

LIBOR Transition

Adopting Alternative Reference Rates



The London Interbank Offered Rate (LIBOR) is a series of benchmark interest rates and has been called the “world’s most important number” as more than \$240 trillion in products reference LIBOR.

Global regulators have expressed dissatisfaction with LIBOR for two reasons: first, the size and number of transactions that underpin LIBOR have significantly diminished and second, the rate is susceptible to manipulation. In light of this, regulators encouraged the formation of various central bank sponsored working groups around the world to identify and create alternative reference rates to replace LIBOR. However, these new rates are not economically equivalent to LIBOR and some uncertainty exists around how existing products will change and also what new products will emerge. There is the possibility of significant customer and economic impact and uncertainty over how this will develop.

Business leaders must move their organizations forward and adapt while mitigating risk amidst this complex and evolving transition. A significant amount of effort is likely to be required as LIBOR-based products may exist in multiple customer classes, across many complex systems and require amendments to many contracts and other legal documents. CrossCountry’s specialized LIBOR transition team helps clients meet this challenge by guiding organizations through a structured process to assess the impact, plan for the transition and manage the actual implementation across the wide range of organizational stakeholders that will be impacted.

LIBOR TRANSITION

WHAT SHOULD YOU DO NOW?

Transitioning from LIBOR to risk-free rates represents a significant effort, but there are things you can do now to help build a solid foundation for all of your transition efforts.

Engage in Industry Forums

- Advocate for your position in industry groups and monitor news and publications
- Socialize challenges and potential hurdles, request additional time if required
- Participate in industry conducted surveys and help shape best practices

Raise Internal Awareness

- Begin education and awareness sessions with senior management and identify risks
- Prepare for external communications to clients and counterparties
- Identify key stakeholders and allocate resources to begin preliminary preparations

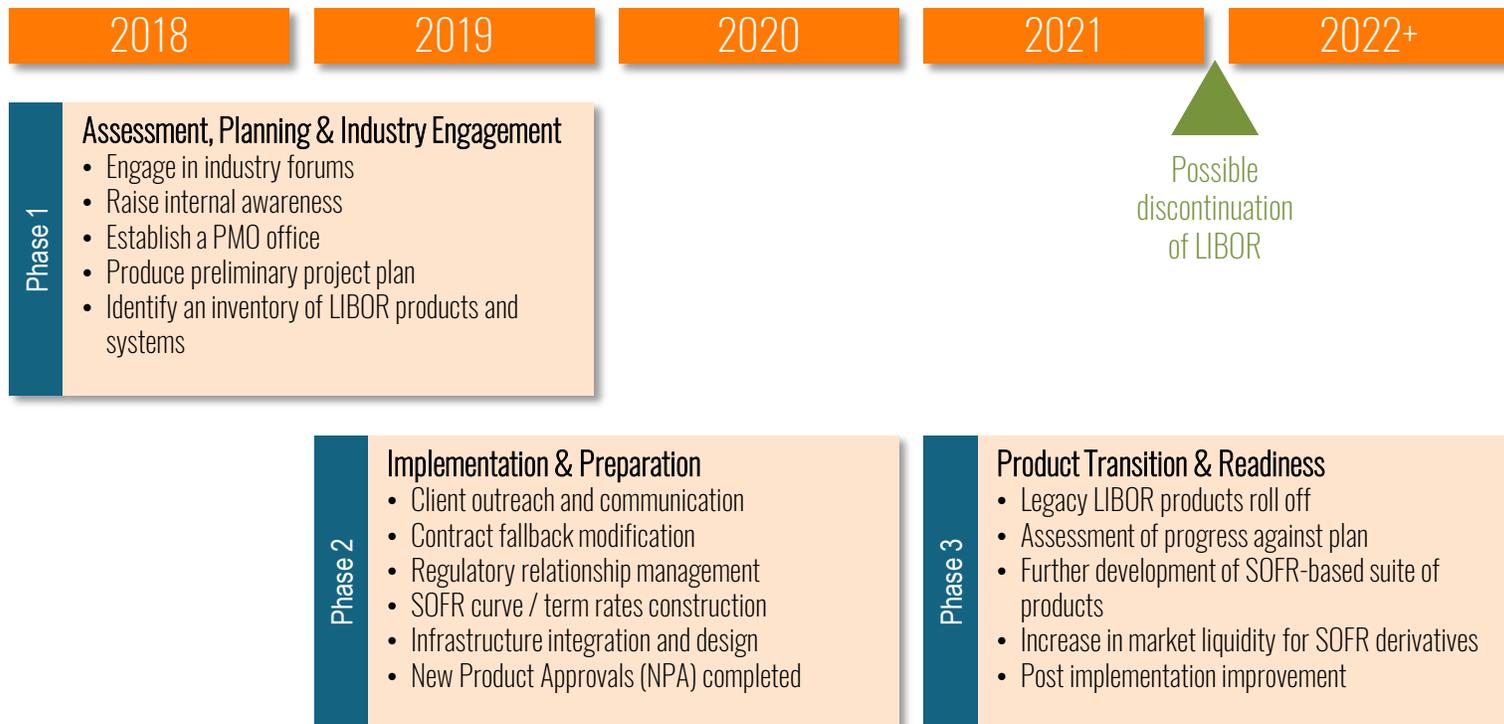
Establish a LIBOR Transition Office (PMO)

- Formalize a working group and install a senior management sponsor (governance)
- Ensure consistency of LIBOR transition treatment across the organization
- Begin preliminary production of a LIBOR transition plan to show regulators

Identify an Inventory of LIBOR Products & Systems

- Identify all LIBOR-based products by volume and maturity and associated systems
- Assess fallback language in contracts and develop new language if required
- Leverage LIBOR footprint to estimate preliminary required budget and resources for implementation

DEFINING A MULTI-YEAR TIMELINE



HOW CAN WE HELP?

We work with clients to perform detailed assessments of their LIBOR exposure and related processes, people and technology to determine and implement the optimal future state business and technological requirements.

Sales & Trading	<ul style="list-style-type: none">• Identification of impacted business lines• LIBOR position / product inventory• New curve construction
Finance & Operations	<ul style="list-style-type: none">• Settlement / cash flow• Confirmations• Collateralization management
Legal	<ul style="list-style-type: none">• Identification of contracts referencing LIBOR• Renegotiation of legacy contracts• Assessment of fall-back provisions
Compliance	<ul style="list-style-type: none">• Regulatory tracking and impact• Regulatory relationships management• Different regulatory requirements across jurisdictions
Treasury	<ul style="list-style-type: none">• Transfer pricing impact• Changes to issuance programs and hedges• Asset/Liability Management (ALM) internal funding implications
Valuations & Market Risk	<ul style="list-style-type: none">• Valuation impacts (e.g. term structure / curves / market value)• Verification of NPV neutrality in position transition• Price testing and assurance
Accounting, Tax & Internal Audit	<ul style="list-style-type: none">• Hedge accounting• Modification accounting and forecast accounting• Differences in tax treatment
IT & Infrastructure	<ul style="list-style-type: none">• Enhance and adapt technology to incorporate SOFR curve• Plan for impact of infrastructure ecosystem• Transform support systems through full trade life cycle

Change Management, PMO, Training and Communications

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