



LIBOR: THE RIGHT DATA AND TOOLS FOR A SEAMLESS TRANSITION

LIBOR (the London Interbank Offered Rate) is expected to be phased out by the end of 2021, with far-reaching implications for many market participants. In order to support a smooth transition, firms need access to the right data, tools and support.

The LIBOR transition – an overview

Countless users across the globe rely on LIBOR, but as the transition date approaches, both financial and non-financial organizations need to find alternative RFRs, term rates and/or adjusted RFRs if they are to avoid disruption when publication of LIBOR ceases.

Moreover, a fast-approaching deadline means that organizations need to act now if they are to implement appropriate plans to manage this transition efficiently.

LIBOR was launched by the British Bankers' Association in 1986 and has come to be embedded in processes, procedures and contracts throughout financial and non-financial companies.

Regulators have confirmed that LIBOR will be replaced with alternative risk-free rates (RFRs), based on actual overnight money market transactions. Both public and private working groups have worked to identify potential alternative rates across major currencies.

Examples include:

- The Secured Overnight Financing Rate (SOFR) for the U.S. dollar
- The Sterling Overnight Index Average (SONIA) for sterling
- The Euro Short-Term Rate (€STR) for the euro
- The Swiss Average Rate Overnight (SARON) for the Swiss franc
- The Tokyo Overnight Average Rate (TONAR) for the Japanese yen

Unfortunately, not one of these alternatives was designed to be a direct replacement for LIBOR, which means that regulators and benchmarks administrators must address a range of embedded issues, such as how the rates are calculated and whether or not they include a credit component.

“Time is running out for market participants holding trillions of dollars’ worth of LIBOR-based contracts to transition their portfolios to one of the new risk-free rates (RFRs). Meeting this fast-approaching deadline will require the full attention of all organizations – along with the right data and tools to make this switch with as little market disruption as possible.”

David Bull, Director, Product Management, Refinitiv

Central banks will not provide term RFRs, but benchmark administrators, including Refinitiv, are developing such products.

As with any significant change, developing a structured response is vital in order to ensure a seamless transition phase. Firms should therefore assess their exposure to LIBOR and other IBORs; identify which processes and inputs need to be replaced; investigate alternative data or reference rates; and begin the process of replacing LIBOR well ahead of the expected end-2021 cutoff.

Challenges abound

An evolving regulatory landscape can create significant challenges for firms as they work to update and alter their procedures – often in the face of tight deadlines – and remain cognizant of the need to ensure compliance without sacrificing operational efficiency.

Many firms will face significant cost pressures, not only as a result of changing operating models to accommodate new reference and benchmarking tools, but also the costs associated with training staff.

A number of core legacy issues need to be addressed. For example, legacy LIBOR contracts may provide no ability to revise fallback language, meaning that the financial industry must engage with legislative bodies to address the changes needed to amend these contracts.

As trillions of dollars’ worth of contracts move away from LIBOR, contract modifications and hedging arrangements may be expensive and extremely burdensome. The ability to revalue existing assets based on new RFRs will become critical.

“LIBOR is embedded in firms’ operating models. Transitioning to alternative rates will affect how your contracts are priced and how you manage risk.”

The Working Group on Sterling Risk-Free Reference Rates

Transitioning from LIBOR will be no easy task, but having access to leading-edge data and tools can help teams to respond more effectively to evolving obligations.

Adopting a proactive approach

Refinitiv is committed to delivering trusted data and leading-edge tools to help firms adjust their operating models across front, middle and back offices, as they move towards alternative reference and benchmarking tools.

Refinitiv's regulatory pricing and reference data service offers direct access to accurate, independent reference data, and our solutions provide flexibility, delivering the data you need, when you need it.

As the expected LIBOR cutoff date approaches, Refinitiv is undertaking a range of proactive changes relating to our pricing and reference data.

LIBOR fallback language is a key issue for consideration and we are therefore introducing new fields into our data models that can make it easier to identify this language, as well as working towards a standardized model for fallback events and replacement.

We are also introducing new fields to capture the transition of bonds as and when they happen and are implementing changes to our pricing models to support RFR-based derivative products like futures, caps, floors or swaptions.

Furthermore, we are extending our existing capabilities as a provider of regulated benchmarks to administer new term reference rates that support market participants requiring a LIBOR alternative with a term structure.

The first term reference rate that will be launched is the GBP LIBOR alternative – Term SONIA Reference Rate (TSRR). We have leveraged our vast experience administering regulated benchmarks to create the TSRR prototype, a forward-looking, risk-free reference rate available in one-month, three-month, six-month and 12-month tenors denominated in sterling.

We are also expanding our range of available analytics to include scenario analysis tools that will help firms assess the impact of IRS, FRNs LIBOR, based on existing portfolios, as well as a calculator for compounded rates for SONIA, SOFR, €STR and TONAR.

Additionally, we will provide real-time analytics-derived calculations such as forward swaps and swaptions skews on the new RFRs.

Looking ahead

Several core issues surrounding the move away from LIBOR remain fluid, and therefore organizations need to focus on communications and structural planning, both internally and externally, so that they can make informed decisions about the transition.

Firms should follow these crucial steps:

1. Know your risks and exposures
2. Start reducing reliance on LIBOR now
3. Engage with your employees, advisors and regulators
4. Find the right data partner to help you make a more seamless transition

Refinitiv is the largest provider of interest rate benchmarks globally, and we are working to ensure a seamless experience for our clients as IBOR reform and LIBOR transition unfold.

As we move towards the expected cessation of LIBOR, we believe that trusted and holistic data, coupled with leading-edge technology and tools will become invaluable for firms to achieve a smooth and seamless transition.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

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