

# IBOR REFORM

Are you prepared for the revolution?







Reference interest rates (RFR, also known as IBOR - InterBank Offered Rates) determine the market conditions levels under which market participants lend money to each other. They play a key role in the global financial markets and all major currency areas are working on replacing them by 2022. Overnight rates have already been established and are being traded. Are you prepared to face this challenge?

Ask yourself three simple questions for in order to assess your readiness for change:

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## ARE YOU ADEQUATELY INFORMED?

Currency	Old RFR	New RFR	Reform driving regulatory body	Status of the reform	Transition date and administrator for new rates
	LIBOR	Sterling Overnight Index Average (SONIA)	Bank of England	SONIA has been available since 22 April 2018. London Banks are no longer obliged to submit data for LIBOR determination after 31 December 2021	From 1 January 2022 onwards, only SONIA will be available. The Bank of England will remain the administrator
	Euribor, Eonia	Euro Short-Term Rate (€STR)	2016: EU issued Benchmark Regulation (BMR) 2018: ECB, issued new methodology for ESTR; EUR working group	EMMI as administrator of Euribor and Eonia, announced in February 2018 that new business on this index would no longer be possible from 1 January 2020	After 1 January 2020 only benchmarks that have been approved under BMR will be allowed to be used in new contracts. ECB collects data and EMMI will remain the administrator and publisher of new rates
	USD-LIBOR	Secured Overnight Financing Rate (SOFR)	Alternative Reference Rates Committee (ARRC)	SOFR actively traded	2022, Federal Reserve Bank of New York
	JPY LIBOR	Tokyo Overnight Average Rate (TONA)	Bank of Japan	TONA actively traded	2022, Bank of Japan

## 2

### ARE YOU PREPARED IN THE MAJOR AREAS WHERE IBOR REFORM MIGHT AFFECT YOU?

#### Accounting

- ▶ Hedge Accounting: are you familiar with the relief as proposed by the IASB and FASB under Phase I of their IBOR Reform projects allow continuation of hedge accounting?
- ▶ Are you considering derecognition of financial instruments as a consequence of contract modification to changes in RFR clauses - or will proposals by IASB and FASB under their Phase II IBOR Reform projects provide a relief?
- ▶ Have you assessed the profit and loss impact?

#### Valuation

- ▶ Have you identified all valuation and risk models using RFR that need to be redeveloped, recalibrated and revalidated?
- ▶ What is the magnitude of one-off
- ▶ What is the long-term impact on the calculation of fair value, P&L, impairments, employee benefits, pensions, provisions, etc.?

#### Operations and Systems

- ▶ Have you identified all processes and products (across all currencies and markets) that are impacted by IBOR Reform?
- ▶ Have you adapted your systems and processes to reflect new data requirements of RFR?
- ▶ Are adjustments to the data management processes required (e.g. availability of historical data)?

#### Tax and Legal

- ▶ How are you identifying all of your contracts that are linked to IBOR?
- ▶ Are there legal risks due to contracts referring to an old RFR without adequate fall back language?
- ▶ When is the renegotiation of RFR clauses planned?
- ▶ Has conduct risk been considered?
- ▶ Have you considered the tax impacts of change, will tax follow the accounting or will unexpected taxable gains or losses arise?
- ▶ Will change impact interest deductibility for tax?
- ▶ Have you considered the impact to transfer pricing methodologies?

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### DO YOU KNOW WHO TO CONTACT

We are assisting clients in these four areas on a global basis. Our experts are looking forward to speaking with you.



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