



Contract remediation

LIBOR transition



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Broadening the lens

Broadening the lens, allowing for additional attention to the front book and the potential impacts brought on by the emergence of a dynamic credit spread adjustment (CSA) in the aftermath of the IBA Extension Consultation.

The extension of LIBOR's cessation date was aimed at supporting the remediation effort of legacy contracts by allowing for legacy LIBOR assets to either mature naturally or refinance over the additional 18 months. It is important that organizations do not stop current contract remediation efforts, but should continue and reassess LIBOR exposure post June 30, 2023.

A number of core activities need to take place to create a strategy and plan for contract remediation, including but not limited to consideration for the timing and consequences of contract conversion, accounting and tax implications, and continuity planning for client amendment rejections. The key contract remediation principles include: **Consider the Financials, Define the Policy, Equip the Business, and Manage the Process.**

Historically, contract remediation proved to be the largest body of work tied to the LIBOR transition given the benchmarks rooted in existing financial instrument framework. As such, firms had placed an increased focus on all activities required before kicking-off such an endeavor.

However, in light of the IBA Extension Consultation, this process is now increasingly important for the front book. It is uncertain when a market consensus on dynamic CSA will be reached or when term SOFR will become available, which may cause extended delays in SOFR market development. KPMG professionals suggest that there is also discussion amongst corporations, promoted by G-SIBs, to look into a hybrid SOFR option. Currently no third party platforms are providing this alternative, but some large G-SIBs may request to make this option available. Thus, adding another element of uncertainty to the front book. It is important that relationship managers to execution teams are provided with the training materials and resources to have conversations regarding front book impacts with clients.

Firms need to allow for additional attention to the front book and the potential impacts brought on by the emergence of a dynamic CSA in the aftermath of the IBA Extension Consultation.





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