

IBOR TRANSITION AVANTAGE REPLY'S OFFERING



In 2017, the Financial Conduct Authority (FCA) announced that it would cease to compel banks to submit their input rates for the computation of the London Inter-Bank Offered Rate (LIBOR) starting from the end of 2021. The latter has led the Financial Sector to a consensus around structurally different replacement rates that would provide a get-around to the main limitations that led to the discontinuity of LIBOR's. Alternative Reference Rates (ARRs) differ from IBOR in that they are based on historical transaction volumes (instead of forward-looking market expectations, as for IBOR). The transition is raising several challenges that Financial Institutions are facing when assessing the impact of this major change and its integration within their operations.

Avantage Reply, through its expertise in the topic, has developed a proven track record overseeing IBOR transitions in the Financial Sector for several of its clients.

READINESS ASSESSMENT

As Financial Institutions (FIs) are engaging in their materiality and readiness assessment of this complex change and its implications, the identification of risks along the organizational structure and work streams is crucial to the alignment of the operations with the upcoming changes and its fitness within the FI's risk profile. A solid action plan that is exhaustive to the FIs is needed in order to plan and mitigate any deviations emanating from contingent events. Avantage Reply ensures the progress of the transition program and its alignment with the Regulatory Authorities and ARR Working Groups' best practices.

PROJECT MANAGEMENT

Projects involving complex changes and transversally impacting the organizations' lines of business and support functions require strong programme offices to ensure a strong governance and the engagement of all counterparties involved in the process. Avantage Reply can provide support and expertise to specific functions at the Steering level while playing a coordinating role among work streams within the transition programs.

OPERATIONAL SUPPORT

Model Recalibration & Validation

This transition involves switching towards more complex calculations for several operations like the valuation of funds and derivatives positions given the differences in discounting and cash flow projections, for example. The structural differences between IBOR and the ARR's imply a thorough review and recalibration of the models involved at the business and risk levels and their subsequent validation. Avantage Reply, with its substantive modelling experience, can support the development of associated models, following-up on horizontal risk assessments.

System Testing

Along with the aforementioned model updates requirement, a new form of input will also be introduced (sometimes sourced from 3rd party vendors), yield curves retrieval processes and calculation methodologies need, therefore, to be adapted and integrated. To ensure the maximum reliability of the updates that affects front-to-back process flows and applications (including dependencies), a complete UAT testing when the appropriate methodology has to be conducted. Avantage Reply's technological capabilities can be leveraged in organizing and coordinating tests according to in-house developed

Legal Remediation

Given the historic high reliance of the Financial Sector on previous IBOR rates, as demonstrated by the high volumes of IBOR-referenced transactions, another challenge to FIs is to precisely assess the scope of this transition by identifying the contracts that will potentially be affected. In this context, CSAs for derivative transactions will need to be re-adapted to reflect ARR's, for example. As Artificial Intelligence solutions might be deployed to efficiently identify the targeted contracts, more targeted legal approaches have to be taken depending on the contract's fallback language. Avantage Reply's offering, through its technological and data capabilities, would guarantee an accurate scoping of the legal implications of the transition.



CASE STUDIES

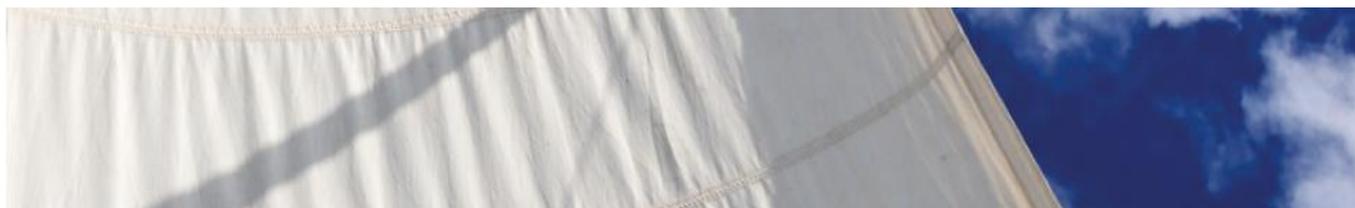
LUXEMBOURG BRANCH OF A GLOBAL FINANCIAL INSTITUTION

Context:

- > In light of the upcoming cessation of the LIBOR reference rate, the client initiated a global program to migrate to a LIBOR-free environment;
- > Avantage Reply supported in the project management of a local branch to ensure coordination of global initiatives on a local level and business analyses to assess and consider local specificities; and
- > Aim of the project is to migrate the bank from LIBOR to an Alternative Reference Rate environment.

Deliverables:

- > Avantage Reply supported in analysing the exposure of the bank towards LIBOR and the impacted departments, IT systems and counterparties;
- > Based on this assessment, a migration plan has been developed, aligned with the global program and is currently in execution;
- > The plan includes the product offering, necessary IT changes and the mitigation of legal and litigation risks; and
- > Additionally, a client communications plan has been established to guide the clients through the transition.



BELGIAN SUBSIDIARY OF A GLOBAL CUSTODIAN BANK

Context:

- > To support the transition towards ARR, the client has put in place a program aiming at identifying, assessing and mitigating the impacts implied by the transition; and
- > Avantage Reply supported the coordination, consolidation and oversight of risks affecting the European Bank as a Legal Entity.

Deliverables:

- > Avantage Reply conducted legal entity risk assessments and assessed mitigating actions throughout lines of business and given each of the dependent entities;
- > Following up on the consolidation of the individual assessments, the overall scope of the product and process changes has been evaluated and incremental and residual risks to the legal entity have been assessed; and
- > Avantage Reply ensured the smooth communication throughout all stakeholders, executive committee and Board of Directors to monitor and get assurance on the Legal Entity impact.



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