IBOR Transition: Client Readiness Checklist

A guide for organisations on the transition away from USD LIBOR
USD LIBOR transition continues at pace and it is essential to remediate any affected USD LIBOR-linked contracts that mature beyond 30 June 2023. All USD LIBOR tenors (overnight, 1M, 3M, 6M and 12M) will either cease publication or no longer be deemed representative after 30 June 2023. Furthermore, in-line with regulatory restrictions, since 1 January 2022, it is no longer permissible to enter into new USD LIBOR transactions, other than for limited risk management purposes.

This transition is likely to have an impact on key areas of your business. The ARRC has published a practical implementation checklist and this checklist is designed to provide key guidelines for you to consider in preparing for the transition process. The below information has been based on the ARRC checklist, but this has been updated/modified for relevance to reflect the switch to USD LIBOR remediation.

**Familiarise yourself with the USD LIBOR transition**
Obtain a sound understanding of the transition and how the change is likely to impact your business.

**Assess your organisation’s exposure to USD LIBOR**
Understand the extent of your business’ exposure to USD LIBOR, review the transactions in your books and identify the contracts linked to USD LIBOR that mature beyond 30 June 2023.

**Assess the impact on your business and operations**
Determine and address the impact that the transition is likely to have on all relevant areas of your business and operations.

**Determine the impact on systems and processes**
Identify systems and processes that will require modifications to transition away from USD LIBOR to SOFR.

**Determine the impact of legal/regulatory requirements**
It is essential to understand the implications of the USD LIBOR transition on your business from a legal and regulatory requirements perspective.

**Determine the impact on Accounting and Tax**
Understand the implications on your financial contracts as well as your business’ books and records from an accounting and tax perspective.

**Determine the impact on Treasury and Risk Management**
Consider the implications on treasury and risk management systems and processes.
Familiarise yourself with SOFR products
It is essential to familiarise yourself with the SOFR products available and consider their suitability in-line with your business requirements. In addition, you should understand the differences between SOFR and Term SOFR, and relevant industry or regulatory guidance surrounding use of these rates.

 Communicate with clients and counterparties
Engage in conversations with your counterparties to discuss the impact of the transition on your agreements and relationships.

Communicate with employees
Raise awareness and educate relevant employees within your organisation.

Further detail on each of these steps is provided in the following pages. Please note that this checklist is not exhaustive and only serves to highlight some of the key considerations related to the USD LIBOR transition.
Familiarise yourself with the USD LIBOR transition
Obtain a sound understanding of the transition and how the change is likely to impact your business.

- Understand the background of the USD LIBOR transition: The use of USD LIBOR, what is changing and how it can affect your business.
- Be knowledgeable of SOFR products as replacements to their USD LIBOR counterparts.
- Familiarise yourself with the applicable key transition milestones.
- Assess the likely impacted products and/or markets that you operate in.
- Engage with your counterparties via relationship managers to understand which areas of the transition are applicable to your business.

Assess your organisation’s exposure to USD LIBOR
Understand the extent of your business’ exposure to USD LIBOR, review the transactions in your books and identify the contracts linked to USD LIBOR that mature beyond 30 June 2023.

- Conduct a firm-wide assessment to identify the USD LIBOR exposures you currently hold. Consider seeking independent advice if required.
- Identify the transactions that are linked to USD LIBOR by asset class, tenor and maturity, including any off-balance sheet exposures.
- Quantify how much of your USD LIBOR exposures mature beyond 30 June 2023.
- Categorise the USD LIBOR-linked transactions along with the relevant contractual documentation to facilitate the remediation process.
- Analyse your portfolio and the potential financial impact when switching from USD LIBOR to SOFR.
- If applicable, consider areas that may have USD LIBOR exposures such as trade financing, forecasting and budgeting, hedging, transfer pricing, pension schemes and project financing.
Assess the impact on your business and operations

Determine and address the impact that the transition is likely to have on all relevant areas of your business and operations.

- Assess the implications on any funding, financing, hedges or other existing financial contracts that your business has entered into with counterparties.

- Determine a strategy and timeline for existing contracts linked to USD LIBOR to be transitioned to alternative rates, ultimately reducing reliance on USD LIBOR.

- Take steps to, where feasible, actively convert your legacy USD LIBOR contracts to alternative reference rates prior to the USD LIBOR cessation/loss of representativeness dates.

- If active conversion is not feasible, consider implementing robust fallback language to impacted contracts.

- If applicable, assess any implications on your product and/or service offerings, such as product design or pricing.

- If applicable, assess client demand for potential new businesses linked to SOFR, and the need to establish new product approval requirements.

Determine the impact on systems and processes

Identify systems and processes that will require modifications to transition away from USD LIBOR to SOFR.

- Assess the systems and processes in your organisation to determine any transition impacts, taking into account the implementation of the SOFR and the need for any modifications on system capabilities.

- If applicable, consider systems that may be linked to USD LIBOR such as trade bookings and pricing, treasury, risk management, financial reporting ledgers, payments, and settlement systems.

- If applicable, identify any manual spreadsheets and documentation being used in processes that may use USD LIBOR as an input.

- Develop plans to ensure all system and process changes are executed, tested, and validated in time for the transition.

- If applicable, consider changes to systems and processes such as incorporating new interest rate curves, historical SOFR data and alternate SOFR calculation methodologies.

- Liaise with third-party system providers regarding potential system updates and enhancements.
Determine the impact of legal/regulatory requirements

It is essential to understand the implications of the USD LIBOR transition on your business from a legal and regulatory requirements perspective.

- Analyse your financial contracts in relation to contractual fallback language and identify those that do not account for a permanent cessation of USD LIBOR.
- At a minimum, identify USD LIBOR financial contracts maturing beyond 30 June 2023 with inadequate fallback provision language. Seek independent advice where necessary.
- If applicable, consider the implications on contractual terms items such as triggers and legal interpretations.
- Identify any bespoke USD LIBOR contracts which could prove difficult to transition or modify existing contractual terms.
- For bespoke USD LIBOR contracts that have been identified as potentially difficult to transition, consider the implications of cessation or lack of representativeness, understand the scope and impact of the measures rolled out by the relevant authorities to support such contracts, and engage counterparties in negotiations to prepare for the mid-2023 deadline.
- Assess the impact on your legal function’s capacity and the potential need for upscaling resources for the work required on contractual remediation.
- Consider the financial impacts of amending existing USD LIBOR contracts to include more robust fallback language.
- Establish a process to ensure your firm can stay up-to-date with the relevant industry bodies in relation to the developments and finalisation of contractual fallback language for derivative and cash products.
- If applicable, understand the ISDA Protocol, how this impacts you, and whether preparations are required to decide on adherence. Adhere if this is suitable for you, after the appropriate internal reviews and approvals, seeking independent advice where required.
- Assess the need for updating existing documentation such as policies and procedures.
Determine the impact on Accounting and Tax

Understand the implications on your financial contracts as well as your business’ books and records from an accounting and tax perspective.

- Subscribe to updates from accounting and tax authorities and establish a process to periodically scan for newly issued guidance.
- Assess the implications of the USD LIBOR transition on accounting standards, as well as financial and valuation impacts relevant to your business and your related accounting judgements. Consider any relief provided by relevant accounting standards boards.
- Assess the potential impact on hedge accounting due to the switch to SOFR, recognition or derecognition issues, fair value changes, disclosure and reporting implications and/or credit allowances or losses to be recorded.
- Identify any potential tax implications which may arise due to the modification of your current USD LIBOR contracts to new SOFR-based contracts. Liaise with your auditors on the financial reporting implications.

Determine the impact on Treasury and Risk Management

Consider the implications on treasury and risk management systems and processes.

- Identify the key transition risks applicable to your business and assess them against your organisation’s risk framework.
- Establish processes to measure, monitor, and mitigate the applicable transition risks identified on an ongoing basis.
- Where applicable, consider the implications on your capital and liquidity profile.
- Incorporate the USD LIBOR transition into your firm’s risk management framework such as scenario analysis, stress testing, and financial planning.
- If applicable, ensure client-facing employees and relevant stakeholders are trained appropriately on the risks associated with the transition.
- If applicable, consider other risks such as conduct risk, legal risk, reputational risk, operational risk, and financial risk.
Familiarise yourself with SOFR products

It is essential to familiarise yourself with the SOFR products available and consider their suitability in-line with your business requirements. In addition, you should understand the differences between SOFR and Term SOFR, and relevant industry or regulatory guidance surrounding use of these rates.

- Engage with your counterparties via relationship managers to understand the available SOFR products and their suitability for your business needs.
- If applicable, review your business’ existing governance structures to account for potentially new SOFR trades.
- Consider transacting in “test trades” to assess whether systems and processes are able to handle new SOFR products.
- Aim to use robust alternative reference rates in new contracts whenever possible.
- Understand the difference between overnight SOFR and Term SOFR, consider what products are available in Term SOFR and where they might be most suitable for your portfolio, in consideration of any relevant industry or regulatory guidance surrounding use of these rates.
- Stay up to date with Standard Chartered’s wider RFR capabilities and reach out to your relationship manager to discuss how our capabilities can meet your business’ requirements.

Communicate with clients and counterparties

Engage in conversations with your counterparties to discuss the impact of the transition on your agreements and relationships.

- Engage with your counterparties and understand how they can support and assist you, or vice-versa.
- Continue to review and refine your transition plans as you engage with counterparties, monitoring any changes to regulatory or industry timelines.
- If applicable, determine appropriate communication channels to disseminate relevant information during your client engagement.
- If applicable, develop a communication channel where clients can contact you should they have queries or concerns.
- Consider whether employees need to be trained before any client engagement.
- Reach out to Standard Chartered if you have any queries or require further assistance via your relationship manager, or e-mail the central IBOR Transition Programme team at IBOR.Transition@sc.com.
Communicate with employees

Raise awareness and educate relevant employees within your organisation.

- Determine the strategy for raising awareness within your organisation regarding the transition from USD LIBOR to SOFR.
- Determine the appropriate communication channels to be used, and the relevant departments that need to be aware and educated.
- Ensure that you provide ongoing updates to employees given the likelihood of further developments from regulatory and industry bodies.
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