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LIBOR Transition for Investment Managers

- LIBOR underpins contracts affecting banks, investment managers, insurers and corporates estimated at $350[1] trillion globally on a gross notional basis.
- Given the importance of LIBOR across the industry, the move away from it poses significant transition risk if not addressed in a timely and comprehensive manner.
- The transition risk spans the economic risk of client portfolios, operational risk, funding risk, conduct risk, and legal risk.

As such, firms need to have appropriate strategic planning and risk mitigation initiatives in place, including:

- Development of program governance
- Business impact analysis
- Identification of risks and timely implementation of risk mitigation
- Coordination across portfolios/funds, functions and geographic regions
- Firm-wide risk assessment
- Development of strategic transition roadmap for both investor and internal considerations

Specific Impact Areas

Business impact

Investment portfolio exposure
- Conduct current portfolio investment exposure analysis across asset classes and geographies
- Leverage initial impact analysis to identify sources for detailed portfolio exposure and funding analysis

Portfolio Performance Benchmarks
- Identify impacted portfolio benchmarks in order to assess and mitigate the effects to fund performance and associated fees
- Enhance new products approval process as tollgate for assessing Libor-linked impact

Liquidity & Valuation
- Determine the liquidity and valuation impacts of securities leading up to and post-Libor sunset

Core functional impact

Third-party coordination
- Engage with related third parties (e.g., custodians, brokers, administrators, vendors, etc.) to understand their transition approach and coordinate as necessary
- Set up tools and protocols to monitor market and industry activities

Technology & infrastructure
- Develop, test, and implement technology and infrastructure changes

Models
- Identify/create inventory of LIBOR-impacted models and rank according to level of effort and priority.
- Develop, validate, and implement model revisions
- Update surrounding model controls and ongoing valuation monitoring procedures

Client expectations & external stakeholders

Firm-wide communication
- Develop firm-wide communication strategy for both institutional and retail customers

Investor awareness
- Engage investors & counterparties to educate them on the transition, firm's approach, and impact to them

Legal team
- Gather supporting legal documents for LIBOR-related exposures (e.g., bond covenants)
- Stand up legal team to handle LIBOR-related negotiations (e.g., potential unanimous consent for floating rate notes)
- Counterparty outreach on LIBOR ISDA protocols

1. Reference: https://www.theice.com/publicdocs/ICE_LIBOR_Roadmap0316.pdf

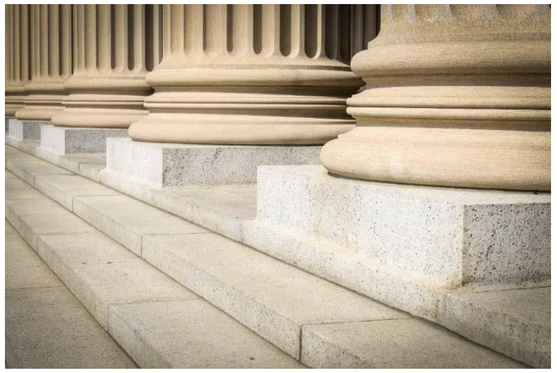
LIBOR Transition for Investment Managers

Deloitte Risk & Financial Advisory helps organizations navigate a variety of risks to lead in the marketplace and disrupt through innovation. With our insights, you can learn how to embrace complexity and accelerate performance.

Our Risk & Financial Advisory professionals help organizations effectively navigate business risks and opportunities—from strategic, reputation, and financial risks to operational, cyber, and regulatory risks—to gain competitive advantage.

We apply our experience in ongoing business operations and corporate lifecycle events to help clients become stronger and more resilient.

Our market-leading teams help clients embrace complexity to accelerate performance, disrupt through innovation, and lead in their industries.



"The discontinuation of LIBOR should not be considered a remote probability 'black swan' event. Firms should treat it is as something that will happen and which they must be prepared for. Ensuring that the transition from LIBOR to alternative interest rate benchmarks is orderly will contribute to financial stability."

—Andrew Bailey, Chief Executive, Financial Conduct Authority (FCA), July 2018

Summary background

The London Inter-Bank Offered Rate (LIBOR) is the reference rate used to determine the interest rate for over $350 trillion dollars of financial contracts around the globe. In 2017, the Financial Conduct Authority (FCA), which oversees the reporting of LIBOR, announced that by the end of 2021, they would no longer seek to compel or persuade panel banks to submit quotes for LIBOR making clear that reliance on LIBOR could no longer be assured beyond this date.

Planning for this change has been a global effort involving regulators, advocacy and trade groups, and financial institutions. In the US, the Federal Reserve Board (FRB), in cooperation with the Treasury Department and the Commodity Futures Trading Commission (CFTC), set up a working group of industry participants known as the Alternative Reference Rates Committee (ARRC) charged with identifying a robust alternative to USD LIBOR and with developing a plan to encourage its use in some derivatives and other transactions. The Secured Overnight Financing Rate (SOFR) was ultimately determined to be a suitable replacement for LIBOR.

Activity among the ARRC and industry members has increased in the past several months including increased issuance of SOFR-based notes, publishing several documents related to fallback language, and outlining key priorities and milestones in 2019 to support and prepare market participants for the transition away from LIBOR.

Looking to the future

Though momentum has picked up in the recent months, there still remain significant hurdles to achieve a smooth transition away from LIBOR. Some of the key activities and milestones include:

- Law firms estimate that approximately $2 trillion dollars in loans will need to be repapered
- Increased adoption of SOFR as the benchmark rate in the derivative and cash markets
- Clarity and agreement between regulators and the marketplace for the calculation of term rates
- Guidance from the IRS and FASB for the tax and accounting treatment of LIBOR transition-related events

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