asifma
Growing Asia's Markets

IBOR Transition Series:
A Local Market Perspective

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host
Financial Markets Association Malaysia

Lead Sponsor
EY Building a better working world

Gold Sponsor
REFINITIV

Endorser
ICMA International Capital Market Association

Agenda:

Time	Session
10:00-10:05	**Welcome Remarks:** • **Kok Wei Chu**, President of **Financial Markets Association Malaysia** and Vice Chairman of **ASIFMA**
10:05-10:20	**Keynote Address: Preparing for LIBOR Transition** • **Aznan Abdul Aziz**, Assistant Governor, **Bank Negara**
10:20-10:25	**ASIFMA Regional Update** • **Rebecca Weinrauch**, Executive Director – Head of Fixed Income, **ASIFMA**
10:25-10:35	**Impact of IBOR Transition on the Local Banking Market** • **Hooi Lam Chan**, Partner, Malaysia and ASEAN Financial Services Assurance Leader, **EY**
10:35-11:15	**Product Presentations:** • **Jing Gu**, Head of Legal, **Asia Pacific, ISDA** • **Mushtaq Kapasi**, Managing Director – Chief Representative Asia Pacific, **ICMA** • **Andrew Hutchins**, Partner, **Clifford Chance**

Agenda:

Time	Session
11:15-11:30	**IBOR Transition: Data and Infrastructure Viewpoint** **Edmund Lee**, OTC Data Strategy Manager, Asia Pacific, **Bloomberg L.P.**
11:30-12:10	**Banking Panel on Implementation Issues** • **Kevin Yam**, Managing Director, **Deutsche Bank** • **Jacob Abraham**, Chief Risk Officer, Group Global Banking, **Maybank** • **Tiak-Peow Phua**, Executive Director, Libor Transition, Conduct, Financial Crime and Compliance, **Standard Chartered**
12:10-12:25	**Local Accounting Issues: Fair Value, Value Transfer, Hedge Accounting and Modifications** • **Damien Jones**, Partner, Financial Services, **EY** • **Hooi Lam Chan**, Partner, Malaysia and ASEAN Financial Services Assurance Leader, **EY**
12:25-12:30	**Q&A**

Get Involved:

Asking a question anytime via the "Q&A" box on your tool bar

Welcome Remarks:

Kok Wei Chu
President, **Financial Markets Association Malaysia**
and Vice Chairman, **ASIFMA**

IBOR Transition Series:
A Local Market Perspective

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host Financial Markets Association Malaysia

Lead Sponsor EY Building a better working world

Gold Sponsor REFINITIV

Endorser ICMA International Capital Market Association

Keynote Address: Preparing for LIBOR Transition

Aznan Abdul Aziz
Assistant Governor
Bank Negara

asifma
Growing Asia's Markets

IBOR Transition Series:
A Local Market Perspective

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host: Financial Markets Association Malaysia

Lead Sponsor: EY Building a better working world

Gold Sponsor: REFINITIV

Endorser: ICMA International Capital Market Association

ASIFMA Regional Update:

Rebecca Weinrauch
Executive Director – Head of Fixed Income
ASIFMA

Areas to cover:

- IBOR Transition Guide for Asia published by ASIFMA, ICMA, ISDA and APLMA, with contribution from Deloitte and Morgan Lewis.

- Survey of ASIFMA Members on external frictions yet to be resolved
- Regional education program: Singapore, Malaysia, Philippines, Thailand, Vietnam, Indonesia, and India

IBOR Transition Series:
A Local Market Perspective

asifma
Growing Asia's Markets

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host: Financial Markets Association Malaysia

Lead Sponsor: EY Building a better working world

Gold Sponsor: REFINITIV

Endorser: ICMA International Capital Market Association

Impact of IBOR Transition on the Local Banking Market:

Hooi Lam Chan
Partner, Malaysia and
ASEAN Financial Services Assurance Leader
EY

IBOR reform – Malaysia perspective

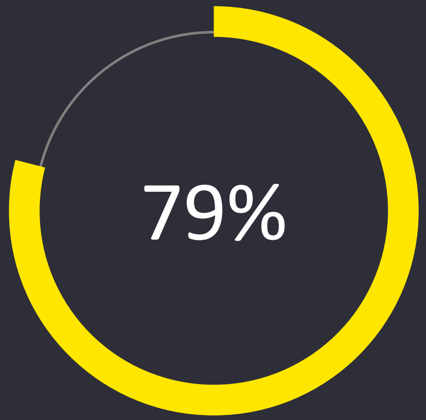
Financial reporting and related impacts

The better the question. The better the answer.
The better the world works.

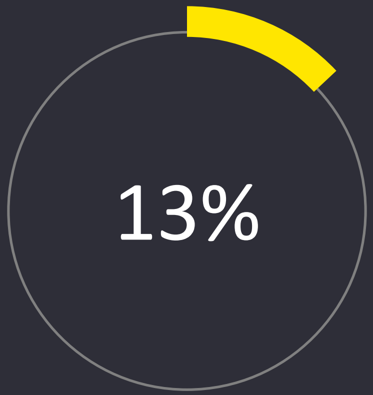
EY
Building a better working world

Malaysian banks' LIBOR exposures as of 30 June 2019 – RM857 billion

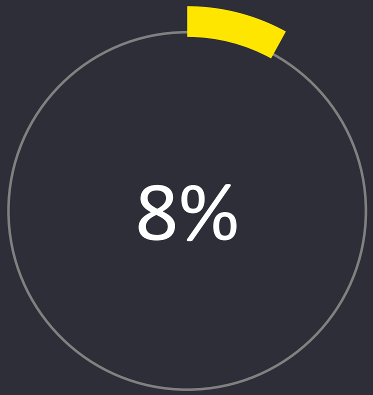
All banks have established dedicated transition teams. Extent and depth covered remain uneven across institutions:
(1) How the transition is managed, (2) progress, and (3) risks determined by each to be exposed



Derivatives – Post lower transition risk



Loans and financing – Greater concerns for accounts maturing post-2021



Bonds and others:

- Bonds – 1%
- Interbank lending/borrowing, customers deposits and others – 7%

Source: Bank Negara Malaysia – Financial Stability Review – Second Half 2019

IBOR transition key areas/impacts

Accounting, financial reporting and tax

Legal provisions, contract amendments and Shariah compliance

Customers and reputation

Valuation, models, systems, processes and governance

"

We do not foresee big issues other than probably on certain loan renegotiation, and the tedious operational processes going through …

Anonymous

Senior executive of a large and regional banking group

EY | Assurance | Tax | Transactions | Advisory

About EY
Replace this text with boilerplate copy, found on The Branding Zone, in the Signature, boilerplate and descriptor section. Lorem ipsum dolor sit amet, consectetuer adipiscing elit, sed diam nonummy nibh euismod tincidunt ut laoreet dolore magna aliquam erat volutpat. Ut wisi ad minim veniam, quis nostrud exercitation ullam corper suscipit lobortis nisl ut aliquip ex ea duncai consequat.

Financial Services

EYG00001-162Gbl - CHL

ED 0920

Please avoid printing and use softcopy

ey.com

IBOR Transition Series:
A Local Market Perspective

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host Financial Markets Association Malaysia

Lead Sponsor EY Building a better working world

Gold Sponsor REFINITIV

Endorser ICMA International Capital Market Association

Product Presentations:

Jing Gu
Head of Legal, Asia Pacific
ISDA

Mushtaq Kapasi
Managing Director –
Chief Representative Asia Pacific
ICMA

Andrew Hutchins
Partner
Clifford Chance

September 18, 2020

Implementation of Fallbacks in Derivative Contracts

Jing Gu
Head of Legal, Asia Pacific
ISDA

Preparing for IBOR transition
Overview of alternative RFR identification

Working Groups in each jurisdiction have recommended robust, alternative RFRs to transition away from existing IBORs, the alternative RFR benchmarks are overnight, whereas the current use of IBORs is largely in term rates.

Jurisdiction	Working Group	Alternative RFR	Rate administration	Characteristics		
				Secured vs. unsecured	Anticipated publication date	Description
UK	Working Group on Sterling Risk-Free Reference Rates	Reformed Sterling Overnight Index Average (SONIA)	Bank of England	Unsecured	**Currently being published**	• Fully transaction-based • Encompasses a robust underlying market • Overnight, nearly risk-free reference rate • Includes an expanded scope of transactions to incorporate overnight unsecured transactions negotiated bilaterally and those arranged with brokers • Includes a volume-weighted trimmed mean
US	Alternative Reference Rates Committee	Secured Overnight Financing Rate (SOFR)	Federal Reserve Bank of New York	Secured	**Currently being published**	• Fully transaction-based • Encompasses a robust underlying market • Overnight, nearly risk-free reference rate that correlates closely with other money market rates • Covers multiple repo market segments, allowing for future market evolution
Europe	Working Group on Risk-Free Reference Rates for the Euro Area	European Short Term Rate (€STR)	European Central Bank	Unsecured	**Currently being published**	• Fully transaction-based • Encompasses a robust underlying market • Overnight, nearly risk-free reference rate • Includes a volume-weighted trimmed mean
Switzerland	The National Working Group on CHF Reference Rates	Swiss Average Rate Overnight (SARON)	SIX Swiss Exchange	Secured	Currently being published	• Became the reference interbank overnight repo on 25 August 2009 • Secured rate that reflects interest paid on interbank overnight repo
Japan	Study Group on Risk-Free Reference Rates	Tokyo Overnight Average Rate (TONA)	Bank of Japan	Unsecured	Currently being published	• Fully transaction-based benchmark for the robust uncollateralized overnight call rate market • The Bank of Japan calculates and publishes the rate on a daily basis, using information provided by money market brokers known as Tanshi • As an average, weighted by the volume of transactions corresponding to the rate

IBOR Fallbacks: ISDA's Work – Fallback Rates (1)

Relevant IBOR and corresponding floating rate options in 2006 ISDA Definitions		Fallback rate
GBP LIBOR	GBP-LIBOR-BBA GBP-LIBOR-BBA-Bloomberg	SONIA
CHF LIBOR	CHF-LIBOR-BBA CHF-LIBOR-BBA-Bloomberg	SARON
JPY LIBOR	JPY-LIBOR-FRASETT JPY-LIBOR-BBA JPY-LIBOR-BBA-Bloomberg	TONA
TIBOR	JPY-TIBOR-TIBM JPY-TIBOR-17096 JPY-TIBOR-17097 JPY-TIBOR-TIBM (All Banks)-Bloomberg	TONA
Euroyen TIBOR	JPY-TIBOR-ZTIBOR	TONA
BBSW	AUD-BBR-AUBBSW AUD-BBR-BBSW AUD-BBR-BBSW-Bloomberg	RBA Cash Rate
USD LIBOR	USD-LIBOR-BBA USD-LIBOR-BBA-Bloomberg	SOFR
HIBOR	HKD-HIBOR-HKAB HKD-HIBOR-HKAB-Bloomberg	HONIA
CDOR	CAD-BA-CDOR CAD-BA-CDOR-Bloomberg	CORRA
EUR LIBOR	EUR-LIBOR-BBA EUR-LIBOR-BBA-Bloomberg	€STR
EURIBOR	EUR-EURIBOR-Reuters	€STR

IBOR Fallbacks: ISDA's Work – Fallback Rate (2)

- A number of key Asian benchmarks are synthetic benchmarks derived by applying a forward FX curve to the USD LIBOR curve. When USD LIBOR is no longer available after the end of 2021, the sustainability of these benchmarks is in doubt:

- Key benchmarks are: **SOR** (Singapore); **THBFIX** (Thailand); **MIFOR** (India) and **PHIREF** (Philippines).

- Planning for the cessation of LIBOR is led by the respective administrators and regulators of these benchmarks. Some have replacement rates for new transactions identified and transition timelines in place (**SOR** and **THBFIX**), whereas others are yet to identify the replacement rates.

- ISDA IBOR Fallback Protocol and Supplement cover SOR and THBFIX
    - Index cessation event is triggered by the occurrence of an "Index Cessation Event" applicable to USD LIBOR
- Links to the National RFR Working Groups in the APAC region
    - https://www.bot.or.th/Thai/FinancialMarkets/Pages/ReferenceInterestAndEndOfUseLIBOR.aspx
    - https://www.abs.org.sg/benchmark-rates/about-sora
    - https://www.tma.org.hk/en_market_LIBOR.aspx
    - https://afma.com.au/ibor_transformation_working_grouphttps://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/
    - https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/

ISDA Safe, Efficient Markets

IBOR Fallbacks: ISDA's Work – Implementation of Fallbacks in Supplement

Form of Amendments

- **Supplement to the 2006 ISDA Definitions**: To account for any permanent discontinuation of a relevant IBOR, amendments to the floating rate options in Section 7.1 of the 2006 ISDA Definitions for the relevant IBORs will take the form of:
  - a statement identifying the objective triggers that would activate the selected fallbacks (the trigger defined as 'Index Cessation Event'); and
  - a description of the fallbacks that would apply upon the occurrence of that trigger, which will be:
    i. the relevant RFR adjusted using methodologies to account for (A) the fact that the RFR is an overnight rate and (B) the various premia included within the IBOR; and
    ii. if the relevant RFR is permanently discontinued, one or more further fallbacks.

  Upon publication of the Supplement, all **new** derivative transactions entered into on or after the date of the amendments that incorporate the 2006 ISDA Definitions will include the fallbacks (counterparties will **not** have to take any additional steps).

IBOR Fallbacks: ISDA's Work – Implementation of Fallbacks in Protocol

Form of Amendments

- **ISDA 2020 IBOR Fallbacks Protocol:** ISDA will also publish a protocol to facilitate inclusion of the amended floating rate options (*i.e.,* the definitions with fallbacks) into **existing** derivative contracts entered into prior to publication of the Supplement.
  - Adherents to the Protocol will agree that derivative transactions that they have entered into *with other adherents* prior to publication of the Supplement will be based on the relevant amended floating rate options in the 2006 ISDA Definitions, notwithstanding when the transactions were entered into.
  - The Protocol will cover those ISDA master agreements, ISDA credit support documents and confirmations that:
    i. incorporate one of several ISDA definitional booklets;
    ii. reference an IBOR as defined in or has the meaning in one of several ISDA definitional booklets; or
    iii. reference an IBOR howsoever defined.
  - The Protocol will also extend to additional non-ISDA master agreements and credit support documents.
  - ISDA will also provide translation of the IBOR Fallbacks Supplement and Protocol for certain jurisdictions

IBOR Fallbacks: ISDA's Work – Triggers

- The fallbacks apply upon the ***permanent discontinuation*** of the relevant IBOR (based on pre-determined, objective triggers) and will be to the relevant alternative risk-free rate (RFR), subject to term and spread adjustments. The ***permanent discontinuation*** trigger is defined as "Index Cessation Event" in the non-LIBOR Rate Options.
- The fallbacks will not apply until the actual discontinuation of the relevant IBOR (if that is after the announcement date). This date is defined as the "Index Cessation Effective Date".
- For **LIBOR** in **GBP/CHF/USD/EUR/JPY**, the fallbacks apply upon the ***earlier to occur of (i) the permanent discontinuation or (ii) the non-representativeness (as determined by the UK FCA) (a so-called "pre-cessation" trigger)*** of LIBOR in the relevant currency (based on pre-determined, objective triggers) and will be to the relevant alternative RFR, subject to term and spread adjustments. The combined ***permanent discontinuation*** and ***pre-cessation*** trigger is also defined as "Index Cessation Event" in the LIBOR Rate Options.
  - The Index Cessation Effective Date for the pre-cessation trigger will be the date on which LIBOR in the relevant currency 'is no longer representative', which may either coincide with or be after the date of an announcement that it is 'no longer capable of being representative'.
  - Statement from the UK FCA regarding announcement of contractual triggers for LIBOR available at https://www.fca.org.uk/markets/transition-libor/libor-contractual-triggers

IBOR Fallbacks: Adjustments to Fallback Rates

Form of Adjustments

- The RFRs are adjusted (1) to reflect the fact that the IBOR is a term rate and (2) to factor in the embedded bank credit spread element of the IBOR.
- The current methodology is:
  - RFRs are based on the **compounded setting in arrears rate** and the **five year historical median approach to the spread adjustment**.
  - The **compounded setting in arrears rate** is the RFR observed over a period (generally equivalent to the relevant IBOR tenor) and compounded daily. The rate is adjusted whereby the observation period is backward-shifted to allow for the rate to be known prior to the relevant payment date.
  - The **five-year historical median approach to the spread adjustment** is based on the median spot spread between the IBOR and the term-adjusted RFR calculated over a static lookback period of five years prior to the Index Cessation Event. The spread adjustment will be added to the compounded setting in arrears rate (but will not be compounded itself).

Information about the relevant consultations and results, as well as test data and example calculations from Bloomberg, are available at **ISDA Benchmark Reform and Transition from LIBOR webpage** https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/

IBOR Fallbacks: Adjustments to Fallback Rates

- **Bloomberg will publish (i) the compounded setting in arrears rate, (2) the spread adjustment and (3) the 'all in' fallback rate on a daily basis**
  - Publication will be on an indicative basis (i.e., 'as if' the fallbacks were triggered on the publication date)
    - Upon the occurrence of an 'Index Cessation Event' for the relevant IBOR, the spread adjustment will be fixed (but the indicative compounded setting in arrears rate and 'all in' fallback rate will continue to change on a daily basis). Contracts will continue to reference the relevant IBOR until the 'Index Cessation Effective Date' occurs.
    - Upon the occurrence of an 'Index Cessation Effective Date' for the relevant IBOR, contracts that continue to reference the relevant IBOR will reference the 'all in' fallback rate (which will include the spread adjustment that was set on the date of the 'Index Cessation Event' but with a changing compounded setting in arrears rate).
  - Rulebook for final methodology published April 22, 2020. Available at http://assets.isda.org/media/34b2ba47/c5347611-pdf/.
  - FAQs (to be updated from time-to-time) available at http://assets.isda.org/media/ddcb20e0/76dd3ab8-pdf/

IBOR Fallbacks: Key Dates

Bloomberg begins publication of indicative fallback rates via: • Bloomberg Terminal • Bloomberg Data License • Bloomberg's LIBOR Transition website (on a delayed basis)	Live as of July 17th
Launch of IBOR Fallback Supplement and IBOR Fallback Protocol	September 2020 (or later date after receive positive Business Review Letter from the US DoJ and similar comfort from other relevant competition law authorities), with 2-4 weeks' notice of launch date
Effectiveness of IBOR Fallback Supplement and IBOR Fallback Protocol	Late 2020 (or 2-4 months after publication)

IBOR Fallback Protocol: Adherence in Escrow

22 July – ISDA's Letter to National RFR WGs – ISDA IBOR Fallback Protocol

- ISDA will provide market participants with approximately 2-4 weeks' notice of the official launch date and later effective date.
- During this 2-4 weeks period, ISDA expects to facilitate a process whereby regulated entities and other key market participants can adhere to the IBOR Fallback Protocol 'in escrow' prior to the launch date.
- This adherence will be binding and complete but the adhering entity's name and information will not appear on the ISDA website until the official launch date (and the adherence letter will be 'deemed' delivered as of that launch date, not the earlier date on which it was submitted 'in escrow').
- Entities that adhere in escrow will do so via a private link that ISDA sends them. This link will take them to a page with the text of the IBOR Fallback Protocol and all related information, including full adherence mechanics. The final text of the IBOR Fallback Supplement and the IBOR Fallback Protocol will be available on www.isda.org during this time but the information in the private link (e.g., adherence mechanics, list of adherents) will not be publicly available.
- Wide take up of this 'adherence in escrow' process will result in a broad and comprehensive list of adherents at the time the IBOR Fallback Protocol launches and thereby indicate to the market an expectation of wide usage of the new fallbacks.
- RFR Working Groups in the UK, the US, the EU, Switzerland, Canada, Japan and Singapore have sent messages encouraging dealers and other firms with significant derivatives exposure to adhere to the protocol during the escrow period in order to promote adoption.

IBOR Fallbacks: Other Templates and Materials

- ‘Short form’ language for bilaterally incorporating the terms of the ISDA IBOR Fallbacks Protocol into agreements on a wholesale basis for purposes of bilateral adherence
- ‘Long form’ language setting out the language from the Attachment to the ISDA IBOR Fallbacks Protocol in full for purposes of bilateral adherence
- Template acknowledgment language for transactions entered into prior to publication of the IBOR Fallbacks Protocol
- Template wording for inclusion in (i) confirmations for new transactions or (ii) amendments to legacy transactions (on a counterparty-by-counterparty or transaction-by-transaction basis) between counterparties who adhered to the IBOR Fallbacks Protocol and/or bilaterally adopted the terms of the IBOR Fallback Protocols using either ‘short form’ or ‘long form’ language
  - Exclude transactions and agree to different fallbacks (e.g., to ‘perfectly match’ hedges)
  - Include enhanced Calculation Agent dispute provisions
  - Include additional documents and/or transactions
  - Exclude the pre-cessation fallbacks for LIBOR
  - Other templates as required/requested
- Potential supplemental amendments to fallbacks for non-linear derivatives (e.g., in arrears swaps, caps/floors, swaptions) – *currently seeking feedback on approaches*

CCPs – Transition to €STR and SOFR Discounting

€STR

> CCPs to switch discounting on all EUR-denominated products from EONIA to **€STR flat**.

> CCP Transition Date: 24 July 2020.

> CCPs to apply **cash compensation** payments to all accounts containing open EUR-denominated positions on the transition date.

SOFR

> CCPs to switch discounting on all USD-denominated products from Fed Funds to **SOFR**.

> CCP Transition Date: 16 October 2020 *

> CCPs to offer a combination of **cash compensation** (in respect of valuation change) and **swap compensation** (in respect of risk profile change) to all accounts containing open USD-denominated positions on the transition date.

> At certain CCPs, including LCH, client accounts will be able to elect for **cash-only compensation**, in lieu of swap compensation.

> An auction process will be used to close out unwanted compensating swaps and provide a reference for cash compensation calculations.

* *subject to regulatory approval*

ISDA Collateral Agreement Interest Rate Definitions

- ISDA has published the Collateral Agreement Interest Rate Definitions.
- Incorporation of these into ISDA collateral agreements will enable parties to include standardised definitions (including triggers and fallbacks) relating to overnight interest rates.
- The triggers and fallbacks are designed to mirror those used in derivative transactions which reference the relevant overnight interest rates included in the Definitions.
- The first version contains collateral rate definitions of EONIA (Collateral Rate) and EuroSTR (Collateral Rate). Subsequent versions to contain SOFR (Collateral Rate) and other RFR definitions.
- Parties can:
  - (i) incorporate the most recent version of the Definitions prior to entry into the relevant agreement, or
  - (ii) incorporate the Definitions as amended from time to time, and elect to apply Interest Rate Override. Option to override the definition of either a specified interest rate benchmark (eg Interest Rate Override (EONIA)), or all benchmarks (Interest Rate Override (All Rates)), already included in the relevant agreement with the definition of that interest rate benchmark from the Collateral Definitions.

ISDA's 2018 IBOR Global Benchmark Transition Report – Steps Market Participants Can Take to Prepare for Transition

Assessment of IBOR Exposures	Assess Impact of Permanent Cessation
• Inventory of products linked to IBORs • Dynamic quantification of net and gross exposure on and off balance sheet • Calculate roll-off profiles ahead of 2019, 2020, 2021	• Review existing contracts and assess fallbacks • Determine re-papering/client outreach • Engage with industry working groups to enhance fallbacks • Mobilize efforts to implement fallbacks
Transition Route Map	**Mobilization of an IBOR Transition Program**
• Contribute to demand for, design of and trading in new RFR products • Review relevant RFR WG publications, roadmaps etc • Apply to participate in RFR WGs • Determine required infrastructure and process changes • Develop an implementation route map of key projects, milestones and ownership	• Allocate responsibility to senior executive • Federate governance structure • Budget & resourcing • Project objectives • Stakeholder education

IBOR Fallbacks: Additional Information

- ISDA/Bloomberg/Linklaters IBOR Fallbacks Fact Sheet
- Understanding IBOR Benchmark Fallbacks
- Benchmark Reform at a Glance
- IBOR Transition Guide for Asia co-published by ISDA, ASIFMA, ICMA and APLMA

All of these materials, as well as additional information about ISDA's work to implement IBOR fallbacks and other benchmark reform initiatives, are available on the **ISDA Benchmark Reform and Transition from LIBOR webpage** at https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/

International Capital Market Association

ICMA

Adoption of risk-free rates in bond markets

A lot of progress has already been made with the adoption of new RFRs in bond markets:

US Dollar:

- Over US$650 billion of SOFR-linked FRNs
- Mainly SSAs, financial institutions
- Conventions are evolving
- SOFR Index now available

UK Sterling:

- Approx. 190 SONIA-linked FRNs and securitisations totalling approx. £90 billion
- Mainly SSAs, banks and building societies, with a broadening base of investors
- Same market conventions so far – "lag" approach to weighting, also favoured by the loan market
- SONIA Index made available in early August – but only compatible with "shift" approach to weighting
- Work still to be done on conventions

New contracts referencing IBORs : fallbacks

The official sector in the US and the UK encourage use of risk-free rates instead of LIBOR in new bond issuance:

- If this is not possible, any *new contracts* referencing LIBOR and maturing beyond 2021 should contain robust fallbacks to risk-free rates
- For new USD LIBOR FRN contracts, the ARRC (*Alternative Reference Rates Committee*) in the US has produced a hardwired waterfall of fallbacks
- In the UK, fallbacks which address a permanent cessation or pre-cessation of IBORs have been used since mid-2017. These are typically benchmark and currency agnostic
- GBP LIBOR-referencing FRN and securitisation transactions have all but ceased

The conversion of Legacy Bonds

"Legacy Bonds" are bonds which reference LIBOR and are due to mature beyond the end of 2021, when LIBOR may no longer be available:

- It has been estimated that the ***global total*** of Legacy Bonds is more than US$800 billion equivalent
- Around 80% of that total references USD LIBOR
- In the UK market, estimates suggest around 700 ISINs for GBP LIBOR Legacy Bonds across approx. 430 deals
- If LIBOR is discontinued, many Legacy Bonds will *fall back to a fixed rate,* in accordance with the fallbacks drafted into the documentation at a time when permanent discontinuation of the rate would not have been anticipated
- This is unlikely to be aligned with the commercial intention of the counterparties at the time of the transaction

Options for Legacy Bonds – consent solicitation

The official sector in the US and the UK have continually stressed the increasing importance of transitioning Legacy Bonds away from LIBOR:

- Unlike derivatives, bonds are contracts between multiple parties and are freely tradeable, meaning the identity of the parties can change
- Bonds cannot be amended by way of adherence to an industry protocol
- Bonds usually contain provisions allowing the terms of the contract to be amended - this requires consent from bondholders by way of *consent solicitation*
- **Depending on the governing law of the bond, the consent threshold required for amendments of interest rate provisions may be high (e.g. 75% under English law, and 100% under NY law)**
- Amending bonds by way of consent solicitation is a voluntary process, with no guarantee of success. It is also time-consuming and administratively burdensome for issuers and bondholders
- But in the UK, a number of consent solicitations have been successfully undertaken by financial and corporate issuers

Options for Legacy Bonds - UK 'tough legacy' proposals

Some Legacy Bonds may fall into a 'tough legacy' bucket (i.e. cannot remove their reliance on LIBOR ahead of its anticipated discontinuation):

- A 'Tough Legacy Task Force' in the UK recommended that the UK Government consider legislation in May
- In June, the UK Government said that it would propose an amendment to the UK's benchmark legislation to strengthen the FCA's powers
- The FCA would be empowered to direct LIBOR's administrator to change the methodology for LIBOR in certain circumstances (so-called "synthetic LIBOR")
- Some details still to be worked through, including scope of the powers, what "synthetic LIBOR" will be, and how long "synthetic LIBOR" will continue to exist
- There is no guarantee that the FCA can or will exercise these powers, or that they will suit all Legacy Bonds. So the FCA and Bank of England are urging parties to continue with "active transition" in order to retain control of the economic outcome

Options for Legacy Bonds - Possible US legislative proposal

In the US, where consent solicitation is more problematic, the ARRC has set out a proposal for possible NY state legislation for USD-LIBOR contracts:

- For contracts with *no fallbacks*, ARRC-recommended SOFR fallback rate + spread adjustment would apply
- For contracts which *fall back to a LIBOR-based rate*, ARRC-recommended SOFR fallback rate + spread adjustment would apply
- For contracts where *an agent has discretion to choose the new benchmark rate*, the agent would have protection under a "safe harbour" if the ARRC-recommended SOFR fallback rate + spread adjustment is chosen
- Counterparties making conforming changes to documentation to accommodate the transition would also benefit from the safe harbour
- Parties would be able to mutually opt out
- It is not yet clear whether or when this will be enacted in NY law and how this would interact in practice with the UK 'tough legacy' proposals and EU proposals

Options for Legacy Bonds - EU Benchmark Regulation proposals

The European Commission has proposed amendments to the EU Benchmark Regulation to address the phasing out of benchmark rates:

- The proposal will empower the European Commission to designate a *statutory replacement rate* (taking account of relevant industry working group recommendations) to ensure that when a widely used reference rate (such as LIBOR) is phased out, it does not cause disruption to the economy or harm financial stability in the EU
- The statutory replacement rate will apply as a matter of law, thereby avoiding contractual conflicts
- The statutory replacement rate will only be available for financial contracts that reference the benchmark at the time this benchmark ceases to be published
- At the same time, market participants are encouraged to agree on a permanent replacement rate for all new contracts whenever feasible
- The European Commission is currently inviting feedback on the proposal until 6 October, after which more clarity should emerge on its scope and interaction with the US and UK proposals

Other options for Legacy Bonds

Other options for Legacy Bonds include:

- Buy-backs, exchange offers or other liability management exercises
- Allowing existing fallbacks to operate without amendment (as a result of which, many FRNs will become fixed rate unless the FCA is given, and exercises, powers to amend LIBOR methodology, as outlined above)

IBOR TRANSITION - LOANS

ANDREW HUTCHINS – CLIFFORD CHANCE

18 SEPTEMBER 2020

DEVELOPMENTS IN ASIA LARGELY GUIDED BY DEVELOPMENTS IN THE US, UK AND EUROPE

"CLARITY ON THE EXACT TIMING AND NATURE OF THE LIBOR STOP IS STILL TO COME, BUT THE REGULATOR OF LIBOR HAS SAID THAT IT IS A MATTER OF HOW LIBOR WILL END RATHER THAN IF IT WILL END, AND IT IS HARD TO SEE HOW ONE COULD BE CLEARER THAN THAT."

– RANDAL QUARLES
VICE CHAIR FOR SUPERVISION, THE FED

Key transitional challenges faced across Asia:

– Market adoption of ARRs:
  - "Low" awareness of LIBOR discontinuation and acceptance of ARRs
  - Market players tend to follow global standards and adopt a "wait and see" approach
  - Different ARRs will likely require different margins, which makes transition across Asia difficult due to variety of currencies

– Calculation methodology for RFRs**:**
  - High exposure of local banks to LIBOR

– Legal issues (including legacy contracts):
  - Lack of consistent amendment protocols across loan and bond markets
  - Uncertainty as to determination of substitution rates

DON’T RELY SOLELY ON A LEGISLATIVE OR INDUSTRY SOLUTION

Avoid these common misconceptions:

DON’T ASSUME THAT:

1. **IBORs will be extended by regulatory fiat:** The FCA has said that perhaps a “zombie” LIBOR could be extended for legacy contracts that are unable to be amended (but not for new business).

2. **Industry working groups will provide a solution in time**: All market participants are hoping for recommendations from the industry working groups. But financial institutions need to plan their own strategy, in case the solutions don’t materialise in time. Banks may also need to bilaterally vary individual contracts.

DON’T RELY SOLELY ON A LEGISLATIVE OR INDUSTRY SOLUTION

Avoid these common misconceptions:

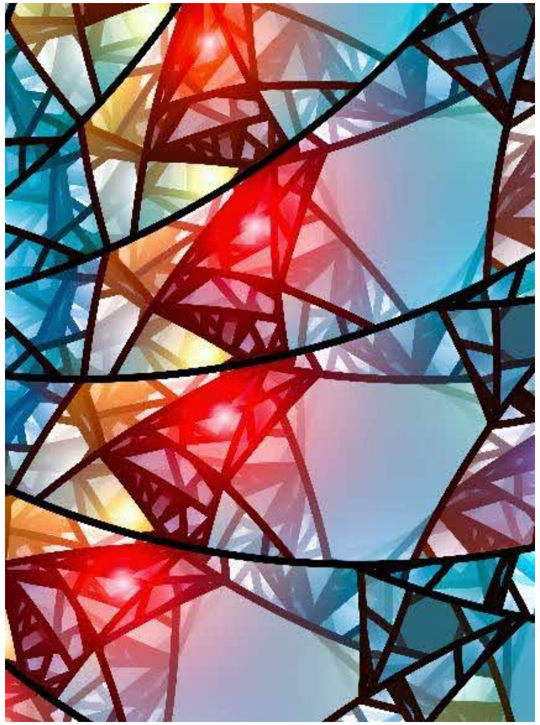
DON’T ASSUME THAT:

3. **The solutions for different products or across jurisdictions will align**: The method of amendment depends on the product in question. Counterparties may have different, related products which presently utilise the same IBOR rate. Or multicurrency products. Aligning the replacement rates across product, across currency, may be a challenge and give rise to exposures for banks and/or its counterparties (e.g. basis risk).

4. **You can postpone any decision making**: Regulators are focused on banks’ exposures and scenario planning. Operational processes (whether involving people or systems) take time to change and embed. Repapering exercises are likely to be large in scale and scope. We recommend action now, and the potential use of technology and third parties to assist.

MARKET DEVELOPMENTS

LMA / APLMA EXPOSURE DRAFTS (INCLUDING NEW RATE SWITCH (WITHOUT OBSERVATIONAL SHIFT) RCF)



- Transactions in the market based on LMA/APLMA recommended forms but – not Recommended Forms
- Why?
  - Move to RFRs requires creation and structuring of a new lending product
  - RFR a backward looking calculation of intertest rather than forward looking IBOR
  - Forward looking term rates being developed but may not be available or used as a market standard in time for all currencies
  - RFR more robust as determined on the basis of actual transactions
  - Structuring issues for the market, not the LMA/APLMA
- Purpose?
  - Facilitate consideration of issues
  - Framework for documenting RFR deals.
- Issues identified in the CC/LMA/APLMA Commentary
  - Lag Period (VS observational shift approach)
  - Adjustment Spread
  - Compounding / non-Business Days / rounding
  - Fallbacks
  - Break Costs
  - Market Disruption
- Some issues are commercial for borrowers to consider as a priority and some issues will be more market led

LOANS

LEGACY CONTRACTS

Contractual fallbacks

- Legislative approach
- Divergence of contractual approaches that use a waterfall of fallbacks?
- Use of "Hard Wiring" approach – ARRC approach to fallbacks
- Amendment approach – LMA / APLMA approach to fallbacks
- Consider what are the triggers for a change to occur
- If agreement needed then who needs to agree?
  - LMA Screen Rate Replacement clause – recommended form includes a provision to allow amendments to be made with a lower consent threshold (majority lenders only)
  - Timeline for amendments to be agreed

Timing of amendments

- Multicurrency facilities - coordination across currencies
- Synchronization with any related hedging.
- Operational capabilities. Majority v all lender?
- LMA revised "Replacement of Screen Rate" language aims to build in greater flexibility
- Spread adjustment - possibility of value transfer

Market precedents

- RFR-referencing transactions
  - Bilateral SORA loans
  - Bilateral SOFR loans
  - SONIA facilities in the asset-backed loan market
  - SONIA-referenced alternatives to LIBOR loans
  - USD10b facility for Royal Dutch Shell, one of the first and largest credit facilities linked to SOFR
- Transactions with reference rate change language
  - UK market precedents which are initially written off LIBOR with a "switch" mechanic allowing the transactions to move to risk free rates – GBP 6b facility for British American Tobacco

NEXT STEPS: IBOR TRANSITION

WE RECOMMEND THAT:

SHORT TERM

Scoping the issue:

- Identify affected products across legacy and new business, per region
- Assess relative volumes and prioritise affected products
- Establish an internal working group covering all relevant products and jurisdictions and assign stakeholder responsibilities
- Prepare institution-wide roadmap and initial strategy covering key milestones across products and jurisdictions

Due diligence to identify:

- IBOR references in contracts/ToBs enduring beyond scheduled replacement date(s)
- Existing fallbacks and triggers
- Consent levels for amendments
- Interdependencies between products
- Third party involvement (facility agent, calculation agent, IA)

Risk management:

- Identify the potential areas of regulatory, litigation and reputational risk per product per region. Ensure senior managers are aware of such risks
- Prepare standardised disclaimer wording for new IBOR-based products and consider how and when it will be communicated
- Scope any IBOR-based products that can be phased out in the near-term
- Consider new agency role requests on a case by case basis and the scope of any contractual protections
- Consider practical and legal issues associated with fallback provisions

Internal Education:

- Train your colleagues on the transition and the potential areas of risk and ensure they are kept up-to-date
- Train your colleagues on how to communicate with clients in relation to both new and existing products

NEXT STEPS: IBOR TRANSITION

WE RECOMMEND THAT: (CONTINUED)

SHORT TERM (continued)

External communication:

- Establish a clear, transparent and consistent communications strategy for customers, regulators and investors
- Establish record keeping processes as well as processes for addressing customer disagreement. Implement an escalation process so that issues are identified at an early stage

Working groups and trade associations:

- Continue engagement with working groups and trade associations
- Ensure your participants are provided with "rules of the road"
- Monitor developments and assess the impact on your strategy

MEDIUM TO LONG TERM

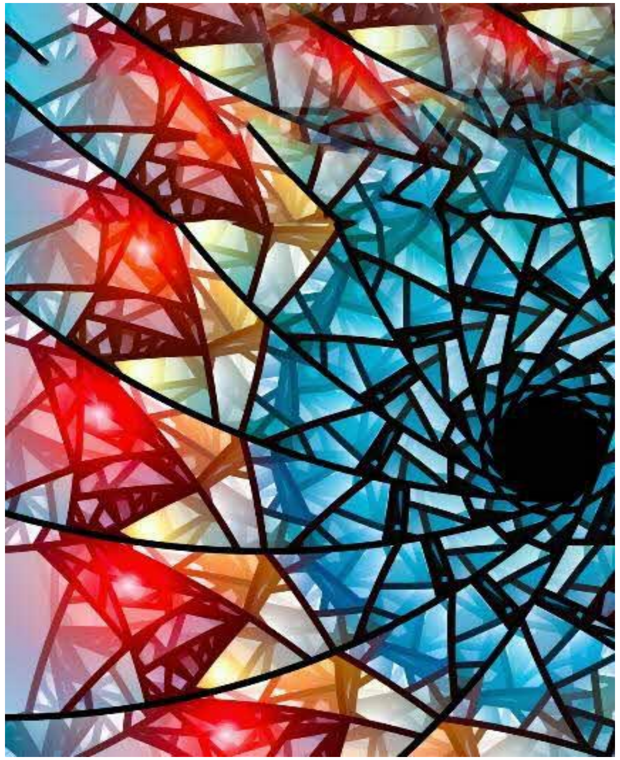
Implementation – new contracts:

- Revise template documents for new business
- Work with software providers on updating systems
- Determine timing and communication strategy for new product terms

Implementation – repapering legacy products:

- Determine preferred implementation strategy – amendment, replacement, redemption, do nothing?
- Develop protocol-style process for volume loan book.

CONCLUSIONS



- Engagement now with borrowers essential
- Solutions to be informed by extensive due diligence exercises that lenders will need to undertake
- Legacy contracts remain challenging, even if consensus as to fallbacks and amendments is found
- Governance and reputational risks need to be anticipated now in order to be mitigated effectively
- Begin engaging technology, dedicated internal staff and external third parties to assist with this process.

KEY CONTACTS

SINGAPORE

ANDREW HUTCHINS
Partner

T +65 6661 2060
M +65 9118 9938
E andrew.hutchins@cliffordchance.com

C L I F F O R D
C H A N C E

Clifford Chance Pte Ltd, 12 Marina Boulevard, 25th Floor Tower 3,
Marina Bay Financial Centre, Singapore 018982

WWW.CLIFFORDCHANCE.COM

asifma

Growing Asia's Markets

IBOR Transition Series:
A Local Market Perspective

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host Financial Markets Association Malaysia

Lead Sponsor EY Building a better working world

Gold Sponsor REFINITIV™

Endorser ICMA International Capital Market Association

IBOR Transition
Data and Infrastructure Viewpoint

Edmund Lee
OTC Data Strategy Manager, Asia Pacific
Bloomberg L.P.

LIBOR Transition

Data and Infrastructure Viewpoint

Edmund Lee
Data Strategy
Asia Pacific, Bloomberg L.P.
echlee@bloomberg.net

18th September, 2020

ARRC Recommended Timeline and Milestones

Alternative Reference Rates Committee

Best Practices for Completing Transition from LIBOR (Continued)

ARRC
ALTERNATIVE REFERENCE RATES COMMITTEE

Best Practices

Institutions should take active steps to meet the timelines set out in the recommended transition milestones.

Institutions should have clear internal programs in place to prepare for a transition away from USD LIBOR, including a rigorous assessment of exposures. They should refer to the ARRC's Practical Implementation Checklist for SOFR Adoption (Checklist) for more detailed guidance and background.

Institutions should be aware of additional ARRC recommendations and should incorporate additional ARRC recommended conventions into new contracts. Institutions should have ongoing dialogue with their key stakeholders to promote awareness of the transition and their preparedness for it.

Recommended Transition Milestones

Product	Hardwired fallbacks incorporated by	Tech / Ops Vendor Readiness	Target for Cessation of New use of USD LIBOR	Anticipated fallback rates to be chosen by
Floating Rate Notes	• 6/30/2020	• 6/30/2020	• 12/31/2020	• 6 months prior to reset after LIBOR's end
Business Loans	• 9/30/2020	• 9/30/2020	• 6/30/2021	• 6 months prior to reset after LIBOR's end
Consumer Loans	• Mortgages: 6/30/2020 • Student Loans: 9/30/2020	• Mortgages: 9/30/2020	• Mortgages: 9/30/2020*	• In accordance with relevant consumer regulations
Securitizations	• 6/30/2020	• 12/31/2020	• CLOs: 9/30/2021 • Other: 6/30/2021	• 6 months prior to reset after LIBOR's end
Derivatives	• Not later than 4 months after the Amendments to ISDA 2006 Definitions are published	• Dealers to take steps to provide liquid SOFR derivatives markets to clients	• 6/30/2021	

*The September 30, 2020 date for consumer loans refers to new applications for closed-end residential mortgages using USD LIBOR and maturing after 2021.

Key Dates and Action Timeline

Proactive preparation action to align with milestones

Key Dates	
Q2-Q3 2020	**ISDA to publish final parameters for benchmark fallback adjustments for derivatives**
October 2020	CCPs switch discounting for USD denominated interest rate swaps from Fed Funds to SOFR
Q2 2021	Market participants should cease issuance of cash products linked to Sterling LIBOR as per Sterling Risk-Free Reference Rates

Action to align timelines:

- Dedicated resources to address transition
- Inventory of exposures, understand economic and operational impact
- Start transition in product activity where there is sufficient liquidity (GBP, ESTR derivatives)
- Internal and external communications. Awareness-raising, start engagement with working groups and industry bodies as well as clients

Bloomberg

Planning for Transition

- Benchmark transition impact various work streams simultaneously.
- LIBOR is used as an input into various calculations, systems, and models for operations and administration across all firms.

1. Business and Front Office

Bloomberg support:
- Position/product inventory
- New curve construction & risk management change
- Repapering legacy contracts

Other considerations:
- Identify business lines in scope
- Economic sensitivities
- Client outreach and communications

2. Operations

Bloomberg support:
- Collateralization/ management
- PAI
- Settlement/ cash flow
- Confirmations

3. Contracts

Bloomberg support:
- Identification of all contracts
- Fall-back provisions

Other considerations:
- Renegotiating/ rewriting legacy contracts
- Legal consent & legal/ statutory obligations
- Standard documentation (e.g. ISDA and FIA)

4. Compliance

Bloomberg support:
- Different regulatory requirements/ treatment of RFRs across jurisdictions

Other considerations:
- Regulatory tracking and impact

Impact Assessment – Where to Begin

- Valuation, risk and pricing models will need to be updated.
- Challenges arise as market participants mobilize to identify technology gaps with handling new data sets, analytics, valuation models. And it's impact on existing house system.

5. Treasury

Bloomberg support:

- ALM Internal funding
- Changes to issuance and hedging programs
- Transfer pricing implications

6. Valuations and Market Risk

Bloomberg support:

- Valuation impacts (e.g. term structure curves/ market value/ secured vs unsecured)
- Risk management (hedging)
- Models' review & market risk sensitives
- Price testing

Other considerations:

- Assurance & QA of risk systems

7. Accounting and Finance

Bloomberg support:

- Hedge accounting/ effectiveness
- Forecast transactions
- Impact on discounting

Other considerations:

- Differences in tax treatment/ payments due
- Modification accounting

8. IT and Infrastructure

Bloomberg support:

- Adjusting relevant support systems (e.g. trade capture, payment systems & inter-company funding arrangements)

Other considerations:

- Technology enhancements
- Infrastructure impact mapping

Data and Infrastructure - Quantify Valuation Impact in Libor Transition

Preparation required across all asset classes: cash, derivatives, and loans

Data

ISDA

- ISDA Rule Book & Technical notes

Fallback

- ISDA-BISL
- Fallback, Spread Adjustments and Adjusted Rates

Fallback Language

- Daily refreshed fallback language Data for 154,000 cash securities
- Loans

Data

- Reference Data
- RFR Benchmark Data
- RFR Interest Rate Curves
- Where is LIBOR used

Infrastructure

Risk Systems

- CCP PAI from Fed Funds to SOFR (Oct 2020)
- Migration of Bilateral CSA
- LIBOR Transition analysis
- Derivative Structuring

New Calculations

- RFR Loans Calculator

Country Updates

- Risk Free Rate Solutions

Analytics

- Derivative Structuring of RFR Instruments

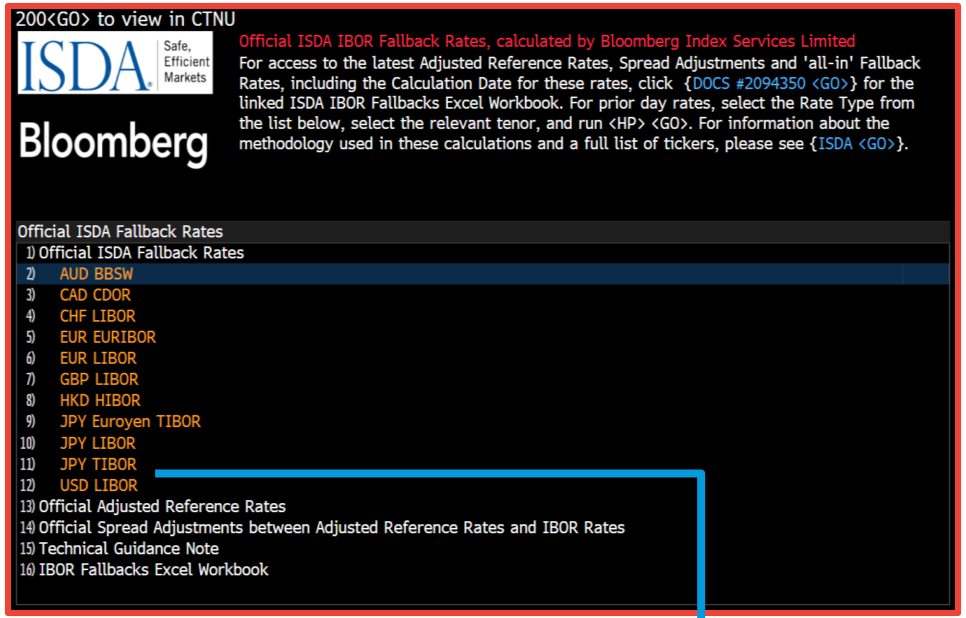
Electronic Trading

- Electronic Execution for RFR Derivatives

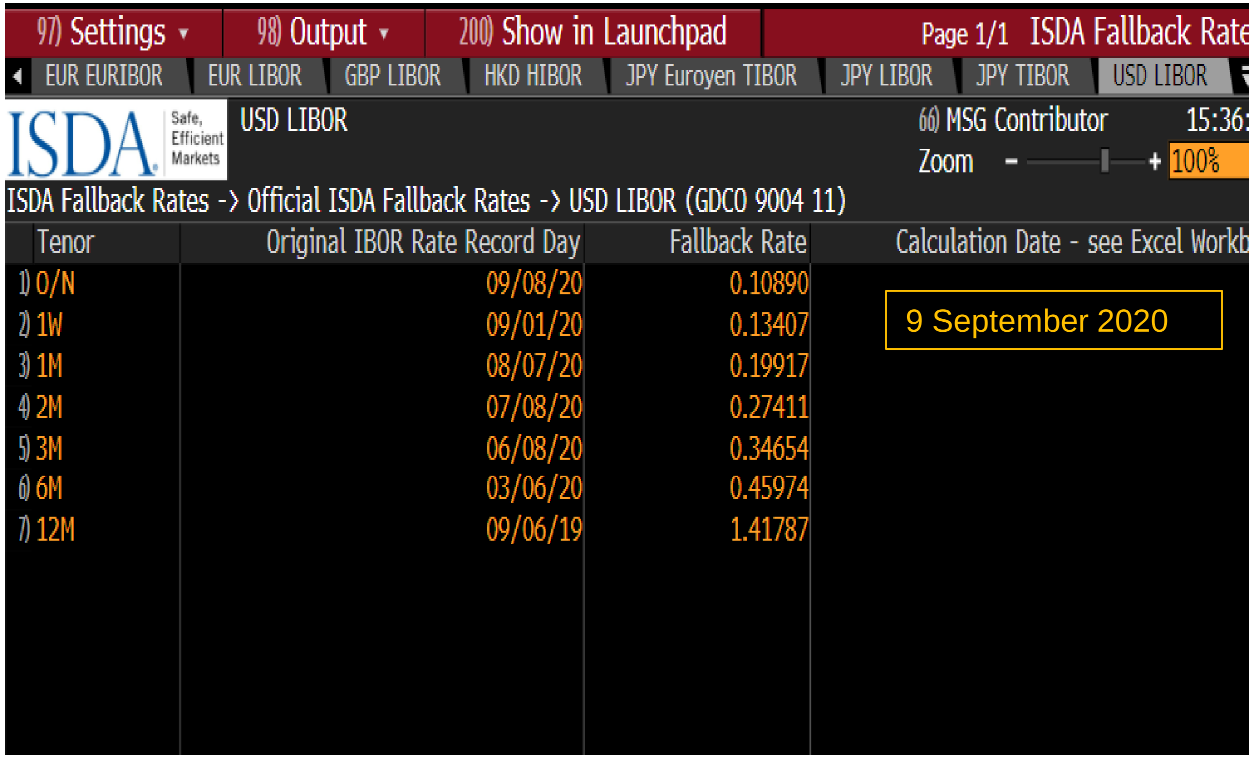
RFR Adoption

- FRN Issuance
- Loans Issuance
- RFR OTC Traded

Available Today: ISDA Fallback Data



- Official ISDA IBOR Fallback Rates, calculated by Bloomberg Index Services Limited. Visit FBAK<GO> or https://www.bloomberg.com/professional/solution/libor-transition/



- Standardized fallback language developed by ISDA for derivatives contracts is a positive step, offering the industry certainty.

Bloomberg

Identify Overall Requirements for Derivatives Transition

Data-sets specific questions

- What new data sets are required as we transition to the new RFRs?
- How will RFR data evolve as liquidity shifts?
- Will term rates be available and what if not?

Assess data in systems readiness by testing the following:

- Updated analytical models and scenario analysis across enterprise systems
- For trades referencing the new RFRs: capture all necessary attributes related to the new RFRs (e.g. compounding conventions, index lag / lockout) and ensuring all pricing, risk and valuation models work correctly.
- Front Office, Finance, Risk, Operations and Admin.

Identify Overall Requirements for Cash Transition

Data-sets specific questions

- How and where to locate information on fallback provisions for cash products?

Assess readiness by considering

- For legacy Libor trades: automate the identification of existing fallback language provisions written in cash securities, and determine the practicality of such fallbacks.

- Market participants should identify susceptible fallback provisions as they will likely change in the future. They should also proactively monitor fallback languages incorporated in similar bond issuance for references.

Summary: Benchmark Transition

1. Data
- Fallback data for derivatives & cash fallback language
- New RFR curve and term rates?
- Accuracy, compliance of data used in models and compliance
- Implement, test and production

2. Infrastructure. Inventory & Systems
- Cessation scenarios and impact analysis
- Handle multi curve regime and RFR compound factors, coupons and calculations
- PAI and CSA repapering
- Transition implementation planning

3. Communication
- Strategy based on assessment of legal and operational options
- Client communication and disclosures
- Continuous engagement with clients on risk, plans, preferences
- Industry discussions and client participation

Bloomberg

Bloomberg

Thank You

IBOR Transition Series:
A Local Market Perspective

asifma
Growing Asia's Markets

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host
Financial Markets Association Malaysia

Lead Sponsor
EY Building a better working world

Gold Sponsor
REFINITIV

Endorser
ICMA International Capital Market Association

Banking Panel on Implementation Issues:

Kevin Yam
Managing Director
Deutsche Bank

Jacob Abraham
Chief Risk Officer,
Group Global Banking
Maybank

Tiak-Peow Phua
Executive Director,
Libor Transition, Conduct,
Financial Crime and Compliance
Standard Chartered

Kevin Yam
Managing Director
Deutsche Bank

asifma
Growing Asia's Markets

IBOR Transition Series:
A Local Market Perspective

MALAYSIA IBOR TRANSITION

(in collaboration with Malaysia Financial Markets Association)

Co-host — Financial Markets Association Malaysia

Lead Sponsor — EY Building a better working world

Gold Sponsor — REFINITIV

Endorser — ICMA International Capital Market Association

Local Accounting Issues: Fair Value, Value Transfer, Hedge Accounting and Modifications:

Damien Jones
Partner, Financial Services
EY

Hooi Lam Chan
Partner, Malaysia and
ASEAN Financial Services Assurance Leader
EY

IBOR reform – Malaysia perspective

Financial reporting and related impacts

The better the question. The better the answer.
The better the world works.

EY
Building a better working world

IBOR transition key areas/impacts

- Accounting, financial reporting and tax
- Legal provisions, contract amendments and Shariah compliance
- Customers and reputation
- Valuation, models, systems, processes and governance

Valuation considerations

Discounting

1. Cleared, collateralised derivatives

- For collateralised swaps CCPs moved EONIA to €STR discounting/PAI on 27 July 2020 and EFFR to SOFR scheduled change to discounting/PAI on 17 October 2020
- CCPs have set out methodology for discount curve construction
- For direct market participants - Is internal curve constructed in same way? (EOD, data inputs, bootstrapping methodology)

2. Uncleared, collateralised derivatives

- Required bilateral changes. Likely banks will want to align pricing of cleared and uncleared collateralised derivatives
- Any change will require outreach and updating of the pricing of collateral arrangements in CSAs
- Timing decision to be made

3. Uncleared, uncollateralised derivatives

- No immediate requirement to change discount curve
- FV Methodology uses relevant LIBOR discount curves
- Will need to change by LIBOR cessation date
- Needs to observe market pricing, possible methodology will change ahead of cessation date
- Pricing impact may be offset by FVA changes

Fallbacks and valuation

1. Cleared, collateralised derivatives

- CCPs expected to mandate change in fallbacks to ISDA methodology following ISDA announcement
- Methodology change unilateral applied through changes to CCP rule books

2. and 3. Uncleared derivatives

- Decision required across industry on use of ISDA fallbacks or use of alternative fallback options
- ISDA announcement expected in September 2020 with 3-4 month adherence period before effective date

All derivatives

- Transactions captured under the revised ISDA fallbacks are required to apply the fixed spread adjustment where a pre-cessation event (as defined in the methodology) occurs. Should this occur ahead of expected cessation date (i.e. in late 2020 or early 2021), firms will be required to examine valuation impact at the point of the pre-cessation announcement. May result in complex valuation across multiple forward curves (LIBOR and RFR) within a single instrument, reflecting known certainty associated with LIBOR discontinuance.

Valuation considerations

Topic	Considerations
Liquidity spreads in MTM	▸ Potential liquidity pricing adjustments for legacy LIBOR trades as we approach transition point in each currency ▸ Shifting liquidity in basis swaps could impact B/O spreads across related products
Fair Value Hierarchy	▸ FV Hierarchy levels for certain products may shift to L2/3 as we approach transition point in each currency. Certain products may be impacted where quicker cross-over of liquidity to RFRs observed in market ▸ AASB 7 disclosure impact within FV Hierarchy table in annual financial statements
Fair Value of non-linear swaps	▸ Back-book valuation issues associated with pay-off profiles of >2021 non-linear RFR products ▸ Deep-dive on exotic products required
Value-transfer	▸ At point of LIBOR cessation (or earlier renegotiation point), likely value-transfer from back-book migration to RFR. Requires analysis by product and fallback provision: • ISDA fall-back methodology • Alternative fallback agreed (i.e. cash market with a term rate) • Case-by-case bilateral negotiation ▸ Data feeds and model required to perform analysis of options and fair value consequences
Value of basis	▸ Changing XCCY pairs and liquidity in CCIRS market could have a valuation impact on existing CCIRS and currency basis pricing ▸ New forms of basis (i.e. secured v unsecured RFR in a CCIRS) created and will need to be priced appropriately
CVA and FVA	▸ Change in base rate and discounting curves likely to have a consequential impact on CVA/FVA models ▸ FVA models already under review – timing of changes associated with LIBOR need to be fed into Banks' FVA & market Risk projects ▸ CVA: Use of new IR scenarios for PFE simulations and consideration of impact from increased use of OIS/RFR discounting ▸ FVA: Changes to funding spreads above RFR will require examination of FVA model ▸ Consider interactions between FVA model and FTP output
Impact of convention differences on valuation	▸ Potential for term-RFRs and O/N rate products to price and value differently. Potential for valuation mismatches between cash and derivative products ▸ Conventions still evolving – anticipate range of convention options when planning systems/model changes. ▸ Convexity issues to manage from different look-back features
Curve construction	▸ Expect continual evolution of SOFR curve as liquidity builds in derivatives markets used to construct curve. ▸ Today, long-end of curve constructed using LIBOR-EFFR and LIBOR-SOFR, EFFR-SOFR basis swaps – basis market will change will increased trading and cessation of LIBOR

IASB IBOR Project Update

The Board identified two groups of accounting issues:

Phase I *Pre-replacement issues*

- Issues affecting financial reporting before the replacement of an existing benchmark with RFR.

Completed

- On 26 September 2019 the International Accounting Standards Board (IASB or the Board) published Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7 (the amendments).
- This brought to a conclusion Phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.
- Effective date of annual periods beginning on or after 1 January 2020 with earlier application permitted.
- The amendments are mandatory

Phase II *Replacement issues*

- Issues that might affect financial reporting when an existing benchmark is replaced with RFR.

Completed

- In August 2020, the IASB issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Leases.
- Completed the Board's work on IBOR Reform
- Effective date of annual periods beginning on or after 1 January 2021 with earlier application permitted.
- The amendments are mandatory.

IASB IBOR Project Update

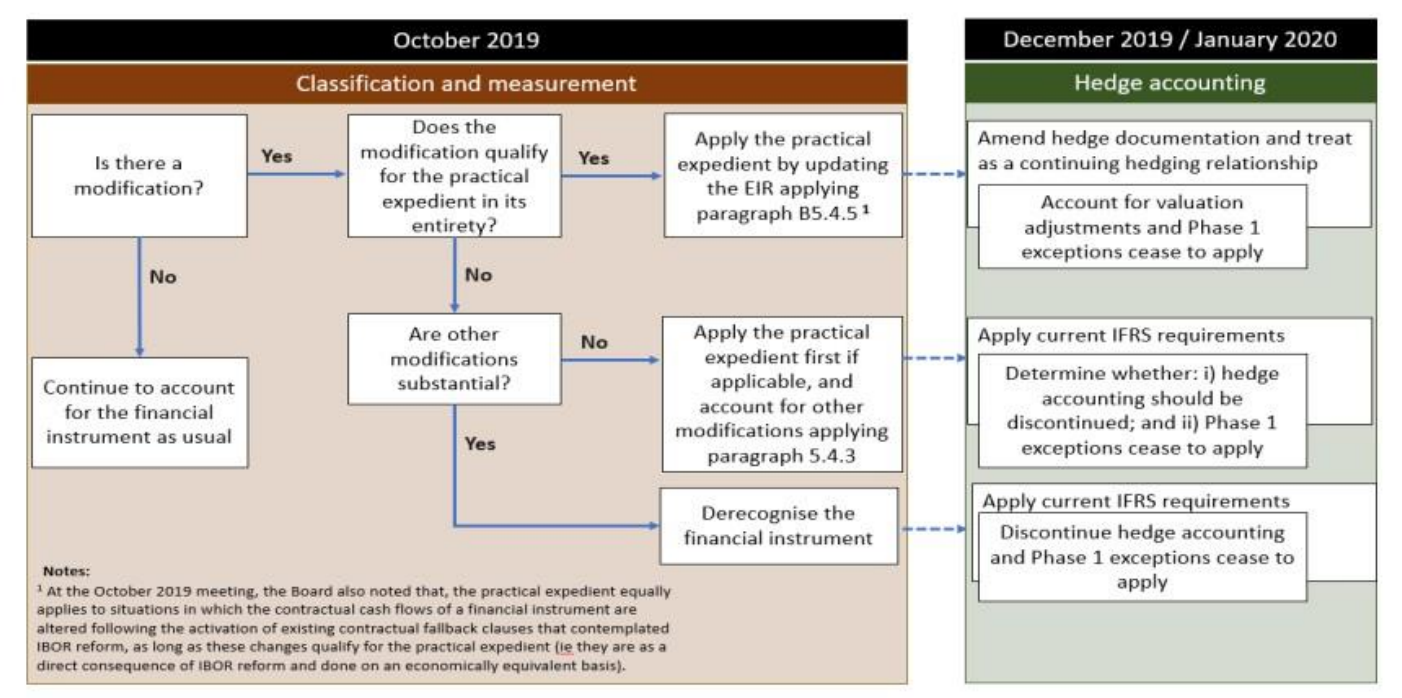
Hedging Principles in Phase 2

For transaction modifications that are directly required by IBOR reform, IFRS 9 and IAS 39 amended to allow changes to be made to hedge documentation without resulting in the discontinuation of hedge accounting, including:

- Redefining the hedged risk to make reference to an RFR
- Redefining the description of the hedging instruments and / or the hedged items to reflect the RFR

- Other items cover include the treatment of valuation adjustments due to modifications, Groups and risk component hedging

- Some issues to work through around other modifications and possible derecognition



Expected client discussions on legacy transactions

Options for Legacy Contracts:

Legacy LIBOR transactions

Close-out /terminate transaction ahead of transition

- Potential economic event and accounting entries for derecognition to manage

Renegotiate to immediate use of RFR (ahead of cessation)

- Modification rules to analyse for re-negotiations
- Consider immediate impact on hedge accounting (Cash and derivatives aligned)

Agree robust RFR fallback as part of Market Protocol or bilateral negotiations prior to cessation date to apply to CFs at cessation.

- For derivatives: Amendments to 2006 ISDA Definitions and related protocol supports inclusion of robust fallbacks
- Alternative fallbacks can be bilaterally agreed
- When do modification rules apply?
- Possible value transfer between adjusted RFR and LIBOR at cessation

No agreement – utilise existing fallbacks (where usable)

- Likely value transfer between existing fallback rate (COF, fixed historic rate etc) and LIBOR

No agreement – contract frustration / litigation from inability to use fallback

- Possible economic gain/(loss) through legal process

EY | Assurance | Tax | Transactions | Advisory

About EY
Replace this text with boilerplate copy, found on The Branding Zone, in the Signature, boilerplate and descriptor section. Lorem ipsum dolor sit amet, consectetuer adipiscing elit, sed diam nonummy nibh euismod tincidunt ut laoreet dolore magna aliquam erat volutpat. Ut wisi ad minim veniam, quis nostrud exercitation ullam corper suscipit lobortis nisl ut aliquip ex ea duncai consequat.

Financial Services

EYG00001-162Gbl - CHL

ED 0920

Please avoid printing and use softcopy

ey.com

Q&A

Thank you for attending!

We hope to see you at our next event:

ASIFMA Virtual Event: India IBOR Transition

(in collaboration with FIMMDA and IBA)

Tuesday, 22 September 2020

10:00AM – 12:45PM (IST) / 12:30PM – 3:15PM (HKT)

www.asifma.org/events

IBOR TRANSITION SERIES:
A LOCAL MARKET PERSPECTIVE

INDIA IBOR TRANSITION

(IN COLLABORATION WITH FIMMDA AND IBA)

TUESDAY, 22 SEPTEMBER 2020
10:00AM – 12:45PM (IST) / 12:30PM – 3:15PM (HKT)

Organizer:
asifma
Growing Asia's Markets


Dimple Bhandia
Reserve Bank of India


Rohit Mandhotra
Bloomberg L.P.


Saurabh Chhabra
Citi South Asia


Pranav Sharma
Cyril Amarchand Mangaldas


Utkarsh Sharma
Deutsche Bank, India


Rudra Narayan Kar
FBIL


D.V.S.S.V. Prasad
FIMMDA


Sunil Mehta
IBA


Mushtaq Kapasi
ICMA


Jing Gu
ISDA


Kuntal Sur
PWC India


Parul Mittal Sinha
Standard Chartered Bank


Mark Austen
ASIFMA


Rebecca Weinrauch
ASIFMA

www.asifma.org/events