Standard Chartered

LIBOR TRANSITION

Checklist for Success

A guide for organisations on the transition away from LIBOR

Global regulators have signalled that financial markets should stop using London Interbank Offered Rate (LIBOR) by the end of 2021, and transition to Risk-Free Rates (RFRs).

This transition is likely to have an impact on key areas of your business, and this checklist is designed to provide key guidelines for you to consider in preparing for the transition process.

Familiarise yourself with the 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 LIBOR

Understand the extent of your business' exposure to LIBOR, review the transactions in your books, and identify the contracts linked to LIBOR.

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 LIBOR to RFRs.

Determine the impact of legal/regulatory requirements

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

LIBOR TRANSITION

Checklist for Success

A guide for organisations on the transition away from LIBOR

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 RFR products

It is essential to familiarise yourself with available RFR products and consider their suitability according to your business needs.

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 LIBOR transition.

Checklist for Success

Familiarise yourself with the LIBOR transition

Obtain a sound understanding of the transition and how the change is likely to impact your business.

- ❑ Understand the background of the LIBOR transition: The use of LIBOR, what is changing, and how it can affect your business.
- ❑ Be knowledgeable of the alternative RFRs as replacements to their 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 LIBOR

Understand the extent of your business' exposure to LIBOR, review the transactions in your books, and identify the contracts linked to LIBOR.

- ❑ Conduct a firm-wide assessment to identify the LIBOR exposures you currently hold. Consider seeking independent advice if required.
- ❑ Identify the transactions that are linked to LIBOR by asset class, tenor and maturity, including any off-balance sheet exposures.
- ❑ Quantify how much of your LIBOR exposures mature beyond the end of 2021.
- ❑ Categorise the 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 LIBOR to alternative reference rates such as the RFRs.
- ❑ If applicable, consider areas that may have LIBOR exposures such as trade financing, forecasting and budgeting, hedging, transfer pricing, pension schemes, and project financing.

Checklist for Success

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 LIBOR to be transitioned to alternative rates, ultimately reducing reliance on LIBOR.
- ❑ 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 RFRs, 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 LIBOR to RFRs.

- ❑ Assess the systems and processes in your organisation to determine any transition impacts, taking into account the implementation of the new RFRs and the need for any modifications on system capabilities.
- ❑ If applicable, consider systems that may be linked to 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 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 RFR data, RFR methodologies and market conventions, and new pricing and valuation methodologies based on RFRs.
- ❑ Liaise with third-party system providers regarding potential system updates and enhancements.

Checklist for Success

Determine the impact of legal/regulatory requirements

It is essential to understand the implications of the 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 LIBOR.
- ❑ At a minimum, identify financial contracts maturing after the end of 2021 with inadequate fallback provision language. Seek independent advice where necessary.
- ❑ If applicable, consider the implications on contractual terms such as triggers and legal interpretations.
- ❑ Identify any bespoke LIBOR contracts which could prove difficult to transition or modify existing contractual terms.
- ❑ 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 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.
- ❑ Assess the need for updating existing documentation such as policies and procedures.

Checklist for Success

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 LIBOR transition on accounting standards, as well as financial and valuation impacts relevant to your business and your related accounting judgements.
- ❑ Assess the potential impact on hedge accounting due to the change to RFRs, 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 LIBOR contracts to new RFR-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 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.

Checklist for Success

Familiarise yourself with RFR products

It is essential to familiarise yourself with available RFR products and consider their suitability according to your business needs.

- ❑ Engage with your counterparties via relationship managers to understand the available RFR products and their suitability for your business needs.
- ❑ If applicable, review your business' existing governance structures to account for potentially new RFR trades.
- ❑ Consider transacting in "test trades" to assess whether systems and processes are able to handle new RFR products.
- ❑ Reach out to Standard Chartered to understand our current RFR product offering.

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.

Checklist for Success

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 LIBOR to the new RFRs.
- ❑ Determine the appropriate communication channels to be used, and the relevant departments that need to be aware and educated.
- ❑ Ensure you provide ongoing updates to employees given the likelihood of further developments from regulatory and industry bodies.

Disclaimers:

This document is provided by Standard Chartered Bank and its affiliates (SCB) for general information only. This document does not supersede any specific product risk disclosures.

Whilst SCB endeavours to ensure the information in this document is current, SCB cannot guarantee its accuracy in this rapidly evolving area. In addition, SCB does not represent that the risks highlighted in this document are complete. You should exercise your own independent judgment and seek your own professional advice, where necessary, with respect to the risks and consequences of entering into any financial contracts or purchasing any financial instruments that include a reference to benchmarks.

SCB makes no representation, warranty or recommendation, express or implied, as to the risks and/or consequences relating to a change in methodology or discontinuation of a benchmark rate, or the appropriateness or suitability of any of fallback or contingency option.

SCB is not acting as a fiduciary or advisor to you, including in respect of any of the information set out in this document. None of the information set out in this document should be taken as constituting financial, investment, legal, regulatory, tax or other advice or as a recommendation, invitation or inducement to enter into, amend, or alter, any financial contracts or investment activities.

To the fullest extent permitted by applicable law, SCB accepts no responsibility or liability for any damage, expense or loss which you or any person may suffer or incur as a result of relying upon or using this document or the information contained in this document or as a result of any information being incorrect or omitted from this document.