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LIBOR Transition

FACING INTO THE END-GAME

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Contents

Introduction

The move towards risk-free reference rates (RFRs) will improve the integrity of financial markets and mitigate risks of benchmark manipulation. The RFRs selected by the various central bank-led working groups are more robust than their LIBOR counterparts and better represent overall market funding costs.

However, a key trade-off of IBOR transition broadly has been market fragmentation. RFR publication is distributed across benchmark administrators and time zones. The underlying markets on which RFRs are based vary. The accrual and settlement conventions associated with RFR-linked cash and derivative products have been left to market participants to determine. Demand from some market segments has led to the emergence of alternatives to overnight RFRs with both term structures and credit premia.

Structural differences between products and local markets has led to divergence of transition maturity in spite of a coordinated regulatory response across jurisdictions to accelerate and smooth transition. The complexity and industry-led nature of transition has highlighted disparities of understanding and capability between market players.

Events of the past few months have provided greater clarity around the end-game for LIBOR. However, many questions remain unanswered and market participants continue, in large part, to stare each other down as to who will move first and drive coalescence around product conventions and transition activities such as fallback repapering for legacy transactions.

Large parts of both the buy side and sell side continue to underestimate the volume and complexity of legal, operational, systems and quant-related work to be completed by end-2021 and beyond. The operational risks associated with meeting the challenge are very significant. The conduct risks associated with transitioning are likewise considerable and directly impacted by the operational risks themselves. Even the best-prepared firms risk dropping the ball with regard to conduct-related issues when workload spikes and frontline staff overlook or misapply pre-agreed protocols during the year-end crunch.

The implications of mishandling conduct risks should be considered seriously and as soon as possible. Firms risk significant reputational damage and litigation from customers and counterparties. Regulators have indicated that the management of conduct risk should be a primary focus and that in some jurisdictions senior leadership may be held directly responsible for conduct-related transgressions under the senior accountability regimes where they manage operations, particularly where a firm's efforts are out of line with its peers.

The extended publication of key USD LIBOR settings until June 2023 should not be construed as a reprieve from transition. Firms should reassess their readiness now and ensure they are prepared for end-2021. There is much more to do and time is ticking fast.

Figure 1: Summary of benchmark categories to consider

BENCHMARK CATEGORY	TYPE	EXAMPLES
IBORs	LIBOR	USD LIBOR, GBP LIBOR, EUR LIBOR, CHF LIBOR, JPY LIBOR
	LIBOR-referencing	SOR, THBFIX, PHIREF, MIBOR, ICE Swap Rate
	EONIA	EONIA
	Reformed	BBSW, EURIBOR, HIBOR
	At-risk (i.e., being discontinued or considered for reform)	SIBOR, KLIBOR, KLIRR
RFRs	Compounded-in-arrears/daily simple RFRs	SONIA, SOFR, €STR, SARON, TONAR
	Term	ICE Term SONIA, CME Term SOFR, TORF
Other	Credit-sensitive	AMERIBOR, BSBY, CRITR, CRITS, BYI

Key recent developments

1. THE FCA HAS ANNOUNCED THE TIMING FOR LIBOR'S CESSATION

On 5 March 2021, the Financial Conduct Authority (FCA) announced the timing for the cessation or loss of representativeness of all 35 LIBOR benchmark settings currently published by IBA (LIBOR's administrator). This clarified the timetable for the transition to RFRs, including when new fallbacks for legacy LIBOR exposures will apply. Friday 31 December 2021 will be the final publication date for GBP, JPY, CHF and EUR LIBOR settings as well as 1-week and 2-month USD LIBOR settings. The remaining USD LIBOR settings will cease to be published on 30 June 2023.

The FCA is presently consulting on the use and application of non-representative 'synthetic' rates (Synthetic LIBOR) for 1-month, 3-month and 6-month GBP LIBOR beyond end-2021 as well as 1-month, 3-month and 6-month JPY LIBOR for a one-year period following discontinuation. The regulator indicated that they may consider consulting upon the need and use of Synthetic LIBOR settings for USD LIBOR in due course.

The FCA announcement also acted as a pre-cessation trigger under the recently revised ISDA fallbacks, resulting in a fixing of the fallback spread adjustments at the point of the announcement for relevant transactions.

Figure 2: Summary of end dates for all 35 LIBOR settings

LIBOR		TENOR						
		O/N	1W	1M	2M	3M	6M	12M
CURRENCY	USD	30 June 2023	31 December 2021	30 June 2023	31 December 2021	30 June 2023	30 June 2023	30 June 2023
	GBP	31 December 2021	31 December 2021	31 December 2021 (consulting as to use of a non-representative 'synthetic' rate thereafter)	31 December 2021	31 December 2021 (consulting as to use of a non-representative 'synthetic' rate thereafter)	31 December 2021 (consulting as to use of a non-representative 'synthetic' rate thereafter)	31 December 2021
	EUR	31 December 2021	31 December 2021	31 December 2021	31 December 2021	31 December 2021	31 December 2021	31 December 2021
	CHF	31 December 2021	31 December 2021	31 December 2021	31 December 2021	31 December 2021	31 December 2021	31 December 2021
	JPY	31 December 2021	31 December 2021	31 December 2021 (consulting as to use of a non-representative 'synthetic' rate for 1 year thereafter)	31 December 2021	31 December 2021 (consulting as to use of a non-representative 'synthetic' rate for 1 year thereafter)	31 December 2021 (consulting as to use of a non-representative 'synthetic' rate for 1 year thereafter)	31 December 2021

- 31 December 2021
- 31 December 2021 (consulting as to use of a non-representative 'synthetic' rate thereafter)
- 31 December 2021 (consulting as to use of a non-representative 'synthetic' rate for 1 year thereafter)
- 30 June 2023

2. THE ISDA 2020 IBOR FALLBACKS PROTOCOL AND SUPPLEMENT ARE NOW IN EFFECT

On 25 January 2021, the ISDA 2020 IBOR Fallbacks Protocol and Supplement (Protocol and Supplement respectively) for the 2006 ISDA Definitions (2006 Definitions) became effective after a 3-month implementation period. The Protocol remains open and applies the new, more robust fallbacks for the relevant floating rate options to legacy derivative transactions entered into before the effective date between adhering parties. The Supplement automatically applies the fallbacks to new derivative transactions entered into after the effective date that are covered under relevant master agreements.

Protocol adherence among regulated financial institutions has been high following strong encouragement by supervisory bodies globally as well as the operational efficiencies adherence affords over bilateral transaction repapering.[1]

3. THE LMA, APLMA AND LSTA HAVE PUBLISHED UPDATED LENDING DOCUMENTATION

The LMA initially produced exposure drafts, and has now produced recommended forms, of RFR-lending documentation catering for rate-switch or day-one RFR lending, on a single currency and multicurrency basis for each of the original LIBOR currencies, on either a lookback with or without observation shift basis. While there are a number of variables that the parties still need to agree when using these documents, including how any credit adjustment spread (CAS) should be calculated and whether break costs or market disruption terms should apply to an RFR currency loan, in practice there has been broad market adoption of this documentation. The LMA documentation provides for a fallback from the RFR to adjusted central bank rates such as the Bank of England base rate or the US Federal Reserve's short-term interest rate target.

Similarly, in May 2021, the LSTA published four concept New York-law credit agreements to assist in the transition from LIBOR. These concept RFR documents illustrate various types of SOFR-based USD credit facilities and RFR-based multicurrency facilities which use a daily, in-arrears benchmark.

The APLMA has produced its own RFR-lending documentation. The documents produced to date generally align with the LMA's RFR-lending documentation, but they also reflect the different needs and requirements of the markets at which they are aimed. For example, the draft rate-switch agreement published by the Australian branch of the APLMA uses Australian dollars as its base currency and includes New Zealand dollars as an optional currency, and the draft SOFR facility agreements give users a choice between daily simple SOFR and compounded daily SOFR for the pricing methodology.

4. PLANS ARE IN PLACE TO CONVERT CLEARED LIBOR SWAPS TO THEIR RESPECTIVE RFRS

Central clearing counterparties (CCPs) including LCH Ltd. (LCH) and Chicago Mercantile Exchange Group (CME) have unilaterally incorporated the new ISDA fallbacks into their rulebooks for both new and legacy cleared derivatives. However, after consulting with their members, the CCPs no longer plan to rely upon these fallbacks, but rather proactively convert outstanding LIBOR swaps into market-standard, RFR-linked overnight index swap (OIS) contracts (including a spread adjustment) on or close to the relevant cessation effective date.

This approach has been taken to avoid risk and default management issues caused by creating a bifurcated market between transactions that have fallen back to the spread-adjusted RFR and new RFR-referencing OIS trades.

The CCPs will provide cash compensation to account for any valuation differences between the original LIBOR contracts and the new RFR trades.

CCPs are planning to convert JPY, CHF and EUR LIBOR contracts over the weekend of 3 December 2021 in a "big-bang" event similar to the EONIA-€STR and EFFR-SOFR discounting switches during 2020. The CCPs plan to convert GBP LIBOR contracts over the weekend of 17 December 2021.

5. FORWARD-LOOKING SONIA AND SOFR TERM RATES ARE NOW LIVE

The UK market now has two live term RFRs, with both the ICE Term SONIA Reference Rate and Refinitiv Term SONIA commencing publication in January 2021.

In the United States, the situation is more nuanced. On 20 April 2021, the CME announced the publication of its CME Term SOFR Reference Rates for 1-month, 3-month and 6-month tenors. The CME has designed these term SOFR benchmarks to comply with the EU Benchmark Regulation (BMR) and to align with the IOSCO Principles for Financial

1. ISDA also has published a template to support market participants applying the revised fallbacks bilaterally.

> "Transition from Libor was always going to be challenging given its widespread use, but to those looking for an easy descent by substituting Libor for credit sensitive rates that do not address all of its fundamental weaknesses, they risk much of the good progress that has been made. While these rates may offer convenience as a short-term substitution, they present a range of complex longer term risks. And while they may remove the reliance on expert judgement, they veneer over the fundamental challenges of thin and incomplete markets through the extrapolation of data. The ability of such rates to maintain representativeness through periods of stress remains a challenge to which we have not seen adequate answers."
>
> **Andrew Bailey**, Governor of the Bank of England
> 11 May 2021
> ARRC SOFR Symposium: The Final Year

Benchmarks. To meet the Alternative Reference Rates Committee's (ARRC) key principles for a forward-looking SOFR term rate, however, CME will limit the licensing of its Term SOFR Reference Rates initially to cash products, disallowing use in derivatives transactions until 30 June 2023 in the first instance.

The ARRC has emphasised that the use of forward-looking term SOFR benchmarks should be limited initially to ensure that the use itself does not materially affect volumes in the underlying overnight SOFR derivatives markets from which the term rate would be derived. Citing insufficient liquidity in the SOFR overnight derivatives markets as is, on 23 March 2021, the ARRC announced that it is no longer in a position to recommend a forward-looking SOFR term rate by mid-2021. The ARRC did, however, announce during April the key principles it would apply in recommending a forward-looking SOFR term rate in due course. On 6 May 2021, the ARRC additionally published a set of market indicators that it will consider in making such a recommendation and announced on 21 May 2021 that it plans to recommend CME as the administrator for term SOFR, once market indicators for the term rate are met.

More generally, UK and US regulators continue to push broad-based transition to compounded-in-arrears RFRs, or, in the case of ARRC, daily simple RFRs for certain asset classes, emphasising that the use of forward-looking term rates should be limited to supporting certain cash market participants and the transition of certain legacy contracts.

6. NEW CREDIT-SENSITIVE USD LIBOR ALTERNATIVES ARE BEING PUBLISHED

Several overnight and term credit-sensitive alternatives to USD LIBOR are now being published, with the Bloomberg Short-term Bank Yield Index (BSBY) being launched in January 2021, and the IHS Markit USD Credit Inclusive Term Rate (CRITR) and IHS Markit USD Credit Inclusive Term Spread (CRITS) commencing publication on 1 June 2021. These benchmarks join the American Interbank Offered Rate (AMERIBOR) as "LIBOR-like" benchmarks. The IBA intends to publish its ICE Bank Yield Index (BYI) as a credit-sensitive alternative in due course.

These rates were largely developed to provide small to medium-sized regional banks in the US alternative benchmarks to SOFR that better reflect their funding costs and credit risks, particularly in times of market stress.

Acknowledging the client demand for both credit-sensitive rates products and SOFR rates products, ISDA recently updated its interest rate definitions to add AMERIBOR and BSBY as floating rate options, and it expects to include other credit-sensitive USD LIBOR alternatives in its definitions in the future. Similarly, the LSTA published a market advisory in April 2021 which addresses adding a 'credit sensitive rate' option as part of the LIBOR fallback language included in US loan documentation. In particular, the LSTA advisory provides sample language to facilitate the use of credit-sensitive rates in hardwired fallback language for market participants who are interested in incorporating a credit-sensitive rate option.

While regulators have noted that such credit-sensitive benchmarks may be appropriate alternatives to SOFR for some market participants, they have also expressed trepidation about the scope of their use, given their calculation inputs, correlation to LIBOR, and associated risks of becoming 'unrepresentative' in due course. Nonetheless, the US syndicated loan market appears to be somewhat divided between SOFR and credit-sensitive rates, and there is a growing consensus that there is likely to end up being a multi-rate environment with multiple options to choose from.

Looking ahead: key challenges and considerations

EXTENDED PUBLICATION FOR USD LIBOR MUST NOT SLOW TRANSITION EFFORTS TO SOFR

The FCA's announcement that key tenors of USD LIBOR will be published until mid-2023 acknowledges that SOFR adoption has been slow and was designed to allow most legacy USD LIBOR contracts to mature before LIBOR ceases to be published or remain representative.

This extension was welcomed by many given it allows exposed parties more time to restructure their USD LIBOR-linked back book or repaper their fallbacks. It allows market participants more time to ready their systems, processes and models. It also extends the longevity of those at-risk APAC benchmarks for which USD LIBOR is a direct input, i.e., SOR, THBFIX, PHIREF and MIFOR, allowing relevant benchmark administrators, regulators and industry working groups more time to consult and plan for transition alternatives.

For those market participants with predominantly overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR exposure, preparing for the cessation of other LIBOR settings in December 2021 may additionally provide a helpful test run of fallback operational activities ahead of the June 2023 "big bang".

However, the extension of USD LIBOR's exposure should not be considered to be a reprieve from transition generally.

"As with the statements about LIBOR's end, there should be complete certainty about this guidance from US regulators: after 2021, we believe that continued use of LIBOR in new contracts would create safety and soundness risks, and we will examine bank practices accordingly."

Randal Quarles, Vice Chair for Supervision at the Federal Reserve
22 March 2021
"The SOFR Symposium: The Final Year" (hosted by the ARRC)

> "There is a clear expectation that use of dollar LIBOR in new contracts should stop by the end of this year, here, in the US, and in other key jurisdictions."
>
> **Edwin Schooling Latter**, Director of Markets and Wholesale Policy at the FCA
> 13 April 2021
> ISDA Benchmark Strategies Forum

ISSUANCE AND TRADING OF NEW USD LIBOR-LINKED POSITIONS WILL BE SIGNIFICANTLY RESTRICTED FROM END-2021

In the US, supervisory guidance (i.e., the FRB, FDIC, OCC jointly) encourages banks to cease entering into new contracts referencing USD LIBOR 'as soon as practicable and in any event by December 31, 2021'. Statements supporting this guidance and expectation were published in early June by the FSB, IOSCO, as well as regulators and central banks in other jurisdictions such as ASIC, APRA and the RBA in Australia.

It is plausible that a similar limitation on new USD LIBOR-linked transactions could be implemented in the UK, given recent speeches by regulators and new powers under the Financial Services Act 2021 that enables the FCA to prohibit the use of a moribund benchmark in new contracts. On 20 May 2021, the FCA published a consultation setting out, among other things, proposed factors for consideration when deciding whether to exercise its 'new use restriction power' for outgoing benchmarks such as USD LIBOR.

Firms with regulated entities in these jurisdictions will need to heed this guidance to avoid sanctions. Firms without regulated entities within these jurisdictions will likely be forced to move away from USD LIBOR-linked products as the supervised entities with whom they trade cease trading them in any case.

All this means that market participants, regardless of geographical location, should ensure that they can offer or transact in USD LIBOR alternatives by December 2021. For most, this will mean ensuring they have implemented the processes and systems to book, confirm, settle, price and risk manage daily simple and compounded-in-arrears SOFR cash and derivative products.

SOFR-LINKED DERIVATIVES LIQUIDITY NEEDS TO ACCELERATE FOR USD LIBOR CASH MARKET PARTICIPANTS TO TRANSITION

Certain market participants will delay transition from USD LIBOR until a suitable forward-looking term SOFR becomes available in the market. Trade finance operators, for example, will hold out for structural reasons, given they depend on a term rate. Certain corporate end-users may wait for a term USD LIBOR alternative for operational reasons, even if it results in less favourable deal pricing. This is especially likely to be the case where they have not yet invested in treasury management systems or accounting infrastructure that can accommodate compounding-in-arrears accruals or risk management using overnight rate-linked derivatives.[2]

In this regard, liquidity in SOFR derivative products will be critical in driving the pace of this back-book transition. As noted earlier, the ARRC has indicated that it will only recommend a forward-looking SOFR term rate once it is satisfied there is sufficiently robust liquidity in the overnight SOFR derivatives from which such a term rate would be derived.

The publication of the CME Term SOFR Reference Rates may be of immediate use to certain market segments, particularly US-based corporates or trade finance houses looking to transition their front and back books. However, the CME's licensing limitation to cash products until 30 June 2023 is likely to limit adoption of its term SOFR benchmarks by parties that report in currencies other than US dollars. Such firms typically require derivatives to swap their USD assets and liabilities back to their reporting currencies. Given CME Term SOFR Reference Rates cannot presently be used in derivatives transactions, such cross-currency swap arrangements are not possible.

Similarly, non-US firms with legacy USD LIBOR bilateral or syndicated loans may choose to delay repapering until an appropriate (i.e., ARRC-sanctioned) term SOFR is available to be bilaterally implemented into the fallbacks for hedging derivatives to match the term SOFR provisions in the ARRC's recommended fallback waterfall.

2. Referencing average indices such as the SONIA Compounded Index or NY Fed SOFR Averages/Index may support end-users in this regard. Banks should ensure they are able to offer products linked to these indices directly, even if they are able to calculate them via the overnight rates directly using proprietary systems.

The ARRC noted in April that it could not guarantee that it will be in a position to recommend an administrator that can produce a robust forward-looking term rate by the end of 2021, though it did announce on 21 May 2021 that it plans to recommend CME as the administrator for term SOFR, once market indicators for the term rate are met. These liquidity dynamics are inherently challenging to predict, especially in a market where buy-side firms are waiting for transition guidance from their banks, but their banks are reluctant to push them too hard, lest they be perceived to be providing advice or acting against their customers' best interests.

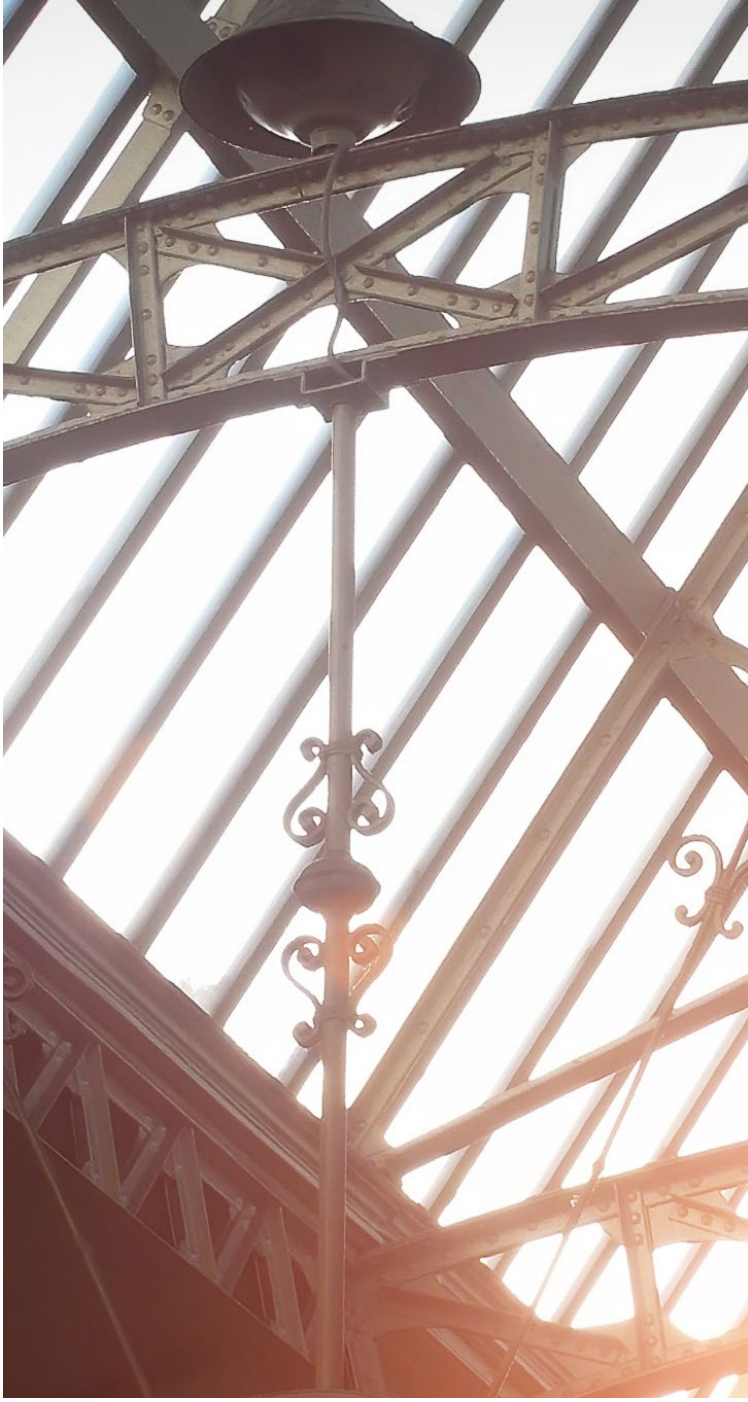
SOFR-LINKED LIQUIDITY WILL ALSO DRIVE THE PACE OF REQUIRED QUANT WORK

Liquidity in SOFR-linked derivatives will also determine the pace of quant work to be done by banks. Switchover of internal transfer pricing curves to SOFR will only occur once the volume of SOFR trades is deemed to be sufficient. Robust SOFR-linked liquidity will be required to appropriately model volatility surfaces to price and dynamically hedge non-linear derivatives such as swaptions.

It will also impact how caps and floors are modelled for SOFR derivatives. This may be a particular issue for banks looking to hedge SOFR loans where they have incorporated floors to protect against negative interest rate scenarios. Banks will need to determine how they will incorporate these arrangements into their product systems, value these instruments accurately, and appropriately report positions to their prudential regulators. Quant teams will need to assess the impact of such floor scenarios on their market risk metrics (such as VaR). They must also consider the implications of patchy market data for SOFR instruments on credit valuation adjustment (CVA) calculations.

Banks will also need to reconstruct the revaluation curves currently used to mark SOFR-linked derivatives to market, given these curves are typically constructed referencing USD LIBOR instruments in the long end due to a present lack of liquidity for longer-dated SOFR instruments.

All of this work will require specialised resources for an extended period. Ideally, SOFR-linked liquidity would rapidly accelerate during 2021 in an organic fashion. However, it is plausible that market participants will wait for firmer pressure from regulators or bold LIBOR policy announcements from large banks, before moving towards non-USD LIBOR benchmarks in earnest. If such an event occurs, the market must be prepared to transition quickly and to mitigate operational risks that are likely to occur during the squeeze.



EXTENDED USD LIBOR PUBLICATION CREATES OTHER TRANSITION CHALLENGES

PRICING AND RISK MANAGEMENT ISSUES FOR RFR-IBOR CROSS-CURRENCY SWAPS

Commercial counterparties globally need to carefully consider how they will price and risk manage cross-currency scenarios where one swap leg references 1-, 3-, 6- or 12-month USD LIBOR while the other leg references LIBOR settings in other currencies.

The extension of the USD LIBOR settings versus their GBP, EUR, CHF and JPY counterparts means that the Index Cessation Effective Dates will differ between legs and an 18-month period following 31 December 2021 will exist whereby an RFR-IBOR cross-currency swap will be in place, presumably to hedge associated cashflows in respective currencies.

This is likely to impact firms that have used JPY LIBOR-linked debt to fund assets maturing beyond June 2023 that reference USD LIBOR or associated APAC benchmarks (e.g., SOR and THBFIX). For example, APAC banks with large SOR-linked lending books funded by yen debt, will likely have SOR to JPY LIBOR cross-currency swaps in place to hedge their FX risk. Come 31 December 2021, the JPY leg will fall back to compounded TONAR (plus a credit adjustment spread) whereas the SOR leg will continue for another 18 months. This RFR-IBOR swap situation will continue until the SOR leg, in turn, falls back to Fallback Rate (SOR) (as defined in the revised 2006 Definitions) for those positions set to mature beyond June 2023.

Cross-currency swap conventions for RFRs are yet to converge, and firms should consider that some market actors may seek to exploit mispricing and arbitrage opportunities.

ISSUES PERSIST AROUND USD LIBOR-LINKED BENCHMARKS IN APAC

Key benchmarks in Singapore (SOR), Thailand (THBFIX), the Philippines (PHIREF) and India (MIFOR) are calculated via direct reference to USD LIBOR. While revised fallbacks for SOR and THBFIX were included in the most recent ISDA Protocol and Supplement, PHIREF and MIBOR were excluded. ISDA has indicated that it is considering further supplements to its interest rate definitions to address this issue and apply more robust SOFR-linked fallbacks to new and legacy PHIREF and MIBOR non-cleared derivative positions respectively. Firms must plan for this and ensure that fallbacks can be operationalised and that hedged cash positions are aligned, if required.

Firms looking to restructure loans linked to these moribund benchmarks must additionally consider how they might do this, especially where market standard conventions for doing so may not be developed. For example, while banks may repaper their SOR loans to align with the SOR ISDA fallback terms (i.e., Fallback SOR), they will ultimately need to restructure both longer-dated derivative and loan positions to reference SORA given Fallback SOR is set to be discontinued during 2024. To facilitate this, they will need to agree with their counterparties an appropriate credit-adjustment spread (CAS) to apply to Fallback SOR, given no independently published CAS for Fallback SOR to SORA presently exists. The conduct and associated litigation risks associated with such negotiations should be carefully assessed.

PREPARING FOR CESSATION OF NON-USD LIBOR SETTINGS REQUIRES CONSIDERABLE EFFORT

While USD LIBOR may represent market participants' largest exposure globally, the work to address GBP, JPY, CHF and EUR LIBOR discontinuation on 31 December 2021 remains considerable.

PLANNING FOR CCP "BIG BANG" CONVERSION EVENTS REQUIRES SIGNIFICANT INVESTMENT

Cleared derivatives trades and associated internal transactions will need to be rebooked to accommodate the CCPs' restructuring plans for affected EONIA and non-USD LIBOR settings. This will be a large and complex endeavour likely requiring process, technology and control enhancements.

Firms should ensure they have appropriate operational and systems resources to manage several "big bang" events and accommodate changes along the way as the CCPs refine their transition approaches. They must assess the operational and downstream impacts of their chosen trade conversion mechanism (e.g., trade amendment vs. termination and rebooking) as well as the impacts for margining, collateral management and trade compression. Regulatory implications across jurisdictions should additionally be considered as to how the trade is classified (i.e., as a legal amendment versus a termination and replacement).

Banks must plan to avoid similar cash compensation allocation and accounting issues to those experienced during the CCP discounting switches in 2020. They must ensure that the risk profile of their trades, as well as trade valuations, are not inappropriately impacted during conversion. In doing all of this, they must account for the various approaches being considered by CCPs to transition particular products.

Firms, when addressing the CCP switchover, must also minimise the disruption to parallel transitioning of non-cleared trades. They must assess how non-cleared trades that are hedged using cleared trades will be impacted by conversion, as well as how bilateral non-linear products might be handled where the underlying swap is cleared. They must also consider how the CCP approaches to converting particular products impacts their non-cleared positions and whether, for example, the revised ISDA fallbacks are appropriate in all cases.

DISLOCATION OF FALLBACK TERMS ACROSS INSTRUMENTS AND CURRENCIES CONTINUES

While regulatory pressure has encouraged widespread adherence to the Protocol by regulated financial services firms, adoption by corporate end-users and other market participants has been limited. This is largely due to remaining uncertainty around preferred and/or available fallback terms for linked funding instruments such as loans, floating-rate notes and securitisations. Fallback provisions for these cash product types are not as standardised as their derivative counterparts given there is no central 'ISDA-style' equivalent to coordinate.

As a result, dislocation still exists between jurisdictions and product types on recommended fallback terms. For example, the ARRC recommends the use of a forward-looking term SOFR as the first step in in its fallback waterfall for both syndicated and bilateral business loans; however, a term SOFR licensed for use in derivative instruments is not yet being published and is not referenced at all in the revised ISDA 2006 Definitions.

The mismatch between the LMA and LSTA fallback approach noted above is currently self-contained within local markets, however there is a possibility that either one arrangement will dominate and become the norm, or, perhaps more likely, one arrangement becomes the norm for each particular RFR. In addition, the loan market coalescing around the lookback without observation shift (or "lag") methodology and using the Bloomberg-published fallback rates as the CAS rates (calculated on a 5-year historical median basis), and ISDA's Protocol and Supplement applying the lookback with observation shift methodology and adopting the Bloomberg fallback rates, means there remains significant documentation and economic differences to be resolved on both transition and new transactions where the loan is hedged.

Some harmonisation in fallback conventions is expected as RFR markets mature. However, banks should still anticipate and plan for corporate customers to bilaterally request alternative fallbacks be implemented to both legacy and new cash and uncleared derivative contracts in due course. Similarly, Protocol-adhering financial institutions may request alternative fallback arrangements with their counterparties for derivative transactions that require special treatment to match hedged instruments (e.g., covered bonds).

Either way, non-cleared derivative fallbacks that have not been repapered via the Protocol will need to be bilaterally renegotiated where restructuring is not possible. Legacy cash products maturing after 2021 will similarly need to be restructured or repapered with due consideration of hedges, both proprietary and customer-related.

SIGNIFICANT WORK REMAINS IN OPERATIONALISING FALLBACKS

Where fallbacks are repapered, commercial counterparties must ensure their systems and processes can accommodate them and honour contractual terms.

Considerable work remains in implementing the new ISDA fallbacks for adhering parties. As discussed above, terms for alternative (i.e., non-ISDA) fallbacks requested by banks' customers and counterparties must also be considered and these terms will vary. Non-standard RFR-compounding and/or settlement methodologies may be requested, as may be bespoke trigger events or CAS calculation methodologies.

Banks must determine which of the fallback permutations requested by their customers are commercially viable and able to be operationalised using their cash and derivative product systems and processes. As it is, technical fallback terms are rarely stored as structured data in bank product systems. Sophisticated waterfall fallback logic is also not typically configurable within these platforms.

This all means that banks may need playbooks in place for their operations and legal teams to manually monitor relevant trigger events and apply fallbacks to their respective transactions where necessary. This is a significant and ongoing undertaking that applies to non-LIBOR benchmarks too.

The way that banks engage with their customers around the possibility of negotiating alternative fallbacks also presents conduct risks that must be carefully managed.

VALUATION IMPLICATIONS FOR WEAK OR ALTERNATIVE FALLBACKS IN NON-CLEARED DERIVATIVES SHOULD BE CONSIDERED

Banks must also look to appropriately value non-cleared derivatives that do not include the new ISDA fallbacks. Banks typically reference cleared swap curves to revalue their non-cleared derivative portfolios. These cleared swap curves have now priced in the revised ISDA fallbacks, given the CCPs' adoption of these terms into their rule books.

Now that the FCA has triggered a pre-cessation event under the ISDA fallbacks, long-dated LIBOR trades where the ISDA fallbacks apply should effectively be priced as hybrid positions, using LIBOR up to cessation, and the RFR plus adjustment spread thereafter. This pricing mechanism may not be appropriate for other trades with old or alternative fallback variations, especially those that do not account for a pre-cessation trigger.

This bifurcation of value due to different fallbacks is a challenging issue given the current lack of alternative market instruments to provide revaluation proxies for alternative fallback positions. Firms should nonetheless assess whether this issue impacts their financial disclosures, risk calculations (e.g., VaR) and associated regulatory reporting requirements. Ongoing monitoring of market developments, as well as regulatory engagement, will be important in this regard.

SYSTEM CONSTRAINTS CREATE OPERATIONAL RISKS

The technology-related work associated with accommodating the CCPs' non-USD LIBOR transition plans during Q4 2021 will be significant. A broad range of systems, including product, settlement, finance, risk management and reporting platforms, will need to be assessed to identify constraints with respect to accommodating compensation payments, valuation changes and RFR products generally. Operational risks will arise where systems cannot be adequately enhanced or tested.

More broadly, ensuring system readiness to book and risk manage new products, as well as fallbacks for legacy products, remains a critical concern for banks globally. Limited engagement from the buy side around new RFR products and uncertainty around fallback conventions across products and jurisdictions has stymied system requirements gathering and early engagement with vendors. This, in turn, has challenged readiness to roll out new RFR-linked products in accordance with the various central bank-led working groups such as the ARRC and UK's Working Group on Sterling Risk-Free Reference Rates (RFRWG).

Even where vendors have been proactive in consulting the market and building solutions, rollout of these solutions has been uneven due to different customer requirements (e.g., different versions of the same software), a dearth of qualified implementation specialists, as well as funding restrictions to implement platform fixes in the first place.

The market-led nature of transition may introduce system challenges even where vendors and their clients have implemented solutions early. Banks should monitor closely whether interest accrual or fallback conventions in the observed market actually converge around those accommodated in their systems and approved via their internal processes. Should there occur a sudden demand for alternative permutations, firms may not have enough runway to approve or build for them, leaving them to potentially rely on manual tactical solutions to record and manage relevant positions. This introduces a host of operational and reputational risks.

THE TERMS AND APPLICABILITY OF SYNTHETIC LIBOR ARE STILL TO BE DETERMINED

While the 5 March announcement by the FCA clarified the timing around cessation and representativeness for all 35 LIBOR settings, questions remain around potential terms and application of non-representative 'synthetic' rates for particular GBP, JPY and USD LIBOR settings (Synthetic LIBOR) beyond their respective cessation dates.

The FCA launched a consultation on 24 June 2021 around the calculation and use of Synthetic LIBOR for 1-, 3- and 6-month GBP LIBOR and JPY LIBOR settings specifically for 'tough legacy' transactions. The FCA has also left the option available to consult in the future on the use of a non-representative synthetic rate for overnight, 1-, 3-, 6- and 12-month USD LIBOR (post-June 2023), meaning uncertainty remains with respect to these critical settings too (for tough legacy transactions).

The FCA has made clear, however, that the use of Synthetic LIBOR by UK-regulated firms will not be permitted for new trades. The use of Synthetic LIBOR by UK-regulated firms for tough legacy transactions will be subject to permission from the FCA under its new 'legacy use power' under the Financial Services Act 2021. On 20 May 2021, the FCA launched a consultation on the factors that it proposes to consider when determining the scope of the UK's tough legacy framework, which will permit the continued use of permanently non-representative benchmarks in contracts that meet certain criteria. The final criteria will be specified by way of policy statements after the consultation has closed on 17 June 2021.

In a related statement, the FCA confirmed that a follow-up consultation will take place in Q3 2021 and the final tough legacy rules will not be published until October 2021 at the earliest. This allows very little time for firms to fully prepare for the application of Synthetic LIBOR to relevant transactions referencing those LIBOR settings due to be discontinued or become unrepresentative at the end of 2021.

In light of this, banks should proactively consider different scenarios when planning how to transition their tough legacy portfolios, rather than waiting for the FCA to finalise its rules before beginning this work. These scenarios should consider both the scope of application for Synthetic LIBOR and the potential calculation methodologies.

It is unlikely that the outcome of the calculation methodology selected for Synthetic LIBOR by the FCA in their future policy statement will be welcomed by all market participants. In its 24 June consultation, the FCA proposes using the IBA term SONIA reference rate and Tokyo Term Risk Free Rate (TORF) as the forward-looking benchmarks to input into the non-representative synthetic rates for GBP and JPY LIBOR respectively. The consultation also proposes applying the ISDA spread adjustment, based on a 5-year historical median spread between LIBOR and the corresponding RFRs. The consultation will close on 27 August.

Market participants with USD LIBOR exposure maturing beyond 30 June 2023 should also monitor developments related to proposed legislative changes in the US. Testimony during a Congressional hearing on 15 April 2021 indicated that federal legislation to support transition for US-transacted USD LIBOR-linked contracts that do not provide for a clearly defined successor rate is increasingly likely to be formally proposed and passed in due course. Such legislation, if adopted, would serve to significantly reduce the need for Synthetic LIBOR for USD LIBOR-linked tough legacy contracts and reduce associated litigation risks.

This legislation would supplement a similar law adopted during April 2021 in New York State that provides fallback provisions for affected USD LIBOR-linked contracts governed by New York Law specifically. The New York statute was based on model language formulated by ARRC, and while it is a positive step, the statute will not be applicable to many contracts. For example, it does not apply to contracts that contain provisions for determining a successor benchmark for USD LIBOR even if, in practice, it would prove extremely difficult to implement the replacement benchmark due to the high level of consent that would be required from holders of the instrument to effect such a change.

THE FUTURE FOR THE ICE SWAP RATES IS YET TO BE CONFIRMED

IBA recently closed its consultation regarding its intention to stop publishing all GBP LIBOR ICE Swap Rate (ISR) tenor settings at the end of 2021. This follows the FCA's March announcement around LIBOR's discontinuation and the fact that interest rate swap transactions referencing GBP LIBOR settings are used to calculate GBP LIBOR ICE Swap Rate settings. IBA has indicated that it will similarly consult on the potential cessation of USD LIBOR ICE Swap Rate in the future.

While IBA has published its GBP SONIA ICE Swap Rate since December 2020 (with a view to superseding its LIBOR counterpart), no SOFR equivalent is yet available and contracts that are indirectly linked to LIBOR through reference to the ISR generally are not covered by existing fallback provisions.

To this end, both the RFRWG and the ARRC published white papers during Q1 2021 proposing methodologies to calculate fallbacks from the USD LIBOR and GBP LIBOR ISRs to spread-adjusted SONIA and SOFR respectively. Firms with ISR-linked constant maturity swap or floating-rate bond exposures, or that reference the ISR to calculate the exercise value for cash-settled swaptions or close-out payments on early interest rate swap terminations, will need to monitor these developments closely and promptly act to remediate these indirect LIBOR references.

OTHER INDIRECT CONTRACTUAL REFERENCES TO LIBOR MUST BE ADDRESSED

Given the volume of outstanding contractual remediation to be completed for directly LIBOR-linked transactions, it is unsurprising that there has been less commentary or commercial discussion regarding how to handle indirect references to LIBOR such as default interest clauses in Global Master Repurchase Agreement (GMRAs) and stock lending agreements. Many firms have not yet determined how widespread these indirect contractual references might be, let alone agreed a strategy to address them.

For those LIBOR settings due to be discontinued at the end of 2021 in particular, firms should consider whether they intend to identify and remediate all relevant references to LIBOR in this documentation, or simply risk-accept that many or all affected contracts will not be amended.

OTHER NON-LIBOR BENCHMARK-RELATED WORK WILL IMPACT END-2021 DELIVERY

The work to be completed by end-2021 to support LIBOR transition alone is tremendous. However, transition programs should not lose sight of the other benchmark-related activities that also need to be completed by year-end. These activities should be planned for as early as possible given the additional burden they are likely to put on existing LIBOR transition resources.

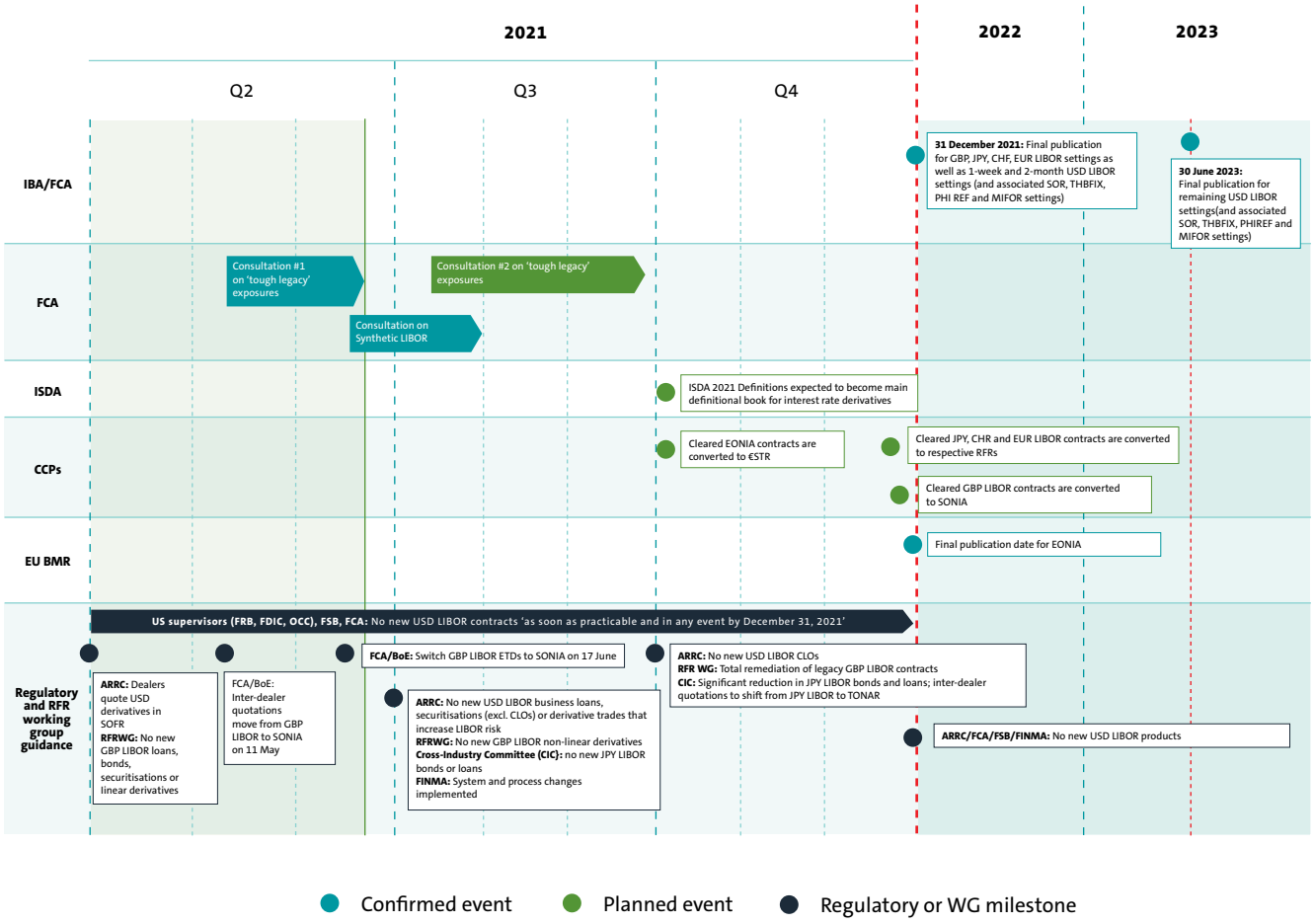
EU BENCHMARK REGULATION

Article 28(2) of the BMR requires EU supervised entities to put in place written plans detailing the actions that they would take in the event that a referenced benchmark materially changes or is discontinued and similar provisions apply to UK supervised entries under the UK's "onshore" version of the BMR .

In 2018, ISDA published the ISDA Benchmarks Supplement (BMR Supplement) to support market participants in this endeavour and specify the particular fallbacks that would apply in such an event for relevant transactions. The ISDA 2018 Benchmarks Supplement Protocol (BMR Protocol) was created to allow market participants to streamline the incorporation of the BMR Supplement into relevant transactions under existing master agreements.

Most impacted EU financial institutions have adhered to the BMR Protocol to ensure regulatory compliance. However, many financial institutions and corporate end-users outside of the EU have not adhered.

Figure 3: Summary of other key transition activities and regulatory milestones



Where they have not already done so, such firms should urgently assess the extra-territorial impacts of the BMR, especially the merits of adhering to the BMR Protocol. While such institutions may not have supervised entities within the EU or UK to which the BMR provisions directly apply, their businesses may be indirectly impacted by the regulation given their clients or liquidity providers may need to comply. Impacted clients or liquidity providers may therefore insist upon BMR Protocol adherence before dealing with certain counterparties, regardless of location.

The planning and operational implications of adhering to the BMR Protocol should not be underestimated. The protocol's scope extends far beyond the ISDA 2020 IBOR Fallbacks Protocol, covering interest rate, equity, FX and commodity derivatives. Market participants must again ensure they are able to operationalise the relevant fallbacks should they choose to adhere.

Firms should also note that the mechanism of BMR Protocol adherence differs from the ISDA 2020 IBOR Fallbacks Protocol. Adherents must exchange completed questionnaires with other counterparties as well as submit an adherence letter to ISDA. The scope of protocol application also differs. Adherents can select whether to apply the BMR Supplement to new transactions as well as legacy transactions. The BMR Protocol additionally allows both a counterparty-by-counterparty and an all-counterparties approach.

All of these factors will require careful analysis and consideration. Firms should ensure they allow enough time and resources to prepare, if required, alongside existing LIBOR-cessation activities.

EONIA TRANSACTIONS AND EUR CSA REPAPERING

EONIA will be discontinued on 3 January 2022. Longer-dated EONIA cash positions will need to be repapered to directly reference €STR ahead of transition.

Parties with cleared EONIA derivative transactions maturing beyond 2021 must prepare for the CCPs' transition plans for 15 October 2021. Informed by the responses received from its October 2020 consultation, the LCH will convert outstanding EONIA trades into corresponding €STR-based OIS contracts, applying a cash compensation amount to account for the 8.5 basis point €STR-EONIA spread. CCP counterparties must ensure they can rebook the relevant trades en masse during a single day, as well as book and account for the cash compensation as a single net settlement at the clearing-account level.

Non-cleared EONIA derivatives transactions will also need to be repapered where parties have not implemented €STR fallbacks either bilaterally or via adherence to the BMR Protocol.

CSAs covering EUR-denominated collateral must likewise be amended to reference €STR for discounting purposes and to calculate Price Alignment Interest (PAI). Execution of this EUR CSA repapering work has been limited to date, likely due to bandwidth constraints as well as prioritisation and commercial considerations. For the most part, the amendments to effect this change are expected to be done by way of incorporation of the ISDA Collateral Agreement Interest Rate Definitions rather than being bilaterally negotiated with counterparties. To this end, some bank counterparties may be looking to incorporate that process into other BAU processes with clients throughout the year with a view to dealing with any 'tail' towards the end of 2021.

This EUR CSA repapering work will need to be managed alongside ongoing counterparty requests to repaper CSAs covering USD-denominated collateral. While the Effective Federal Funds Rate (EFFR) used is not at risk in the same way as USD LIBOR, CSA parties with sizable collateral balances are likely to push their counterparties to move to SOFR for discounting and PAI calculation purposes to align with the approach adopted by the CCPs in October 2020. This outreach and repapering work will require care given the notional exposures involved and negotiation required around cash compensation upon transition.

2021 ISDA INTEREST RATE DERIVATIVES DEFINITIONS ROLL-OUT

Implementation of the 2021 ISDA Interest Rate Derivatives Definitions (2021 Definitions) is another milestone that is likely to draw upon resources presently allocated to IBOR transition programs globally.

The 2021 Definitions are expected to become the market standard definitional book for interest rate derivatives from 4 October 2021 and introduce several changes, including consolidating the more than 70 supplements already made to the 2006 Definitions. The changes are designed to align the definitional book for cleared and non-cleared interest rate derivatives with current market practices and make it easier to use. Critically, the 2021 Definitions will not substantively alter the IBOR fallbacks effective under the Supplement. Similarly, RFR floating rate options and compounding conventions will not change.

Given ISDA will cease to update the 2006 Definitions from 4 October, market participants should consider promptly adopting the 2021 Definitions to ensure they benefit from future changes. CCPs and major trading venues have indicated they will incorporate the 2021 Definitions into their rule books in any case, so firms that face these institutions may need to reflect the changes in their documentation and platforms.[3]

This will require support from systems teams (e.g., to accommodate the new FpML schema) and from legal (e.g., updating confirmation templates for uncleared derivative transactions to accommodate changes such as the transposition of floating rate options from a narrative format to a matrix structure).

3. Some CCPs have indicated that they will continue to accept trades for clearing under the 2006 Definitions but will effectively clear them subject to the 2021 Definitions.

CONDUCT RISK MUST REMAIN A TOP PRIORITY

A BROAD AND DIFFICULT CHALLENGE

IBOR transition broadly introduces a host of conduct risks that banks must look to carefully identify, mitigate and manage. Banks risk potential detriment and prejudice to customers and counterparties whether they do nothing or whether they are active in their outreach and transition efforts.

The number of conduct factors to be weighed and monitored remains overwhelming for many organisations. Recent regulatory scrutiny on other issues has further heightened organisational sensitivity on this topic. The burden is arguably greatest in those jurisdictions with LIBOR exposure to retail customers (i.e., the LIBOR currency jurisdictions). However, the risks are significant for firms outside of these jurisdictions and for institutions with more wholesale customer bases too.

Smooth transition requires that most impacted firms monitor regulatory guidance across multiple jurisdictions in which they or their counterparties operate. Firms must monitor market signals for indications of industry and product convergence while ensuring they do not run afoul of competition laws. In jurisdictions where no market standard is known or where no concrete regulatory guidance exists – e.g., the allocation of transition costs to customers – firms must weigh commercial and customer outcomes and propose solutions in good faith.

Regulators globally have emphasised that banks must not rely on legal disclaimers but work to distil the complexity of transition-related issues, communicating early and clearly with customers and counterparties of varying sophistication. Banks must educate customers and offer transition alternatives without providing, or being perceived to provide, financial advice in respect to either new or legacy transactions. They must plan for transition options across their product portfolios that are commercially viable, able to be implemented, and yet fair to their customers.

OPERATIONAL AND SYSTEM CONTINGENCY

Meeting these objectives has been challenging even for firms that have proactively sought to mitigate conduct risks early. Organisations that have attempted to remain within the parameters of the various national RFR working groups have often struggled to do so due to challenges with vendor platform readiness, a dearth of implementation resources, or simply a lack of liquidity or engagement on behalf of their counterparties.

The complexity of some of the working group guidance has itself made internal education difficult. Even those banks that have invested heavily in informing their frontline staff to support customer interaction have found it extremely challenging to make arcane concepts such as non-cumulative compounding calculations really stick.

This presents significant risks when it comes to their staff communicating with customers, especially when addressing the features, benefits and risks of new RFR-linked products, or negotiating the restructure or repapering of a legacy LIBOR-linked contract. This risk will only be amplified in a time and resource-constrained environment and where multiple jurisdictions are involved and nuances of regulatory guidance is sought to be addressed.

No matter how sophisticated the front-line staff playbooks developed or the quality of staff education provided early on, firms still risk critical procedures

being abandoned or mis-applied towards the end of 2021 as transition workload accelerates and both program teams and business as usual (BAU) staff become overstretched. Firms should work hard now to ensure they are well positioned to execute their agreed conduct risk mitigation strategies even during such critical periods. Firms should also consider whether their playbooks remain fit for purpose as markets potentially develop in ways that were not originally anticipated.

ONGOING PROGRAM STRUCTURE, RESOURCES AND ACCOUNTABILITY

Meeting the various remaining operational transition challenges will require the right resources and coordination. Some firms, with end-2021 in sight and escalating project costs, have already turned their minds to demobilising their programs and incorporating remaining transition activities into BAU as soon as possible.

Financial institutions should weigh this decision very carefully. As outlined above, for many firms, the volume for work to be completed beyond end-2021 remains significant. Exposure to the extended USD LIBOR settings represents the largest global LIBOR exposure by far.

Critically, premature decommissioning of central program coordination will also likely fragment the holistic cross-business and cross-functional approach that programs have attempted to adopt to date and impact areas such as communications targeted at customers with both cash and derivative products facing different business areas. Such fragmentation will amplify strategic, operational, conduct and reputational risks and is likely to be frowned upon by regulators who have emphasised customer-centricity to be paramount.

Continuity of transition accountability will also be jeopardised by early program demobilisation. Given the dual regulatory-driven and market-led nature of transition, assigning responsibility for delivery and risk management between impacted business areas, supporting functions and lines of defence has been a challenge for transition programs within firms since transition inception.

THE RISKS OF GETTING IT WRONG

The scope for customer litigation and regulatory enforcement action in relation to conduct should not be underestimated. Customers or counterparties may sue if they feel that they have been adversely impacted and inadequately informed or their banks have either purposefully or inadvertently acted contrary to their interests. Regulators are likely to sanction the firms that they supervise if they feel that conduct-related transgressions have been systemic or could have been avoided, particularly where the firm's conduct has been out of line with others in comparable situations. Most jurisdictions impose regulatory obligations on firms to have in place adequate arrangements to manage risk, to ensure compliance and to provide their services to customers to a professional or regulatory standard; with failures to do so leading to the risk of penalties, administrative outcomes (such as licence conditions or recourse) and customer compensation.

Regulated financial institutions should also consider the potential ramifications of conduct risk mismanagement under the senior/executive accountability regimes in jurisdictions where they operate. Regulators globally have made clear via direct outreach to the CEOs of financial services firms that they expect senior leadership maintains coordinated oversight of transition strategy and execution.

In the UK, the FCA has explicitly drawn a line in its FAQs regarding conduct risk management between LIBOR transition and those firms that are subject to the Senior Managers and Certification Regime (SM&CR). This point was emphasised in the FCA's most recent "Dear CEO" letter of 26 March 2021, where the regulator admonished that LIBOR transition management should form part of the performance criteria for determining Senior Managers' variable remuneration.

While such links have not been made so explicitly in other jurisdictions between transition and the senior accountability regimes such as BEAR in Australia, the applicability of these regulations should be carefully considered by firms from both a conduct and prudential perspective, and there is real risk associated with falling short of regulatory expectations in this area. When considering this, firms should look to assess both how they are ensuring that customer interests are protected and how they might document or demonstrate in due course the steps taken to facilitate that outcome.

Conclusion

Much of the complexity and market fragmentation associated with the IBOR transition process is here to stay. The FCA's recent announcement around the end-game for LIBOR provides some clarity but many questions remain unanswered. Monitoring the relentless stream of IBOR transition-related developments for signs of market resolution or harmonisation will remain a significant undertaking for even the most mature and sophisticated transition programs for some time to come. This includes monitoring for the impact of LIBOR transition on other benchmarks and the products that reference them.

Neglecting critical items such as conduct in the meanwhile remains a real risk as resources focus on short-term milestones and miss the significance of critical developments on their respective workstreams or projects. Maintaining a sustained, informed and coordinated central project management office (PMO) will be paramount to mitigating execution risks as well as conduct and reputational risks indirectly. Ensuring that accountable executives are engaged and informed will also be critical to transition success and will be key to demonstrating to regulators that customers' best interests have been appropriately considered and addressed.

The volume and complexity of outstanding transition tasks, particularly until the end of 2021, remains tremendous. Remediation of LIBOR-linked legacy cash and derivative exposures, as well as the roll-out of RFR-linked products still have a long way to go. Indirect contractual references to LIBOR have barely been addressed. System readiness still lags businesses' requirements (which continue to evolve).

Firms should look to objectively assess their own preparedness and move quickly to address shortcomings if or when they are identified. The financial, regulatory and reputational ramifications of doing otherwise are considerable.

How Ashurst can help

OFFERING BOTH DEEP LEGAL EXPERTISE AND MARKET-LEADING CONSULTING CAPABILITY, ASHURST CAN OFFER END-TO-END INSIGHT AND SUPPORT IN THE AREA OF IBOR TRANSITION.

AREA	HOW ASHURST CAN HELP
Back book remediation	• Contract inventory support, digitising, structuring and/or categorising of existing contracts with direct/indirect IBOR references • Fallback repapering and/or restructuring of legacy cash and derivative transactions; legal strategy and playbook development/review; associated tax and regulatory advice • Project Management Office (PMO) for contract repapering, acting as liaison between impacted business areas and internal/external legal teams; associated reporting/ dashboards and linkage to gross notional exposures
Front book development	• RFR-linked transaction structuring across both cash and derivative instruments; development of associated documentation such as contract templates, confirmation templates and issuance program prospectuses
Program execution support	• Strategic advice around interpretation and applicability of local and extra-territorial regulatory and RFR working group guidance • Program health-checks covering areas such as governance, strategy, operations and internal/external counterparty engagement • Conduct risk framework design and review, including benchmarking to better practice and assessment against regulatory expectations; development and review of playbooks for front-line staff communicating with customers and counterparties around new products and renegotiation of legacy exposures; associated staff training • Fallback trigger monitoring and operational playbook development, establishing and maintaining a taxonomy of relevant fallback trigger events (across IBORs) as a managed service; providing alerts to legal and operations teams upon trigger events to execute playbook strategy steps • Program augmentation, providing SME or advisory input to key working groups or Steering Committees • Copywriting support with responses to regulatory enquiries, training materials, customer communications, internal communications and industry consultations
Post-transition	• Customer and counterparty litigation support • Regulatory investigations and enforcement, including advice on mitigating the risk of enforcement action and responding to investigations should they arise

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