Farewell LIBOR

The transition to alternative reference rates for new and legacy contracts

3 October 2018

Content

Executive Summary

The discontinuation of the London Interbank Offered Rate ("LIBOR") by the end of 2021 has recently been communicated as a certainty rather than a mere possibility by the National Competent Authorities and Working Groups. In light of the expected unavailability of the world's most important interest rate benchmark, in-action is no longer an option. Moreover, national supervisory authorities are increasingly stressing that the risks associated with the LIBOR cessation need to be addressed timely by each organization.

National working groups and industry organizations are still developing certain aspects of Alternative Reference Rates ("ARRs") as well as templates for contract amendments. However, due to the expected magnitude of the LIBOR transition programs, organizations are well advised to assess sooner rather than later their exposure to LIBOR and the consequences of the discontinuation of LIBOR for their business. This will imply a review of existing contracts, the clauses relating to LIBOR therein and the dependencies between contracts. Budget, time and headcount required for the transition, including the amendments of legacy contracts, can be evaluated based on the organization's exposure to LIBOR, the number of legacy contracts and the types of impacted products. At the same time, organizations should already be avoiding a growing exposure to LIBOR by referencing alternative rates when issuing products or entering into new contracts referencing floating interest rates that mature beyond 2021.

1. Background

Interbank Offered Rates ("IBORs") are floating rates, which are based on loan rate submissions from participant banks ("Panel Banks"). The Panel Banks submit to the administrator of the IBOR rates at which they can borrow short-term wholesale funds in the interbank market. The administrator calculates and publishes the IBOR, which is based on the rates contributed by the Panel Banks. The IBORs are used as a benchmark for numerous financial products such as derivatives, floating rate notes, securitizations and loans. The most widely used Interest Rate Benchmark is the London Interbank Offered Rate ("LIBOR"). LIBOR is calculated daily and is available in five currencies[1] for seven maturities ranging from overnight to one year. It is estimated that outstanding contracts of at least USD 260 trillion are tied to LIBOR.

The alleged manipulation of LIBOR and other financial benchmarks eventually led to numerous reviews and reports by national and international organizations, such as the UK Government,[2] the International Organization of Securities Commissions ("IOSCO"),[3] the Financial Stability Board ("FSB"),[4] a Market Participants Group,[5] and the Financial Stability Oversight Council ("FSOC").[6] Furthermore, the IOSCO principles for Financial Benchmarks[7] and the European Union's Regulation on Benchmarks[8] have been drafted after the shortcomings of LIBOR and other benchmarks became obvious.

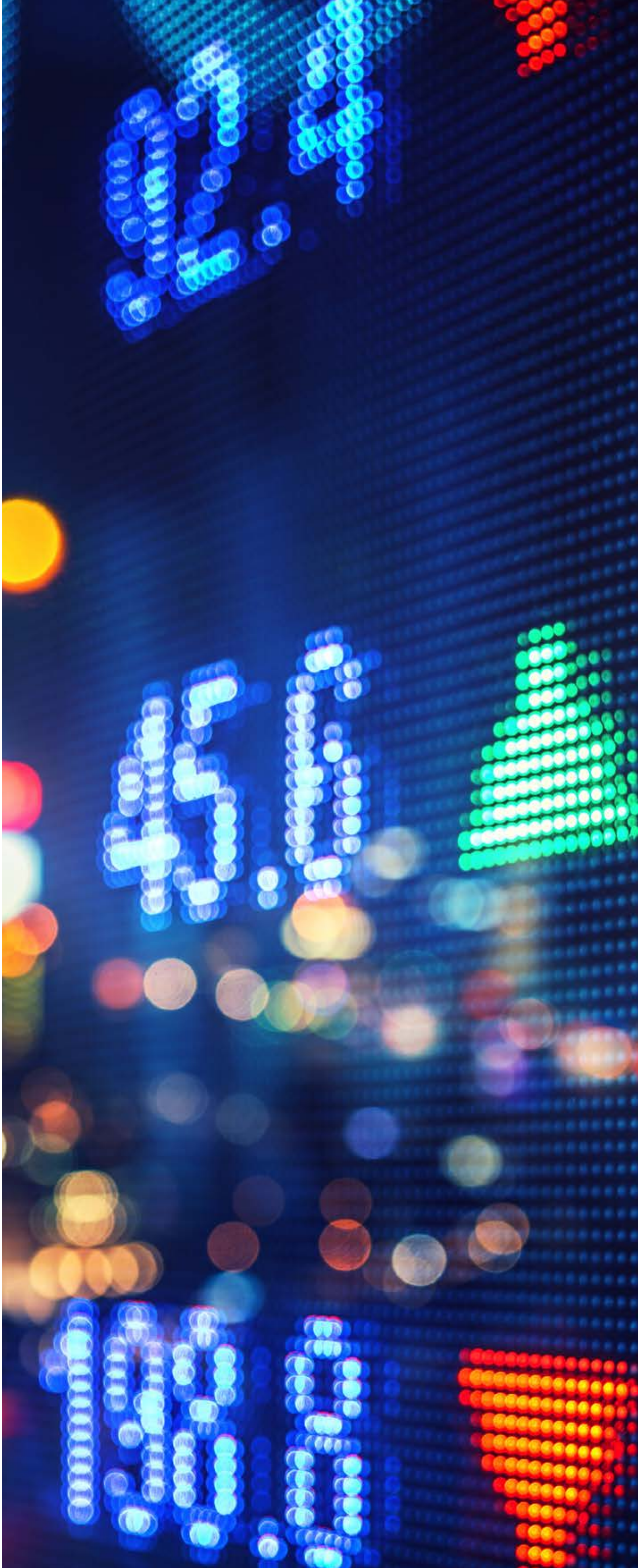
One of the crucial improvements suggested in these reports is that LIBOR submissions should be anchored, to the greatest extent possible, to actual transactions. This aim could not be achieved, however, because LIBOR submissions are intended to reflect the market for unsecured wholesale term lending to banks, which is not sufficiently active. Andrew Bailey, Chief Executive of the Financial Conduct Authority ("FCA"), cited one extreme example of:

"One currency-tenor combination, for which a benchmark reference rate is produced every business day using submissions from around a dozen Panel Banks, these banks, between them, executed just fifteen transactions of potentially qualifying size in that currency and tenor in the whole of 2016."[9]

Due to missing activity in this market the contributing Panel Banks cannot base their submissions on actual transactions only, but often require expert judgment. As such, LIBOR is prone to manipulation and it is unclear how LIBOR would react to stressed market conditions. The lack of actual transactions in the underlying market, combined with the enormous volume of the products tied to LIBOR, leads to an inverse pyramid structure that is built more on judgments and to a much lesser extent on actual borrowing activity. Therefore, the submitting Panel Banks increasingly feel discomfort about providing their submissions, knowing that the data they provide to LIBOR's administrator is not based on a sufficiently active market.

1 EUR, CHF, GBP, JPY, USD
2 The review was headed by the designated CEO of the Financial Conduct Authority ("FCA") Martin Wheatley. The Wheatley Review of LIBOR: Final Report - September 2012.
3 Review of the Implementation of IOSCO's Principles for Financial Benchmarks by Administrators of Euribor, Libor and Tibor – July 2014; Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks by Administrators of Euribor, Libor and Tibor – February 2016
4 Reforming Major Interest Rate Benchmarks – July 2014
5 Market Participants Group on Reforming Interest Rate Benchmark: Final Report – March 2014
6 Financial Stability Oversight Council, 2014 Annual Report
7 IOSCO Principles for Financial Benchmarks, Final Report – July 2013
8 Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 ("EU BMR")
9 The future of LIBOR speech by Andrew Bailey, Chief Executive of the FCA, at Bloomberg London, delivered on 27 July 2017 ("The future of LIBOR")

The FCA was able to persuade Panel Banks to continue their submissions to LIBOR until the end 2021, and is highlighting that LIBOR has become a public good that needs to be sustained until alternatives are available. Yet, whilst it is acknowledged that the transition will be less risky and less expensive if it is not rushed, it is also unlikely that work on the transition will begin at all if market participants assume LIBOR will exist indefinitely. Technically speaking, it is uncertain whether LIBOR will actually cease to be published by the end of 2021, will be published with submissions from fewer Panel Banks or will be published as it is currently. However, since the FCA has stressed that it will not continue to sustain LIBOR by persuading or compelling Panel Banks to submit rates to the administrator after 2021, and since Panel Banks have expressed their concerns about continuing submissions, it seems unlikely that LIBOR will exist after 2021. In his speech on 12 July 2018, Andrew Bailey noted that misplaced confidence in LIBOR's survival would not contribute to financial stability.[10] US Commodity Futures Trading Commission ("CFTC") Chairman J. Christopher Giancarlo emphasizes that the discontinuation of IBORs is a certainty and the transition to ARRs will require thoughtfulness and preparation to support financial stability.[11] Moreover, several national supervisory authorities are reaching out to market participants to ensure that organizations understand the risks associated with abandoning LIBOR and take appropriate actions to facilitate the transition process.[12] In short: The transition away from LIBOR is increasingly being communicated as a certainty rather than as a mere possibility.



10 Interest rate benchmark reform: transition to a world without LIBOR speech by Andrew Bailey, Chief Executive of the FCA, at Bloomberg London, delivered on 12 July 2018 ("Transition to a world without LIBOR")

11 Opening Statement of Chairman J. Christopher Giancarlo before the market Risk Advisory Committee Meeting, Washington, D.C., delivered on 12 July 2018

12 The Swiss and German supervisory authorities are expected to subsume the LIBOR transition under the duty of guaranteeing a proper business conduct respectively a "fit and proper" business conduct. The UK supervisory authorities have written to the CEOs of major banks and insurers to seek assurance on firms' preparations for the LIBOR transition. The letters are publicly available.

2. Alternative Reference Rates

After detecting that the underlying markets are insufficiently active, working groups in the EU, Japan, Switzerland, the United Kingdom and the United States have started developing or identifying ARRs for LIBOR in the respective currencies.[13]

- In Switzerland, the Swiss Average Rate Overnight ("SARON") has been chosen as the preferred ARR. The national working group is currently developing the design of SARON-based futures,[14] options and cross currency basis swaps and is assessing five different SARON-based methodologies to calculate CHF reference interest rates with a maturity beyond overnight. Moreover, existing fallback provisions are being reviewed in contracts.[15]
- In the European Union, an industry-led working group recommended the Euro Short-Term Rate ("ESTER") as an ARR. The working group is currently exploring possible approaches for ensuring a smooth transition to ESTER.[16]
- In the US, the Secured Overnight Financing Rate ("SOFR") is the designated ARR. CME already launched SOFR futures.[17]
- In the UK, the Sterling Overnight Index Average ("SONIA") has been chosen as its ARR. LSE,[18] ICE[19] and CME[20] launched respective futures.
- The Study Group on Risk-Free Reference Rates in Japan has identified the Tokyo Overnight Average Rate ("TONAR") as the preferred ARR and drafted a guide on Japanese Yen Overnight Index Swaps. The next step will be to establish a new body of market participants to proceed with the Japanese benchmark reform.[21]

Due to market demand, several central counterparties such as LCH, CME, EUREX and JSCC are offering clearing services for derivatives referencing ARRs. Moreover, brokers such as Tullet Prebon have included swaps referencing ARRs in their service offering.

There are various differences between LIBOR and the abovementioned ARRs. For example, LIBOR is a forward-looking term rate with a range of seven maturities while the ARRs are backward-looking overnight rates. LIBOR is designed to reflect interbank lending and thus factors in bank credit risks, while the ARRs are near risk-free. There are also inconsistencies between the ARRs, the most striking of which is that SARON and SOFR are secured rates while ESTER, SONIA and TONAR are unsecured rates.

One of the major challenges that still needs to be resolved is the adjustment of the designated ARRs to suit financial markets' needs. The FSB noted in a statement that national working groups should focus on overnight risk-free rates and not on forward-looking term rates. It considers the overnight ARRs to be more robust than forward-looking term rates and thus better suited to replace LIBOR. This is of particular relevance for the large interest rate derivatives market, which will transition away from LIBOR and will need robust fallback rates to avoid systemic risk.[22] The International Swaps and Derivatives Association ("ISDA") launched a consultation on approaches to term and spread adjustments.[23] Once the methodology has been identified for these adjustments, they will be included in the 2006 ISDA Definitions as a fallback that will be triggered in the event of a permanent discontinuation of LIBOR.[24]

13 European Union: Working Group on Euro Risk-Free Rates; Japan: Study Group on Risk-Free Reference Rates; Switzerland: The National Working Group on Swiss Franc Reference Rates; United Kingdom: Working Group on Sterling Risk-Free Reference Rates; United States: Alternative Reference Rates Committee

14 The national working group published a Term Sheet for 3M SARON Futures and invited exchanges to follow this recommendation and start offering a product accordingly.

15 Minutes from the meeting of the national working group on CHF Reference Interest Rates – 4 June 2018

16 Meeting of the Working Group on Euro Risk-Free Rates – 28 September 2018

17 Secured Overnight Financing Rate (SOFR) Futures

18 Curve Global to Launch Three-Month Sonia Futures Contract

19 ICE SONIA Futures

20 Sterling Overnight Index Average (SONIA) Futures

21 Study Group on Risk-Free Reference Rates Minutes for the 27 March, 2018 Meeting

22 Interest rate benchmark reform – overnight risk-free rates and term rates – 12 July 2018

23 Interbank Offered Rate (IBOR) Fallbacks for 2006 ISDA Definitions ("ISDA Fallback Consultation")

24 ISDA is currently focusing on fallback provisions for GBP-LIBOR, CHF-LIBOR and JPY LIBOR. Fallback provisions for other LIBORs are not expected before 2019.

National working groups are also focusing on this topic. Switzerland's national working group, for example, is currently assessing different SARON-based methodologies for a CHF interest rate with maturities beyond overnight and is reaching out to corporates to identify relevant characteristics of a possible term rate based on SARON.[25] In the UK, the Working Group on Sterling Risk-Free Reference Rates is currently consulting on a Term SONIA reference rate.[26]

Closely tracking developments in this area will be of importance, since the outcome of the discussions around the new ARRs is likely to be included in contracts tied to LIBOR.

3. Contract Management

According to ISDA's IBOR Transition Report,[27] 87% of survey participants are concerned about their exposure to such benchmarks and 78% intend to trade products that reference ARRs within the next four years. This sounds promising, but ISDA noted a clear gap between awareness of the IBOR transitions and actions taken to prepare for the adoption of ARRs. Most market participants have neither allocated budget to an IBOR transition program nor developed a preliminary project plan.[28]

One of the organization's first steps in transitioning away from LIBOR will be a thorough impact assessment, including a contract review. The ISDA IBOR Transition Report suggests that 25% of market participants do not know the implications of discontinuing IBOR on their contracts and 21% assume that the existing contractual fallbacks will ensure that the positions continue as intended[29] – all of which implies a need for action. The FSB believes that market participants should develop a thorough understanding of the fallback provisions in their existing contracts and that vague provisions should be amended to prevent market disruptions.[30] The pitfalls expected with the existing fallback provisions include market fragmentation, hedge dislocation, conversion of floating rates into fixed rates and a general uncertainty with regards to the cessation of LIBOR.[31]

One crucial part of an organization's LIBOR program will be taking inventory of its contracts. Contracts tied to LIBOR that mature or otherwise terminate after the expected cessation of LIBOR at the end of 2021 need to be identified. In such contracts, existing fallback provisions need to be analyzed and amended if required. Moreover, the economic purpose of such contracts needs to be understood in order to identify dependencies between contracts, such as derivative positions entered into for the purposes of hedging. Striving for the simultaneous and consistent amendment of contracts that cause exposure to LIBOR and of the derivatives used for hedging will lead to a smoother transition of hedging mechanisms. Successor, renewal and completely new contracts that terminate after 2021 should reference an ARR. A few market participants, such as Fannie Mae, the European Investment Bank, the World Bank and Credit Suisse, have set an example by issuing new debt instruments referencing the new ARRs and thereby avoided an increase in their exposure to LIBOR. If referencing an ARR is not possible for new contracts, e.g. because an ARR is not viable and tying the contract to LIBOR is thus still preferred, the parties may want to agree on actions to take when LIBOR is discontinued.

25 Outreach to Swiss corporates on CHF LIBOR
26 Consultation on Term SONIA Reference Rate
27 IBOR Global Benchmark Transition Report – June 2018 ("IBOR Transition Report")
28 IBOR Transition Report at 18
29 IBOR Transition Report at 14
30 Reforming major interest rate benchmarks – Progress report on implementation of July 2014 FSB recommendations – October 2017
31 IBOR Transition Report at 14

4. Fallback Provisions and Contract Amendments

Many contracts that are tied to LIBOR already include clauses to address LIBOR's unavailability. Generally, these fallback provisions were drafted with a temporary unavailability of LIBOR in mind and are therefore not sufficiently robust for a permanent cessation of the benchmark. According to FCA's Andrew Bailey, the current fallback provisions are not designed as, nor should they be relied upon as, the primary mechanism for transition. Instead, market participants should move to contracts that do not rely on LIBOR and that will not switch reference rates at an unpredictable time.[32]

To improve the robustness of contracts, several industry organizations including the ISDA, the Loan Market Association ("LMA") and the Association for Financial Markets in Europe ("AFME") are suggesting templates for contract amendments, which can then be used for the respective instrument types where appropriate. The suggested contract languages for the different products are likely to be adopted, or at least augment one another, to achieve a certain level of consistency across the various instrument types when transitioning away from LIBOR. In comparison to the wordings suggested by industry organizations, the US Alternative Reference Rates Committee ("ARRC") provided more holistic guidance by publishing general principles for more robust LIBOR fallback contract language in cash products.[33] Among other things, these principles highlight that the timely incorporation of more robust contract language should be taken into consideration even if this entails changing language over time, since the industry is still working on the details of the contract amendments. In addition, the US ARRC launched a consultation on draft-fallback language for loan and floating rate notes referencing USD LIBOR.[34]

A variety of aspects need to be considered when amending contracts tied to LIBOR. Generally speaking, an independent review and amendment of each individual contract is required. This especially holds true for tailored, non-standardized contracts. However, some challenges may be specific for certain product type referencing LIBOR. The industry is therefore working on solutions per product types referencing LIBOR that can then be applied to the respective contracts where appropriate.

a) Derivatives

The existing 2006 ISDA Definitions, which govern most derivative contracts, require the calculation agent to obtain a rate from a poll of banks if the referenced benchmark becomes unavailable. Such an approach might be feasible temporarily, but would be too cumbersome when conducted daily as a standard procedure. Moreover, it is uncertain at best whether banks would participate in such polls given the concerns about potential liability faced by benchmark contributors.[35]

The FSB requested ISDA to develop more robust and sustainable fallbacks for the event that a major IBOR ceases to be published. Such fallbacks would be included by amending the 2006 ISDA Definitions and would apply to all contracts entered into on or after the date of the amendment. ISDA has worked on a set of triggers to determine whether a permanent discontinuation has occurred, and has launched a market-wide consultation on technical aspects.[36] The current version of the fallback provisions would only be triggered in the event of a permanent discontinuation of an IBOR.[37] In other words, the scenario where only a few banks continue to submit to LIBOR after 2021 (also referred to as "Zombie LIBOR") would not be covered by such fallback provisions.

32 Transition to a world without LIBOR

33 ARRC Guiding Principles for More Robust LIBOR Fallback Contract Language in Cash Products – 9 July 2018

34 ARRC Releases Consultations on Fallback Contract Language for Floating Rate Notes and Syndicated Business Loans for Public Feedback – 24 September 2018

35 IBOR Transition Report at 15

36 ISDA Fallback Consultation

37 For triggers that activate the fallback provisions see ISDA Fallback Consultation at 5 and 6

A scenario where market participants are prohibited from using LIBOR while it is still being published would also not be covered by ISDA's fallback provisions. Such a situation could occur if regulators in the EU prohibit supervised entities subject to the EU Benchmark Regulation ("EU BMR") from using LIBOR. To address such a scenario, ISDA has published the Benchmarks Supplement, which has been developed in response to the EU BMR.[38] Depending on the wording of the final fallback triggers, and after incorporating the Benchmark Supplements addressing the EU BMR, organizations may want to include additional scenarios according to which the contract would move to an ARR prior to the permanent cessation of LIBOR.

ISDA has announced that it will publish protocols to facilitate the inclusion of the amended definitions into existing derivative contracts,[39] since the amendment in the 2006 ISDA Definitions will only apply to new contracts. A first protocol should be available in 2019. An ISDA protocol is a multilateral contractual amendment mechanism that is used to facilitate the amendment of a large number of contracts among adhering parties. While the option to amend interest rate derivative contracts using a protocol is appreciated by market participants, non-standardized derivative contracts will still require bilateral negotiations.

b) Loans

The transition from a forward-looking LIBOR rate to an overnight ARR is also expected to cause difficulties when amending loan agreements. The availability of the forward-looking LIBOR term rate enables lenders and borrowers to manage their cash flows. Moving to overnight ARRs without an appropriate term adjustment may force treasurers to retain additional cash balances to accommodate possible movements in interest rates. The LMA is therefore advocating for a LIBOR replacement rate that has features in common with LIBOR, namely the forward-looking nature.[40]

The majority of business loan agreements are based on standard agreements but are also tailored to specific needs, meaning fallback provisions may not be standardized to the same extent as for derivative contracts. Therefore, LIBOR may have to be replaced by an ARR on a contract-by-contract basis in bilateral negotiations. Current fallback provisions in loan contracts often call for quotes from different banks if LIBOR is unavailable. If such quotes are not obtained, either the rates switch to an alternative rate, such as the US prime rate plus a spread, or the new rate is based on the banks' own cost of funds.[41]

Consumer loans and residential mortgages are often linked to LIBOR, but developing standardized fallback provisions seems not to be a viable approach due to the variety across jurisdictions and the bespoke nature of such contracts. Clustering an organization's consumer loans and residential mortgages before renegotiating the contracts bilaterally may be an efficient approach.

Syndicated loans usually reference LIBOR and add a margin. The LMA produced an amended version of the replacement of screen rate clause to facilitate the transition away from LIBOR for syndicated loans. The respective contracts can be amended with the new language once the respective new rates have been identified. Similar to the 2006 ISDA Definitions, the new LMA language specifies trigger events (or 'Screen Rate Replacement Events'). These trigger events are aligned as far as appropriate with the 2006 ISDA Definitions trigger events to provide consistency across product types. Furthermore, the default language amendments enable obligors and majority lenders to agree to a new benchmark, should a trigger event occur, and allow for various consequential amendments. Besides the LMA's amended default language, the outcome of the consultation by the US ARRC regarding fallback contract language for new originations of syndicated business loans[42] will also provide further guidance for market participants.

38 ISDA Publishes Benchmarks Supplement

39 ISDA Fallback Consultation at 2

40 Syndicated loans and forward-looking term rates – 20 July 2018

41 IBOR Transition Report at 16

42 ARRC Consultation regarding more robust LIBOR fallback contract language for new originations of LIBOR syndicated business loans – 24 September 2018

c) Bonds and Floating Rate Notes

Current fallback provisions for bonds and notes may require calculation agents to make a rate determination based on bank polling if LIBOR is not published. If the calculation agent does not receive the required quotes, the interest rate may revert to the last available LIBOR rate. This effectively converts the floating rate to a fixed rate and is likely to result in forced sales, since some investors are not permitted or willing to hold fixed-rate notes or bonds. To avoid this scenario, an amendment of the documentation for an ARR is necessary, which may require consent from all or the majority of bondholders.[43] This will be a time-consuming process, especially for bonds and notes in bearer form, where bond- or noteholders may need to be identified first. As an alternative approach, issuers may consider buying back bonds and issuing new ones, although there may be capital implications. In either case, amending documentation will be a time-consuming process. Sufficient resources should be allocated and timely action will be required if appropriate amendments are to be in place by the end of 2021.

The US ARRC is currently consulting on more robust fallback contract language for floating rate notes[44], and guidance on this matter can be expected once the responses to the consultation have been analyzed.

d) Securitizations

Securitizations currently apply a variety of fallback provisions, including the approach of polling quotes from reference banks. If this approach fails, e.g. due to banks not providing quotes, the floating rate would be converted to a fixed rate based on the last available LIBOR fixing.[45] Most securitization contracts require consent from a minimum quorum or all investors to amend terms such as a change of reference rates. Anonymous noteholders would pose significant challenges and market participants therefore may choose to use the refinancing period for contract amendments.[46] The AFME has developed a template wording that can be included in terms and conditions for new securitizations.[47]

43 IBOR Transition Report at 16

44 ARRC Consultation regarding more robust LIBOR fallback contract language for new issuances of LIBOR floating rate notes – 24

45 IBOR Transition Report at 16

46 IBOR Transition Report at 25

47 https://www.afme.eu/

5. Potential Pitfalls

The LIBOR transition is expected to pose several challenges to market participants. The points below summarize some of the key risks that market participants may face during the LIBOR transition. Solutions to the points below and other risks should be developed for each organization individually after a thorough assessment of the specific situation.

a) Hedging Mechanisms

The strategies to amend contracts that reference LIBOR will vary across market participants and therefore the timing and the type of amendments will be subject to negotiations between counterparties. Market participants may have the opportunity to amend hedging derivatives in parallel to the hedged cash products, provided they have a clear understanding of the hedging mechanisms in place. However, amending cash products is generally expected to be more time-consuming than amending derivatives. There is thus a risk that, by the time cash products are amended, the derivatives market referencing IBORs will be insufficiently liquid, since the derivatives market has moved to ARRs. This would result in a mismatch in the hedging mechanism.

b) Loss of Grandfathering Status

Regulatory obligations, such as clearing or margin requirements, often apply to transactions entered into after the respective regulation came into effect. In other words, legacy transactions may benefit from a grandfathering rule under regulatory regimes. Depending on the amendments made to existing contracts during the LIBOR transition, the existing transactions might lose their grandfathering status and be subject to recent regulatory obligations. Usually, amendments that qualify as "material", or that lead to termination of the contract and entry into a new one, also lead to a loss of the grandfathering status. A change of the referenced rate is likely to trigger new regulatory requirements for legacy contracts.

c) Accounting and Tax Implications

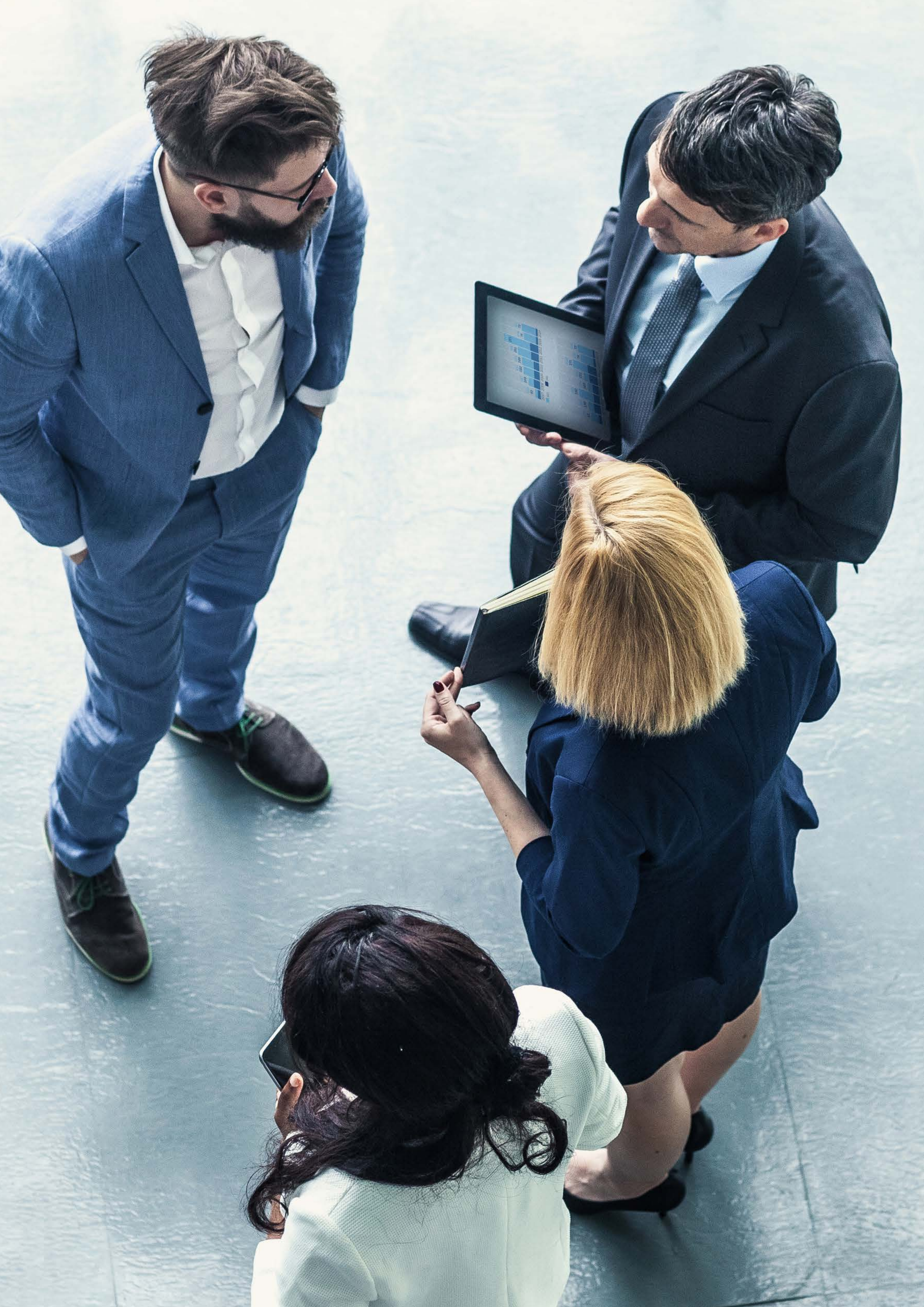
It is not fully clear yet what impact the LIBOR transition will have on hedge accounting. As mentioned above, changing the referenced benchmark could be seen as a termination of a contract followed by an entry into a new one. This may have a negative impact on tax- and accounting-related treatment for the respective derivative contract. In addition, mismatches in fallback provisions when hedging a cash product with a derivative position may affect the hedge accounting and tax-related treatment of the derivatives contract.[48]

48 IBOR Transition Report at 34

6. Synergies with Other Regulatory Projects and Anticipated Developments

Besides the transitions away from LIBOR, the replacement of other IBORs – such as the Euro Interbank Offered Rate ("EURIBOR") and the Tokyo Interbank Offered Rate ("TIBOR") – are also being discussed. Organizations may want to include these IBORs in their efforts, especially when reviewing their existing contracts and setting up an inventory of impacted contracts.

The requirements of the EU BMR are being phased in between 2018 and 2020. Some organizations may want to consider aligning their transition away from LIBOR, with ongoing efforts to implement the requirements of the EU BMR. For others it may be worth assessing their compliance with the EU BMR in parallel with their work on the LIBOR transition.



7. How PwC Can Assist

The appropriate steps need to be identified individually for each organization. The transition away from LIBOR is expected to have a major impact on many market participants and therefore we believe it is prudent to prepare for the shift to ARRs now. Steps in which we can assist your organization include:

- **Define the scope of the project:** Clarify whether IBORs other than LIBOR should be addressed as part of the project.
- **Integration into ongoing projects related to benchmark regulation:** Depending on the setup of an existing project, the most effective approach may be to integrate the LIBOR transition into an existing benchmark regulation project.
- **Project governance:** Identify the departments impacted by the LIBOR transition, define responsible stakeholders, calculate required budget and resources, and define a timeline.
- **Avoid increasing exposure to LIBOR:** Avoid concluding new contracts or issuing products referencing LIBOR. If no alternative to LIBOR is available, include a robust fallback in the new contract as an option. This could include agreeing on steps to be taken to identify the appropriate ARR at a later stage.
- **Inventory of contracts tied to LIBOR:** Create an overview of contracts tied to LIBOR and ensure that the current version of such contracts is available and centrally stored.
- **Maturity of contracts tied to LIBOR:** Cluster the contracts tied to LIBOR into those maturing or otherwise terminating before and after 2021. For contracts maturing before 2021, identify those that are intended to be rolled or extended beyond 2021.
- **Fallback provisions in contracts tied to LIBOR:** Analyze fallback provisions in legacy contracts impacted by the LIBOR transition. Assess whether an amendment of the fallback provisions is required and the expected consequences if the current fallback provisions remain in place.
- **Dependencies between contracts tied to LIBOR:** Assess whether contracts tied to LIBOR have an economic impact on other contracts. Understand the nature of the dependencies and of the impact a transition away from LIBOR would have.
- **Reach out to counterparties:** Reaching out to counterparties to discuss the best approach to amend contracts at an early stage may facilitate the process at a later stage.
- **Monitor developments:** Track the progress of industry organizations such as ISDA, AFME or LMA as well as national working groups.

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