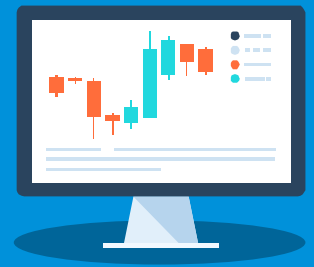


Evolving LIBOR

Managing the transition to new Risk Free Rates



LIBOR – what is changing?

Interbank offer rates ('IBORs') are systemically important benchmarks underpinning many contracts within the financial sector globally. There are estimated to be over \$370tn contracts currently referencing them from US retail mortgages to derivative contracts and corporate loans.

Following the OSSG recommendations in 2014 to move the industry towards new risk free interest rate reference rates ('RFR's') the industry has been developing proposed new reference rates. In 2017 the FCA's confirmed that it will no longer compel banks to submit data to LIBOR post 2021 resulting in a clear impetus and need to implement these alternative RFR benchmarks globally.

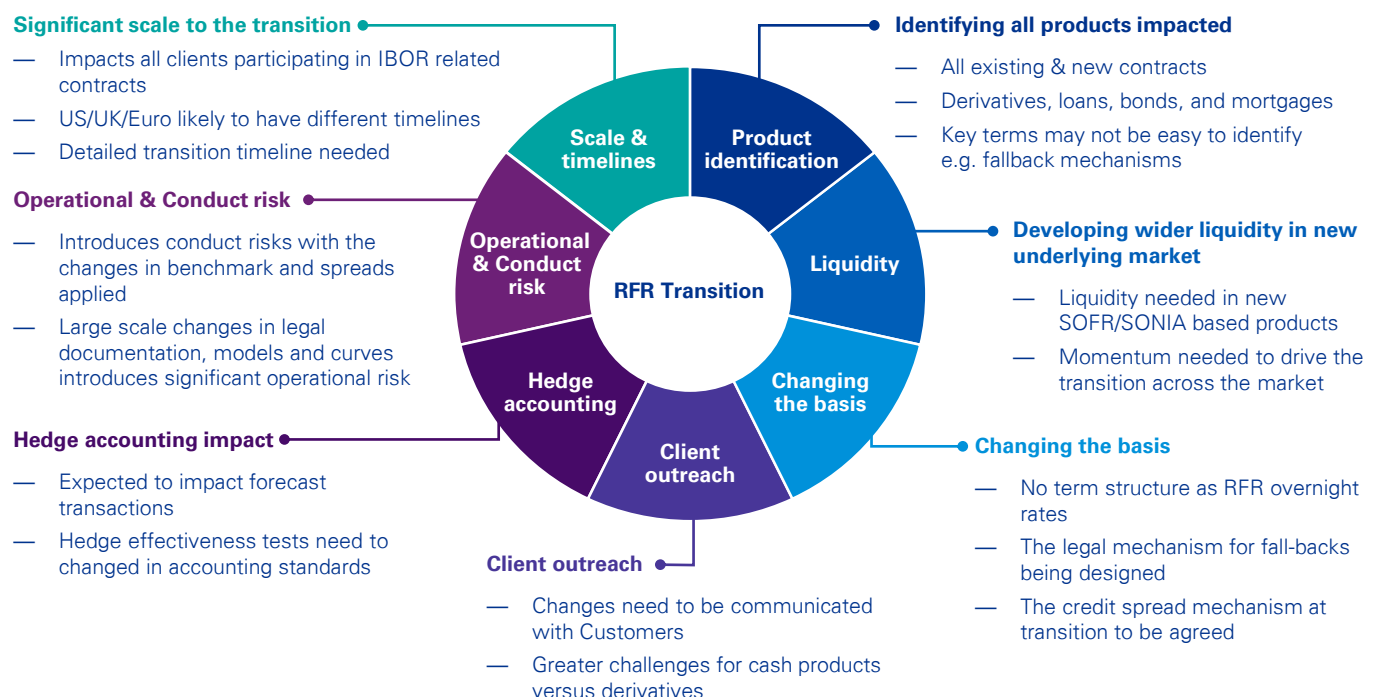


To date US, UK, Swiss and Japanese Working Groups ('WG') have developed SOFR, reformed SONIA, SARON and TONA. The EU WG is yet to finalise its RFR.



The RFR's have been designed to be based on transactions (where practical) with minimised reliance on expert judgement and are based on overnight rates.

What are the key challenges?



What do firms need to do?

Firms need to assess the impact of the transition across their products, clients and infrastructure. The impact on products will need to be considered from front to back across an organisation covering key functions: Sales & Trading, Operations, Risk & Valuations, Treasury, Legal and Compliance.

The differences in approach and timing across the US, UK and Europe will require a well coordinated programme of activities to ensure changes are joined up.

RFR Transformation Programme

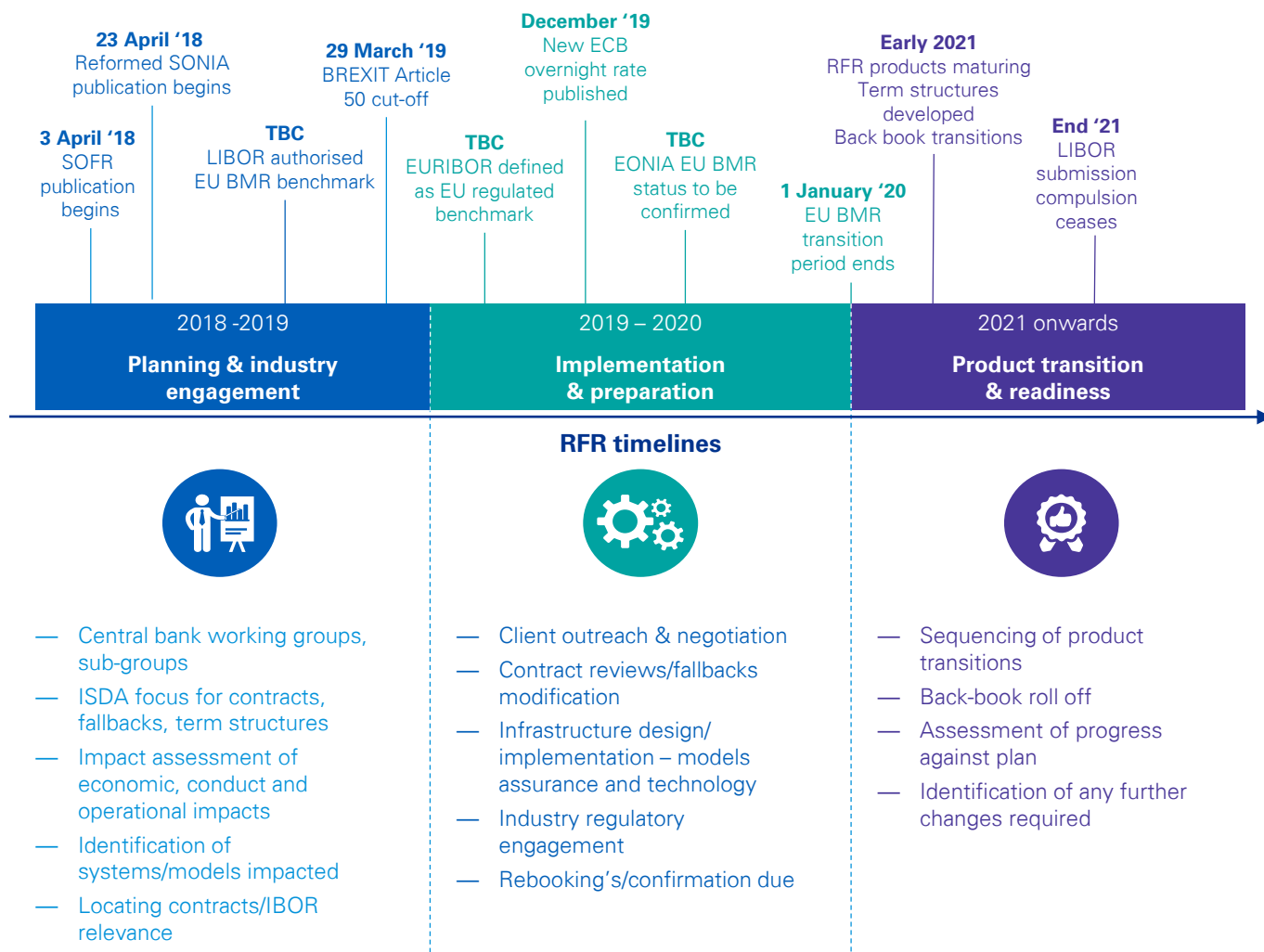
RFR Governance & Oversight

- Project management/governance control of all workstreams ensuring delivery of RFR transformation programme
- Wider impact assessment across the organisation → prioritisation
- Managing diverse timelines (Geography/Asset/Product Class)
- Manage external stakeholders e.g. regulators/customers



Developing a clear timeline?

There is a clear impetus to make the change up to 2021. Timelines are being developed, but there are going to be variations across jurisdictions.



Outstanding industry building blocks

| | |
|---|--|
| Clear & detailed industry timeline | A clear timeline and approach has not been defined for an industry transition. Need to bring in all regions, products and industry in line (big bang). |
| Regional approaches | There are clear differences by RFR region – US, UK, Europe, Japan, Switzerland taking slightly different approaches and are at slightly different stages of implementation |
| Liquidity | Organisations need to maintain and implement liquidity to used new RFRs e.g. industry created RFR products need hedging. |
| Education | Bring wider market participants, industry and end clients up to speed. |
| Technical issues (fallback, tenor & credit spread) | The new RFR's are overnight indices and currently have no term structure unlike IBOR's. Whilst term structures potentially rebuild for new products, a mechanism is needed to ease back book adoption. |
| Market infrastructure | The exchanges and clearing houses are starting to build out RFR products and services in certain jurisdictions. |

KPMG key contacts

KPMG in the UK (London)

**Karim Haji**

Partner, Head of Banking,
KPMG in the UK

karim.haji@kpmg.co.uk
+44 (0)20 7311 1718

**Paula Smith**

Partner, Capital Markets,
KPMG in the UK

paula.smith@kpmg.co.uk
+44 (0)20 7694 8235

**James Lewis**

Director, Risk & Compliance,
KPMG in the UK

james.lewis@kpmg.co.uk
+44 (0)20 7311 4028

**Colin Martin**

Partner, Accounting, Advisory,
KPMG in the UK

colin.martin@kpmg.co.uk
+44 (0)20 7311 5184

**Jeremy Wilson**

Senior Manager, Trading Risk,
KPMG in the UK

jeremy.wilson@kpmg.co.uk
+44 (0)20 7694 1862

**Kennedy Masterton-Smith**

Director, Regulatory Lawyer,
KPMG in the UK

kennedy.masterton-smith@kpmg.co.uk
+44 (0)20 7694 4504

KPMG in the US (New York)

**Chris Long**

Principal, Financial Services Advisory,
KPMG in the US

chrislong@kpmg.com
+1 (973) 912 4826

**Christopher Dias**

Principal, Financial Services Advisory,
KPMG in the US

cjdias@kpmg.com
+1 (212) 954 8625

**Turgay Mehmet**

Director, Financial Services Advisory,
KPMG in the US

tmehmet@kpmg.com
+1 (212) 909 5457

**Stefano Hartl**

Partner, Financial Risk Advisory,
KPMG in Germany

stefanohartl@kpmg.com
+49 89 9282 4982

**Heiko Carstens**

Partner, Financial Risk Advisory,
KPMG in Germany

hcarstens@kpmg.com
+49 89 9282 4715

**Jordi Oliver Hernandez-Nieto**

Partner, Financial Risk Advisory,
KPMG in Spain

jordioliver@kpmg.es
+34 932 532 969

kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. Create | CRT084497