CASE STUDY · LARGE RETAIL, CORPORATE AND INVESTMENT BANK

MONOCLE

LIBOR TRANSITION
SYSTEM READINESS AND EXPOSURE ANALYSIS

SOLUTION
- LIBOR reform systems readiness and exposure analysis

BANKING AREA
- Corporate and Investment

SKILL SETS
- SQL and Oracle coding
- Data analysis and data quality management
- Report building
- Daily compounding interest calculation model building

INSIGHTS
- The transition from LIBOR to the risk-free rates has significant impacts on conduct risk, operations risk and market risk
- The new risk-free rates include specific terminology and calculations that users are not familiar with and requires a deep understanding of the topic
- A detailed exposure analysis, which includes client level information and detailed trade information, is required to enable banks to map out specific migration plans and strategies in preparation for the tasks required

OVERVIEW
A large retail, corporate and investment bank required assistance with preparing for the LIBOR reform, specifically with managing the transition of existing contracts referencing the LIBOR benchmark onto the risk-free rates.

The scope of this project included assisting the client in extracting and preparing LIBOR exposures using trade level data on a monthly basis. These would be used as a central contract view for client communication and legal negotiation purposes. In addition, this process would support the submission of LIBOR exposures to the regulatory authority on a monthly basis and facilitate the preparation of year-end financial statements. The scope also included developing a daily interest calculation model using the non-cumulative compounding method specific to the new risk-free rates and using this model to back-test interest calculated by the client's system to ensure accuracy and completeness of the calculation.

RESULTS

Consolidated list of LIBOR exposures that clients can use as a central view of customers

Trade specific data on LIBOR exposures that can assist in mapping out migration plans

Non-cumulative compounding interest model that can be used by deal managers to ensure accuracy and completeness of interest calculations

KEY SKILLS REQUIRED
- Detailed knowledge of the LIBOR reform framework and client requirements regarding LIBOR exposure analysis
- Data extraction and business logic implementation to build exposure analysis, which required strong coding skills
- Knowledge of the methodology of calculating interest using the non-cumulative compounding method applicable to risk free rates