There can be no guarantee that any third party will agree to a particular ARR or any particular related amendments, and it is possible that consents required for amendments will not be obtained. Legislation and/or regulations in one or more countries may be introduced that may address such challenges in IBOR-linked contracts, products and/or services (for example, legislation has been adopted in the E.U. and in New York and proposed in the U.K. to address such challenges). To the extent such legislation or regulation is enacted, you will need to assess how it impacts your IBOR-linked contracts and/or products. In particular, if there is an overlap between legislation introduced in different jurisdictions, you may need to conduct a conflict of laws assessment to determine which, if any, legislation would take priority. There is no guarantee that the legislative proposals will become law.

(6) Potential conflict of interest

BofA may have a right to exercise discretion when a successor rate, including an ARR and/or the applicable spread adjustment to the designated rate (including an IBOR), is selected or determined for a contract, product or service, including as to the timing of such selection or determination, pricing or any other adjustment to account for the difference between the successor rate and the designated rate it seeks to replace. The successor rate and any such adjustments BofA selects may be inconsistent with, or contrary to, your interests or positions.

(7) Other impacts

In connection with industry-wide milestones, central clearing counterparties (CCPs) in Europe and the U.S., which act as intermediaries and require collateral deposits for the clearing and settlement of interest rate swap products and other derivatives, changed the interest rate used to calculate amounts due to counterparties for collateral deposits posted with them from the European Overnight Index Average (EONIA) to the Euro Short-Term Rate (ESTR) and the Effective Fed Funds Rate (EFFR) to SOFR. This may have an impact on your portfolio from a valuation, operational or risk perspective. To the extent an IBOR is used as an input to, or price source for, another benchmark (e.g. certain Singapore and Thai benchmarks and the ICE Swap Rate), IBOR cessation may have an impact on your contracts or products that reference such rates.

In addition to the potential impacts discussed above, there are a range of potential legal, financial, tax, accounting, regulatory, operational, and/or other effects which may be relevant depending on specific circumstances. While this IBOR Transition Statement is focused on IBORs, the same potential impacts are applicable to other benchmark rates that may no longer be published, be calculated differently, become unavailable and/or cease to be representative.

Next Steps

If you have IBOR-linked products or services (or other contracts, products or services that reference an IBOR-related benchmark rate that may no longer be published, be calculated differently, become

unavailable and/or cease to be representative as a result of IBOR cessation), we encourage you to consult your legal, tax, financial and other professional advisors and review their terms, and specifically consider the impact of the FCA and IBA announcements. It is particularly important to understand the fallback or transition provisions (e.g., the process of using an ARR as a fallback or transitioning to an ARR in the event of an IBOR cessation), how they operate, whether legacy contracts need to be amended or can be amended and whether there is a potential economic mismatch between ARRs and the IBORs they seek to replace, including between hedges and hedged exposures.

Disclaimer

This statement includes a summary of potential impacts and it is not intended to be exhaustive. This document is dated as of April 15, 2021. Material developments may have occurred since the preparation of this statement. The content of this statement is subject to change without notice, and BofA accepts no obligation to update or correct the information and accepts no liability for the impact of reliance on, or any decisions made based upon, the information, views or opinion expressed herein. This statement is not intended to supersede, and should be considered in conjunction with, any disclaimers, disclosures, or other statements identifying potential risks provided to you by BofA or any of its affiliates, including specific risks related to IBORs, ARRs or other applicable benchmark rates referenced by your contracts, products or services. This statement is not intended to be, and should not be relied upon as a representation, warranty or other assurance or as financial, tax, accounting, legal or other advice. If you have questions with regard to the contents of this document, please consult your financial, legal, accounting, tax and/or other professional advisors.