WHAT IS THE SHAPE OF YOUR LIBOR RISK?

A Guide to Sell-Side LIBOR Cessation Risk

IBORS, including the **London Inter-Bank Offered Rate** (LIBOR), are scheduled for discontinuation globally starting December 31, 2021. Successfully traversing the myriad of steps and the magnitude of work needed to reach a timely state of LIBOR reform readiness requires an understanding of the specific shape of your organization's related risk.

Key to determining the shape of sell-side LIBOR risk will entail an in-depth analysis of all contractual relationships where a duty may arise or where a regulatory obligation must be met. Accomplishing this scoping exercise in a timely manner may feel akin to navigating a mine field and those failing to meet readiness deadlines may be given short shrift by regulators and exposed to a litany of potential issues, including litigation.

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Understand the Shape of Sell-Side LIBOR Related Risk

Sell-side entities will generally be multi-faceted, and the scope of LIBOR cessation exposure will be informed by the breadth of relationships.

Analysis of linked trades such as syndicated loans and opposite risk reducing transactions need to be conducted to manage conflicts between contrasting industry fall-back provisions or potential mismatches relating to hedging.

Relationships crossing more than one product area will likely require a holistic evaluation of the entire related portfolio and documentation that underpins all associated mutual obligations paying particular attention to parent/child relationships.

For regulated firms, Financial Conduct Authority (FCA) required in-house policies, procedures, and standards may also require amending in order to ensure full regulatory compliance across the board.

For bonds, unanimous consent may be needed and may require adoption of distinct and separate approaches to the treatment of reference rates, including a provision (both contractual and systems based) for an ongoing 'synthetic LIBOR' rate, in the event it is required for so called irreducible, 'tough legacy' scenarios.

As a bond holder, your consent is required in order to implement the transition from LIBOR to an RFR. This may involve negotiations as not only will the referenced LIBOR rate require replacing, but calculation parameters in respect of the inclusion of a relative credit spread will also require attention.

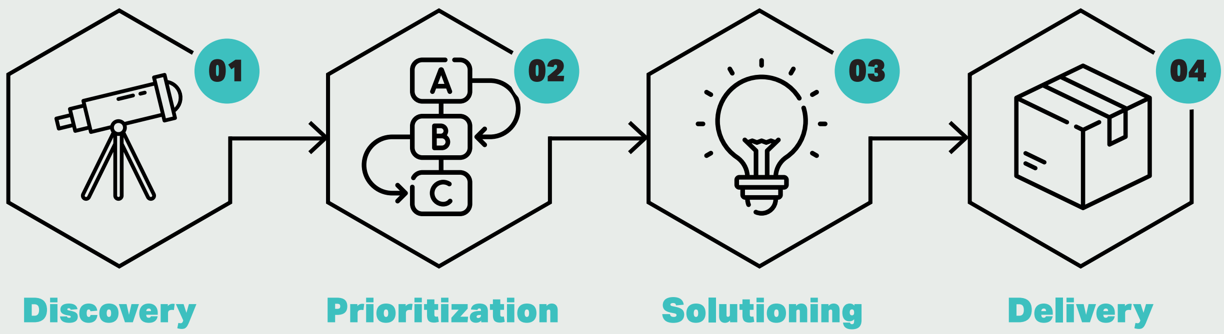
There may be a LIBOR nexus in customer contracts, acting as the benchmark used in default scenarios. If a timely plan is not in place, it may result in customer complaints, for example to the FCA or Financial Ombudsman, potentially leading to litigation due to the legal uncertainty introduced by unaddressed LIBOR cessation.

Arbitrage opportunities may arise for entities which have collateral optimization desks/functions. LIBOR cessation provides, in theory, the opportunity for cherry picking in relation to collateral movement.

Due to the extent of LIBOR reform not being entity type, size or product related, an analysis of all contracts and related documentation, including internal guidance policies and procedures and standards (for regulated entities) is recommended.

Integreon's End-to-End 4-phase LIBOR Reform Approach

Through experience supporting global financial institutions, our approach delivers efficiency, quality assurance and mitigates risk. Integreon implements an end-to-end solution consisting the following four phased approach.



We can also offer these phases on a stand-alone basis to bolster implementation of an existing solution.

Delivering Transformational Solutions

Integreon is an alternative legal services provider (ALSP), experienced in providing regulatory event remediation solutions worldwide and equipped to readily and cost effectively:

- Provide a complete, end to end solution.
- Act as an extension or supplement an existing regulatory change program in a modular or bespoke manner.
- Provide access to highly skilled resources including lawyers, contract specialists, paralegals, and six sigma experts.
- Work seamlessly with technology providers, outside counsel, and other program contributors.
- Scale as needed drawing from 3,000+ global employees in the USA, UK, India, and the Philippines.

To learn more about LIBOR cessation readiness planning, contact info@integreon.com.