What is next for Interbank Offered Rates?
After more than 40 years of organisations relying on Interbank Offered Rates (IBORs) as a reference rate, the London Interbank Offered Rate (LIBOR) and other IBORs are being replaced by Alternative Reference Rates (ARRs).

Banks will not be compelled to use LIBOR rates beyond 2021, which means a new reference rate is imminent. All contracts, models, financing, derivatives and other financial instruments which reference IBOR will be required to be changed.

The ARR in the UK is yet to be confirmed but is likely to be based on an overnight index rate.
Why is the offered rate changing?

IBOR (which started its life in 1969 as a reference rate for a syndicated loan transaction) today underpins financial contracts of more than USD $300 trillion. In addition, it is also used as a reference rate in numerous non-financial contracts and as a benchmark rate for performance measurement for investment securities and as a proxy for wholesale funding rates.

Since 2012, IBOR has been linked to scandals and gained negative public attention when several global banks were accused of manipulating their IBOR submissions during the financial crisis. Since then, global regulators have taken several steps to strengthen IBOR, including appointment of a new benchmark administrator, ICE Benchmark Administration. However, IBORs are no longer deemed to be a desirable benchmark due to low transaction volumes in the unsecured wholesale funding markets that underpin IBOR submissions. For example, 3 month USD IBOR, the most heavily referenced IBOR, is supported by circa USD $1 billion in transactions per day.

What is the impact of this change?

IBOR is embedded in a number of areas of the organisation, replacing IBOR will likely make the transition to alternative reference rates an enterprise-wide transformation.

Some potential areas of impact

**Operations**
- A number of commercial contracts use IBOR as a reference rate, the contracts will need to be renegotiated or amended
- Training may be required for the wider organisation to understand the changes

**Valuations and models**
- IBOR has been a convenient benchmark interest rate used in valuation and risk modelling

**Accounting and distributable reserves**
- Policies, procedures and system changes may be required
- IFRS 13 valuations and the subsequent balance sheet adjustments
- Cash flow hedge accounting
- Changes in inter-group funding structures could potentially impact single entity reserves

**Financing and liquidity**
- Corporates with floating rate debt will be required to move to an ARR, with a potential impact on key ratios
- Lack of sustainable liquidity in the market for the ARR in the short term
- Amendment to inter-group funding structures

**Governance and controls**
- Entities will be required to have robust governance and controls to manage transitioning of contracts to ARRs

**Risk management**
- The transition could potentially create hedge mismatches due to timing of transition across different products and timing of transition of other IBORs, creating basis risk

**Technology**
- Systems, including treasury management systems will need to be updated to keep pace with the change. With the current uncertainty of the new rate, this may be problematic

**Legal**
- Contract amendments may lead to increased transition costs, creating significant administrative efforts

**Tax**
- In the event the carrying value of assets and liabilities change or hedge accounting is impacted, consideration will need to be given to the potential tax consequences
What is the scale of your exposure to IBOR?

Given the uncertainty on the ARR and the timing of transition, it is important to comprehensively assess the impact across your organisation, focusing on the areas summarised above. The assessment will allow firms to size the challenges facing their organisations and the potential resource and system requirements required to address them. This will give you the information needed to inform executive management and the board on the impact of the transition, and how your company can address them.
How EY can help

Modelling the impact

Our team of treasury specialists, accountants, tax and legal advisors and data specialists can assist you in managing this transition.

Using our EY valuation and modelling tools, we can assign proxies for the ARR and assist you in modelling the impact on your operations, balance sheet and key ratios.

We give you the confidence that you will be ready for the change.

What do I need to do now?

Technology-enabled contract analysis

The first step to assessing the impact is having sight of the number of contracts impacted. Extracting value from static, unstructured contracts is a common challenge firms face. Our technology-enabled contract analysis provides an end-to-end means of collecting, digitising and analysing contracts to enable clients to achieve their business goals.

Our services allow you to focus on the activities which add value rather than sorting through data.

Thinking about the impact now will avoid any surprises later on.
Contact us

Craig Kennedy
FAAS Treasury Leader, Treasury and Risk Management
+44 20 795 19026
ckennedy1@uk.ey.com

Sanjay Bhandari
Assurance Strategic Solutions Leader
+44 20 795 18370
sbhandari@uk.ey.com

Fiona Thomson
Associate Partner, Tax
+44 20 795 13913
fthomson@uk.ey.com

Sangdeep Bakhshi
Director, Financial Accounting Advisory Services
+44 20 795 14108
sbakhshi@uk.ey.com

Anton Hendricks
Manager, Financial Accounting Advisory Services
+44 20 795 14845
ahendricks@uk.ey.com
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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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