



# LIBOR Transition - Impacts to Corporate Treasury

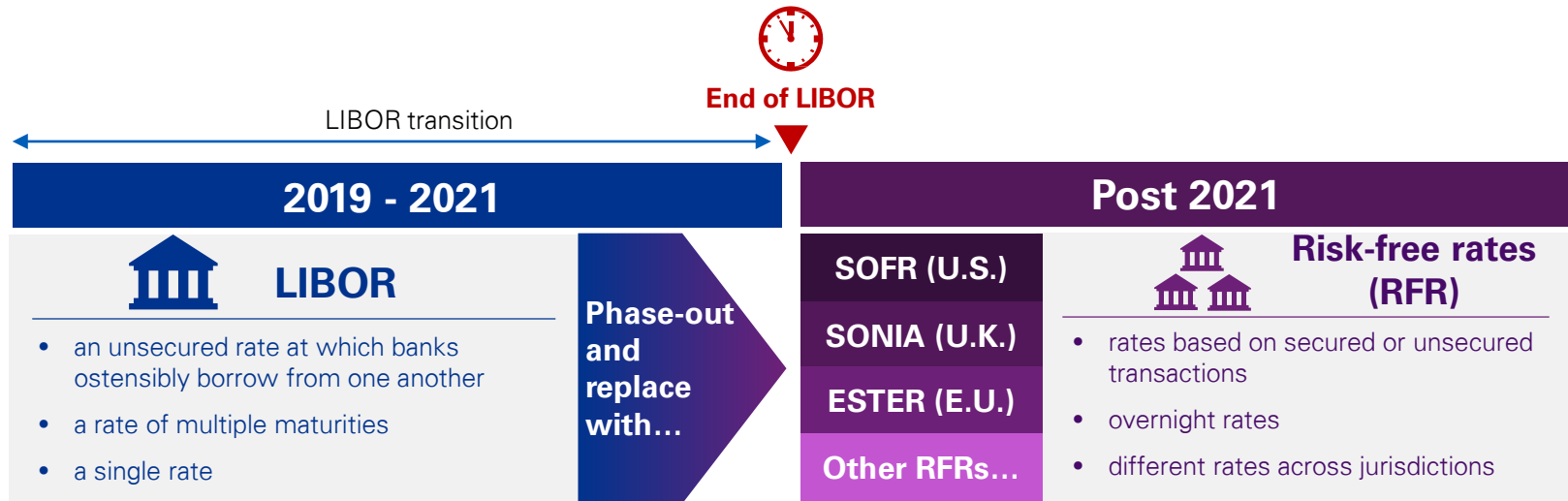
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# What is happening to LIBOR?

London Interbank Offered Rate (LIBOR) is a benchmark rate that some of the world’s leading banks charge each other for unsecured loans of varying tenors.

In 2017, Financial Conduct Authority stated that it will no longer compel banks to submit LIBOR data to the rate administrator post 2021 resulting in a clear impetus and need to implement alternative risk-free rates (RFR) benchmarks globally.



## How about HIBOR?



Unlike LIBOR, the HKMA currently has no plan to discontinue HIBOR. The Treasury Market Association (TMA) has proposed to adopt the HKD Overnight Index Average (HONIA) as RFR for a contingent fallback and will consult industry stakeholders later in 2019.

# How do I know who is impacted?








If your answer is **YES** to any of these questions, then you are very likely to be impacted by the LIBOR discontinuation.

# Why is it so important to you?



<sup>1</sup> Federal Reserve Bank Alternate Rates Reference Committee, Second Report, March 2018

**These instruments are likely to get impacted...**

- Loans 
- Commercial paper 
- Deposits 
- Derivatives 
- Bonds 



**It has a wide impact to corporations within a broad range of financial instruments. Corporations should start planning for LIBOR transition as soon as possible.**

# It has a wide impact to your corporation



## Accounting and Tax

- Impacts on fair value calculation according to IFRS 13
- Derecognition of hedge accounting under IAS 39 / IFRS 9
- Potential tax acceleration impacts



## Regulatory and Legal

- Contract amendments will lead to significant costs
- Difference in requirements of RFRs across jurisdictions



## Valuation and Curve Construction

- Impacts on pricing and valuation of financial instruments, including derivatives and non-derivatives contracts
- Adjustments needed for existing curve framework
- Challenge in curve construction led by insufficient liquidity of RFRs



## Risk Management

- Basis risk led by different RFRs, which will not be economically equivalent to LIBOR
- Pricing gaps and volatility arising from change in reference rates
- Operational risks resulting from differences between existing and new contracts and parallel pricing using LIBOR and RFRs
- New hedging and insurance plan and programs needed



## Operation and IT-Infrastructure

- Documentation, implementation and administration of the transition
- Systems, especially those for interest calculation, needed to be updated
- Different publication times and pricing across all RFRs needed to be incorporated in processes and systems.








## Liquidity

- Different fall back rates are only short term solutions and could increase liquidity risks
- Challenge in refinancing due to the facts that RFRs currently available are mostly overnight rates and are not sufficiently liquid
- Challenges through intercompany loans and agreements

# Global alternative rates for LIBOR?



There is no single global successor to LIBOR.

	US	UK	Europe	Switzerland	Japan
<b>Key Characteristics (RFR)</b>	Secured Overnight Financing Rate (SOFR)  Federal Reserve Bank of New York	Reformed Sterling Overnight Index Average (SONIA)  Bank of England	Euro Short-Term Rate (ESTER)  European Central Bank	Swiss Average Rate Overnight (SARON)  SIX Swiss Exchange	Tokyo Overnight Average Rate (TONAR)  Bank of Japan
Transaction reference	Repo transactions	Money market	Money market	Repo transactions	Money market
Collateralized	Secured	Unsecured	Unsecured	Secured	Unsecured
Term structure	Expect SOFR term structure in Dec. 2021	Expect SONIA term structure in Jun. 2019	On-going discussion	On-going discussion	On-going discussion
<b>Timelines</b>					
Working group	Alternative Reference Rate Committee (ARRC)	Working Group on Sterling Risk-Free Rates (WGSRRF)	Working Group on Euro Risk-Free Rates (WGERFR)	Working Group on Swiss Franc Reference Rates (WGSFR)	Study Group on Risk-Free Reference Rates (SGRFR)
Current status	ARRC consultation on fall back language for bilateral business loans issued in Dec'18	WGSRRF agreed to set up priority task forces for SONIA in Feb'19	The transitional period to ESTER has been proposed to be delayed by two years, i.e. set to be effective from Jan'22.	Methodology on term structure approach and recommendation on fall back language	Release of final report on JPY IBOR transition by cross-industry committee
Expected guidance	Results of ARRC consultation on fall back language	Agreement on fall back language and start on implementation	Daily publication of ESTER in Oct. 2019	Clarity on the compounded term rate approach in early 2019	SGRFR will hold a consultation on the transition to TONAR in 2019
Implementation date	Implementation date is not embedded in regulation	Panel banks will no longer publish LIBOR quotes as of end 2021	Proposed as Jan'22 (EU Benchmarking Regulation)	Implementation date is not embedded in regulation	Implementation date is not embedded in regulation

# ASPAC alternative rates for LIBOR?



There is no single global successor to LIBOR.

	<b>China</b>	<b>HK</b>	<b>Singapore</b>	<b>Australia</b>	<b>Indonesia</b>
<b>Reformed IBOR</b>	Reformed IBOR (SHIBOR)  National Interbank Funding Center	Reformed IBOR (HIBOR)  Treasury Market Association	Reformed IBOR (SIBOR)  Association of Banks in Singapore	Reformed IBOR (BBSW)  Australian Securities Exchange	Reformed IBOR (JIBOR)  Bank Sentral Republik Indonesia
IBOR	Reformed SHIBOR	HIBOR	Reformed SIBOR	Reformed BBSW	Reformed JIBOR
<b>Key Characteristics (reformed IBOR)</b>					
Transaction reference	Money market	Money market	Wholesale	Money market	Deposits
Collateralized	Unsecured	Unsecured	Unsecured	Unsecured	Unsecured
Term structure	Available	Available	Available	Available	Available
<b>Timelines</b>					
Current status	SHIBOR is reformed in 2013	HKMA intends to keep HIBOR	Reformed SIBOR consultation was finalized in 2018	Banks are allowed to use multiple rates	BSRI published IndONIA (alternative RFR) in Aug. 2018
Expected guidance	No public information available on plans for further SHIBOR reforms	Market consultation by TMA for HONIA as RFR in early 2019	Publication of SIBOR reformed methodology in Q2 2019	BBSW was reformed in 2018	Reformed JIBOR is expected to go through IOSCO process early 2019
Implementation date	Reformed SHIBOR is published since 2013	Reformed HIBOR is published since 2016	Reformed SIBOR publication starts in 2020	Reformed BBSW is published since May 2018	Reformed JIBOR publication starts in 2019

# How can KPMG support you?



## Impact Assessment

- Analysing the company-specific impacts based on the implications for following areas:
  - Accounting and Tax
  - Regulatory and Legal
  - Valuation and Curve Construction
  - Risk Management
  - Operation and IT-Infrastructure
  - Liquidity
- Identifying affected products and contracts



## Transition Planning

- Designing a detailed planning based on below:
  - Different identified financial instruments held by you
  - Implications for different functions in analysis performed
- Establishing firm-wide governance structure and status reporting cadence to manage the plan and status for transition across different areas, business lines and geographical locations of your corporation



## Communication Management

- Managing and participating in your discussions with various external parties, including:
  - Financial institutions, e.g. your banks and derivative dealers
  - System providers and vendors
  - Regulators and authorities



## Transition Implementation

- Providing support of the implementation across all relevant business lines and functions of the corporation
- Performing go-live readiness assessment and QA on contracts amendments





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