# IBOR TRANSITION

## Planning the transition to nearly Risk Free Rates – September 2019

## I.WHAT'S AT STAKE WITH THE IBORs TRANSITION?

InterBank Offered Rates (IBORs) are used to determine the unsecured short-term funding cost in the interbank market for a combination of currencies, tenors and maturities. IBORs reputation took a hit in recent years with the LIBOR scandal together with the post-crisis decline in liquidity in interbank unsecured deposit markets, which is the basis for the IBORs.

As the confidence in the reliability and robustness of existing IBORs is significantly undermined, G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Dedicated working groups across the various FSB members' jurisdictions were set-up to select and develop nearly Risk Free Rates (RFRs) in order to replace the existing benchmarks and alleviate systemic risks posed by IBORs. RFRs are more robust than IBORs as RFRs are derived solely from transaction data.

Market players need to act as the clock is ticking. In the near future, banks may no longer be compelled to provide IBOR quotations. In the case of the LIBOR Andrew Bailey, Chief Executive of the FCA, mentioned at the Securities Industry and Financial Markets Association's LIBOR Transition Briefing in July 2019 that "*We do expect panel bank departures from the LIBOR panels at end-2021. That is why we keep stressing that the base case assumption for firms' planning should be no LIBOR publication after end-2021. This is not a low-probability tail event*."

## II.WHY IT MATTERS?

IBORs today underpin the global financial markets and trillions of dollars in financial products are linked to IBORs. As we all know, IBORs are used in nearly every aspect of the business – from pricing, to risk management, to valuation. This change will have broad implications, affecting loan agreements, bond agreements, leasing arrangements, derivative products and many more existing transactions.

**Scale of the problem in HONG KONG**[1]

**HK$3.8tn** of Authorised Institutions' US dollar assets referenced LIBOR

**HK$3.4tn** of Authorised Institutions' HK dollar assets referenced HIBOR

[1] Figures as of December 2018 as per HKMA



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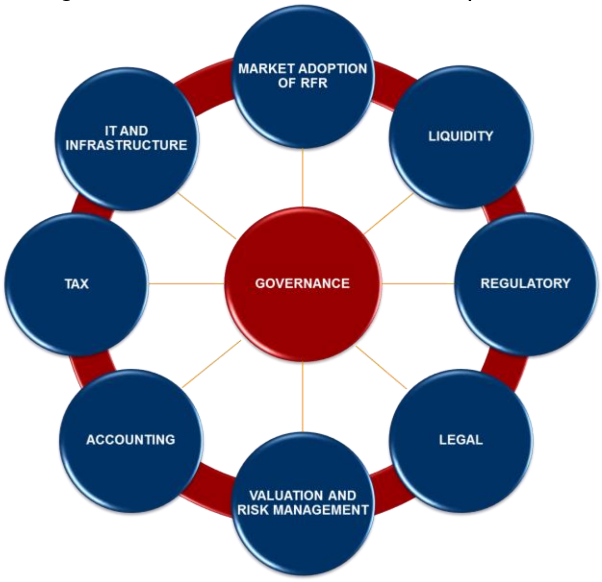
# III. WHAT ARE THE CHALLENGES FOR THE INDUSTRY?

The RFRs are less homogeneous in their construction as different regulators have decided to create replacements for their home markets.

Transitioning to RFRs is a complex project that needs to be started at the earliest with organizational and technical impacts along the value chain of transactions. This won't be without challenges.

Also, the transition from LIBOR remains a matter of great uncertainty and will depend on an individual bank's facts and circumstances. Hence different scenarios need to be considered.

Delaying the IBORs' transition is not a solution. Continuing to issue new IBOR-linked contracts which will mature in the coming years when alternative RFRs products have become a viable option may lead to damaging financial, customer and operational impacts.




# IV.HOW CAN MAZARS HELP?

At Mazars, we have extensive experience working within the diversity of Financial Services players. We assist Central Banks, National Regulators, major Financial Institutions and Small and Mid-size Entities in dealing with the implementation of complex projects with multiple impacts on your business and international ramifications.

### GOVERNANCE AND OVERSIGHT

- Setup of governance framework, structure and reporting arrangements
- Design of project plan including milestones and committee involvement

### IMPACT ASSESSMENT & TRANSITION PROGRAM

- Inventory of all products that reference one of the benchmarks
- Mapping by products and high-level assessment of impacts
- Structure the transition program

### IMPLEMENTATION

- Implement the transition program through different perspectives: legal, valuation and risk management, accounting and tax, operations, IT & infrastructure
- Execute communication plan

### POST TRANSITION

- Identify areas for improvement
- Execute remediation actions

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