

IBOR TRANSITION

ADDRESSING USD LIBOR AND JIBAR

1 ABOUT MONOCLE

Monocle is an independent, results-focused management consulting firm specialising in banking and insurance with two decades of experience working alongside industry leading financial institutions. With offices in London, Amsterdam, Cape Town and Johannesburg we service our clients across the United Kingdom, Europe, Scandinavia, Asia, South Africa and much of Sub – Saharan Africa.

While financial institutions (FIs) have made significant progress as we approach the LIBOR transition deadline at the end of this year, there is still work to be done, including the transition of the remaining USD LIBOR tenors, as well as the Johannesburg Interbank Average Rate (JIBAR) in the next few years.

With our extensive finance, risk and regulation expertise, coupled with a deep understanding of our clients' operations, we aim to assist our clients' IBOR transition teams to complete their transition programmes.

Download our [full insights paper](#) for detailed IBOR transitional considerations regarding USD LIBOR and JIBAR following the current LIBOR 2021 deadline and beyond.

2 CURRENT STATE

The Intercontinental Exchange Benchmark Administration and the UK's Financial Conduct Authority (FCA) have formally confirmed LIBOR will cease and no longer remain representative on 31 December 2021.

However certain USD LIBOR tenors will continue representation until 30 June 2023. Importantly, **USD LIBOR** is being replaced by the secured overnight financial rate (SOFR) – a broad Treasury repo financing rate.

In contrast, the South African Reserve Bank (SARB) has confirmed that **JIBAR** will cease at some point in the future but has yet to confirm the deadline, as well as the replacement risk-free rate.

With the statement of intent to transition in the future, banks' IBOR transition programmes need to avoid losing the momentum they have gained throughout 2021 and focus on how to manage the remaining transitional challenges.

IBOR SETTING	CURRENT CESSATION
Non-USD LIBOR – all tenors	31 December 2021
USD LIBOR – 1-week and 2-month tenors	31 December 2021
USD LIBOR – Overnight; 1-, 3-, 6-, 12-month tenors	30 June 2023
JIBAR – all tenors	To Be Confirmed by SARB

3 KEY USD LIBOR AND JIBAR TRANSITION CONSIDERATIONS

System and Process Implications

- ◆ Sourcing and integration of new rates and constructed curves into downstream systems and processes.
- ◆ Daily interest calculation updates for trade and loan booking systems that accommodate various compounding methods, the credit adjustment spreads, pricing and more.
- ◆ Accounting and reporting impact including IFRS 9 modifications and IFRS 7 disclosure.
- ◆ Invoicing and interest calculation process updates due to the 5-day lag methodology.
- ◆ Active monitoring of the risk free rate (RFR) industry to identify developments from regulators and the market that will impact FIs' transition efforts such as the use of a term RFR.

Exposure Analysis and Single View of Customer (SVoC)

- ◆ Identify and consolidate an IBOR exposure inventory across the various product subsets and booking systems to provide a single view of customer.
- ◆ A comprehensive IBOR exposure inventory along with SVoC will support client engagement including client related transition education, contract renegotiation and fallback language amendments.

New Contracts

- ◆ **USD LIBOR** – American regulators recommend any new contracts should make use of SOFR as soon as practically possible.
- ◆ **JIBAR** – Without an official RFR alternative, FIs should take an amendment approach to fallback language and make use of screen rate replacement event mechanisms.

4 MONOCLE'S APPROACH

Monocle has been actively involved across the banking functional value chain to help prepare FIs for IBOR transition changes. We have expertise across trade management, treasury, finance, front office risk and pricing, as well as system and data infrastructure and analysis. Our reference rate transition experience includes:

- ◆ Operational system design and build to enable the sourcing of RFRs, as well as the calculation of interest for trading and loan platforms through Monocle-built interest models (SQL)
- ◆ Legal contract analysis focused on flagging fallback rate clauses.
- ◆ Developing a single view of customer capability to provide effective contract negotiations by identifying any and all relevant contracts ahead of time
- ◆ Data analysis of all loan and derivative securities to facilitate exposure analysis reporting, transition progress reporting, as well as ad hoc regulatory reporting (IBOR transition SARB report)
- ◆ Advisory services around rate reset dates, interest methodologies, and other transitional process and data issues

CONTACT DETAILS