THE TRANSITION AWAY FROM LIBOR

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Answers to Frequently Asked Questions[1]

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What is LIBOR?

London Interbank Offered Rate (LIBOR) is a set of benchmark interest rates intended to represent the level at which major global banks borrow from and lend to one another in the international interbank market for short-term loans. LIBOR has been the most widely used interest rate benchmark in the world and has been called "the world's most important number". LIBOR is calculated and published daily across five currencies (USD, GBP, EUR, CHF, and JPY) and seven maturities or tenors (Overnight, one week, one month, two months, three months, six months, and twelve months) by ICE Benchmark Administration (IBA), the current administrator of LIBOR, and is based on rate quotation submissions by panel banks.

LIBOR is used as a rate index in a wide range of products globally, including residential mortgages, student loans, corporate loans, corporate bonds and other securities, and derivatives.

Why is LIBOR going away?

LIBOR has been a long-established global benchmark for interest rates, but its sustainability has declined over the past decade because the market that LIBOR seeks to measure no longer is sufficiently active. During the financial crisis that began in 2007, LIBOR sometimes behaved in unpredictable and volatile ways. LIBOR has also proved to be vulnerable to manipulation, as was demonstrated by the rate rigging scandal brought to light in 2012. The volume of transactions supporting LIBOR continues to shrink, and the calculation of LIBOR is increasingly perceived as a subjective process based more on hypothetical transactions and judgment than actual transactions. Many banks have become uncomfortable providing submissions based on expert judgement, including some that have already chosen to stop submitting altogether.

[1] [1] These FAQs are current only as of the date first written above. Please note these FAQs are solely for informational purposes and are not intended to provide legal, tax, accounting or financial advice. In making any decision relating to LIBOR transition, please consult with your legal, tax, accounting, or financial advisors, as necessary.

When is LIBOR going away?

The IBA announced on March 5, 2021 that it intends to (i) cease the publication of one week and two month USD LIBOR following the USD LIBOR publication on December 31, 2021, (ii) cease the publication of overnight, one, three, six, and twelve month USD LIBOR following the USD LIBOR publication on June 30, 2023 and (iii) cease the publication of GBP, EUR, CHF, and JPY LIBOR following their publication on December 31, 2021.

Subsequent to the IBA and FCA announcements, the Alternative Reference Rates Committee (ARRC) confirmed that it considered that these announcements constitute a Benchmark Transition Event under its recommended fallback language. The ARRC also has affirmed prior supervisory guidance that new USD LIBOR issuances should cease no later than the end of 2021, specifically the joint supervisory statement issued on November 30, 2020 and October 20, 2021 by various federal regulators. The joint statements encouraged banks and other financial institutions to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable (and in any event not later than December 31, 2021) and to employ robust fallback language, and explain that the extension of the one, three, six and twelve month USD LIBOR tenors will would allow most legacy USD LIBOR contracts that are difficult or impossible to amend to mature before the IBA ceases publishing USD LIBOR.

The announcements constitute a benchmark transition or cessation event under certain contractual fallback provisions, including under the 2020 IBOR Fallbacks Protocol and Supplement published by the International Swaps and Derivatives Association (ISDA) to supplement the model documentation that it offers to govern derivatives transactions among market participants. The immediate effect of the occurrence of a benchmark transition or cessation event was to set the fallback rate spread adjustment (the 5-year historical median difference between the relevant LIBOR and its applicable fallback rate) provided for under certain fallback provisions. On March 5, 2021, Bloomberg, the organization chosen by ISDA to calculate and publish benchmark fallback adjustments, published a Technical Notice setting forth the spread adjustments applicable to all LIBOR settings across all LIBOR currencies.

You may receive a notice from us advising you of the occurrence of a benchmark transition or cessation event. The notice, however, will not result in an immediate move from LIBOR to a replacement benchmark rate under your agreement.

Who are the relevant industry bodies, or Working Groups, providing guidance related to the transition?

Different industry-led working groups were established in coordination with national financial regulators to recommend alternative reference rates to replace the different currency LIBORs and provide guidance on the transition away from LIBOR. The relevant working group in the United States is the ARRC. We encourage you to visit the ARRC’s website for informative reference materials, checklists and other resources.

What does the ARRC do?

It is important to note that the ARRC is not a regulatory body and does not have legislative or regulatory standard setting powers. The ARRC is a group of private-market participants convened to help ensure a

successful transition from USD LIBOR to a more robust reference rate: its recommended alternative, the Secured Overnight Financing Rate (SOFR). The ARRC is comprised of a diverse set of private-sector entities, each with an important presence in markets affected by USD LIBOR, and a wide array of official-sector entities, including banking and financial sector regulators, as ex-officio members.

In response to recommendations and objectives set forth by the Financial Stability Board and the Financial Stability Oversight Council to address risks related to USD LIBOR, the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (New York Fed) jointly convened the ARRC in 2014. The ARRC's initial objectives were to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption of the identified alternative reference rates. The ARRC accomplished its first set of objectives and, in 2017, identified SOFR as its recommendation of the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published a Paced Transition Plan, which has been revised several times, with specific steps and timelines designed to encourage adoption of SOFR.

The ARRC was reconstituted in 2018 with an expanded membership to help ensure the successful implementation of the Paced Transition Plan, address the increased risk that USD LIBOR may no longer be usable beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

What alternative rates were recommended to replace LIBOR?

As noted above, given LIBOR's shortcomings in recent years, more robust alternative reference rates have been recommended to replace LIBOR. LIBOR is published daily across five currencies (USD, GBP, EUR, CHF, and JPY), and an alternative reference rate has been recommended for each currency by the applicable national working group to replace the different currency LIBORs:

How is SOFR different from USD LIBOR?

SOFR is the ARRC's recommended (but not required) replacement rate for USD LIBOR. Both USD LIBOR and SOFR reflect short-term

borrowing costs; however, there are some key differences between USD LIBOR and the alternative rates. For example, USD LIBOR is based partially on market-data "expert judgement," whereas SOFR relies entirely on transaction data and is less subjective. USD LIBOR is forward-looking with seven (7) tenors ranging from one day to one year, while SOFR is a daily or "overnight" rate. USD LIBOR includes a built-in term credit-risk component because it is intended to represent the average cost among banks of term borrowings in the interbank market. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. Per the ARRC, SOFR was recommended as the best alternative reference rate for USD LIBOR for the following reasons:

- SOFR is fully transaction-based, has the widest transaction coverage of any Treasury repo rate available, and its underlying transaction volume is much larger than those underlying USD LIBOR or any other US money market rate
- SOFR is a good representation of general funding conditions in the overnight Treasury repo market, and thus will accurately reflect the economic cost of lending and borrowing relevant to the wide array of market participants active in the market
- SOFR is compliant with International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks, which is recognized as representing best practices
- SOFR is an overnight, nearly risk-free rate that correlates closely with other money market rates and covers multiple repo market segments, allowing for future market evolution
- The New York Fed publishes SOFR on a daily basis on its website
- SOFR's rate production process is periodically reviewed by the New York Fed Oversight Committee, which consists of members from across the New York Fed organization that are not involved in the daily production of the rate, including a representative from the US Office of Financial Research (OFR) and the New York Fed's Chief Risk Officer
- Some market participants believe that for financial products such as loans it would be useful to have a benchmark that is term rate (like LIBOR) rather than a daily rate (like SOFR). In response, the ARRC and the New York Fed have developed SOFR-based term rates ("SOFR Term Rates"). On July 29, 2021, the ARRC formally recommended the use of SOFR Term in areas where use of overnight and averages of SOFR has proven to be difficult – primarily in business loan activity

What is "fallback language"?

Within the context of LIBOR transition, "fallback language" refers to the provisions in a credit agreement or other financial contract that apply if the underlying reference rate (i.e., LIBOR) applicable to the product covered by that agreement or contract is discontinued or unavailable. Depending whether existing contracts contain LIBOR fallback language and how robust and specific that fallback language is, it may be necessary to update the fallback language used in contracts (or add it) for loans and other products that are indexed to LIBOR to ensure a smooth transition to a new rate upon cessation of publication of LIBOR.

What does this transition mean for Wintrust Wealth Management customers?

Wintrust Wealth Management customers should understand why financial markets are transitioning from LIBOR to other interest-rate benchmarks, the proposed replacement benchmark rates, and the timing of the transition.

Wintrust Wealth Management customers may have invested in securities or other financial products that are tied to LIBOR. Those products may need to be modified to reflect a replacement benchmark rate. A security or other investment that does not transition to a replacement rate presents risks to the holders of those investments.

Glossary

LIBOR is a set of benchmark interest rates intended to represent the level at which major global banks borrow from and lend to one another in the international interbank market for short-term loans.

SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities.

Tenor refers to the length of time remaining before a financial contract expires.

A **panel bank** commonly refers one of several banks that submit rates used to determine LIBOR.