

What to do Now Before LIBOR Ends

Companion webinar to AFP Executive Guide Series

December 8, 2021

2-3pm EST



Today's Speakers



Tom Hunt
Director of Treasury Svcs
AFP
Moderator



David Bowman
Senior Associate Director
Federal Reserve Board
Panelist



Jeff Diorio
Managing Director
PMC Treasury
Panelist



Mack Makode
VP, Treasurer
Under Armour
Panelist



About the Guide

- **Tips and Case Studies on the Transition covering:**
 - LIBOR Defined, Replacement Rates SOFR
 - New Risk Free Rates
 - Treasury Technology
 - Transition Plan



AFP thanks ION Treasury for underwriting

Overview of the LIBOR Transition

LIBOR Transition Plan

Why SOFR

Global Rates

SOFR Spread Adjustments and Negotiations

Technology Readiness

What's Next



Polling Question #1

Where are you at in your LIBOR Transition Plan?

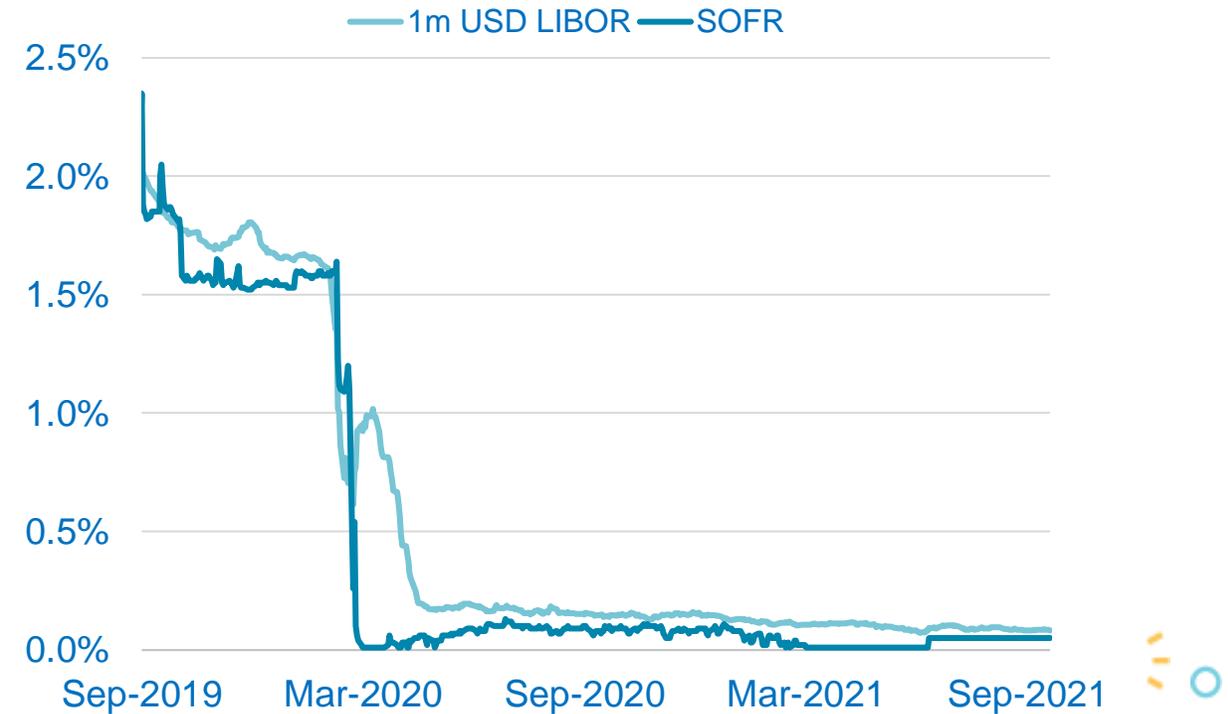
- A. We have addressed our exposure(s) and are done**
- B. We know our exposure(s), have a plan in place**
- C. We are gathering information on exposures**
- D. We haven't started- we have until 2023**



LIBOR vs SOFR

- Methodology
- Economics
- Variations
- Credit
- Liquidity

1m USD LIBOR vs SOFR



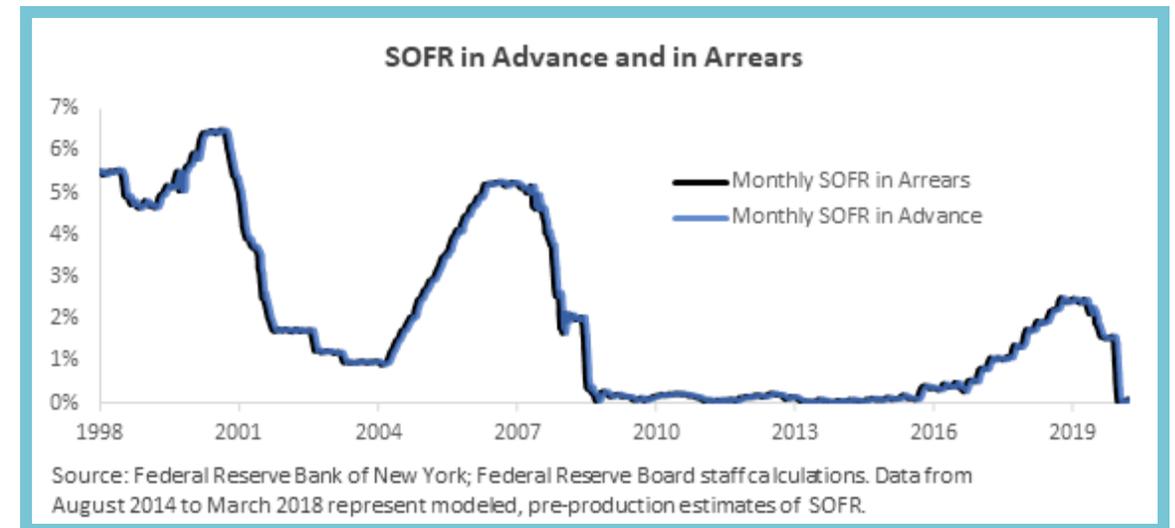
Key Points and Terms to Know about SOFR

- **Why SOFR?**
- **Overnight repo based on nearly a trillion dollars of actual trade data from multiple market segments**
 - Banks, Financial institutions: Insurance companies, hedge funds, asset managers
- **Forms of SOFR**
 - Daily SOFR rates since April 2018; CME Term SOFR since April 2021
 - Simple SOFR vs Compounded SOFR
 - Term SOFR formally recommended for use in cash and derivatives by the ARRC
 - Compound Averages over rolling 30, 90, 180-calendar day period published by NY Federal Reserve
 - Spread-Adjusted SOFR rates for legacy products
- **SOFR Adoption**



Which “SOFR”?

| | USD-SOFR-COMPOUND “SOFR compounded in arrear” | Daily Simple SOFR “Simple Avg SOFR in arrear” | NYFED 30-Day Avg SOFR “SOFR compounded in advance” | CME Term SOFR “1m, 3m, 6m” |
|--------------------|--|---|--|---|
| Rate calculation | Daily SOFR compounded in arrear from daily rates | Weighted simple average calculation from daily SOFR | Compounded average of the prior 30 calendar days’ SOFR overnight rates (also 90 and 180-day rates) | Calculated from traded 1m and 3m SOFR futures contracts, published by the CME |
| When is rate known | End of period | End of period | Beginning of period | Beginning of period |
| Derivatives market | Tradable and can centrally clear now | Tradable now, not clearable | Tradable now, not clearable | Early stages; subject to CME licensing restrictions |



Rates and Dates

| CURRENCY | REPLACEMENT RATE | IBOR END DATE (ANTICIPATED) |
|---|------------------|--|
|  CHF | SARON | 31 DEC 2021 |
|  EUR | EURIBOR & €STR | |
|  GBP | SONIA | |
|  JPY | TIBOR & TONAR | |
|  CAD | CDOR & CORRA | 17 MAY 2021 (6m, 12m) TBD (others) |
|  USD | SOFR | 31 DEC 2021 (1w, 2m) 30 JUN 2023 (others) |
|  AUD | BBSW & AONIA | Reformed / Continued |
|  HKD | HIBOR & HONIA | |

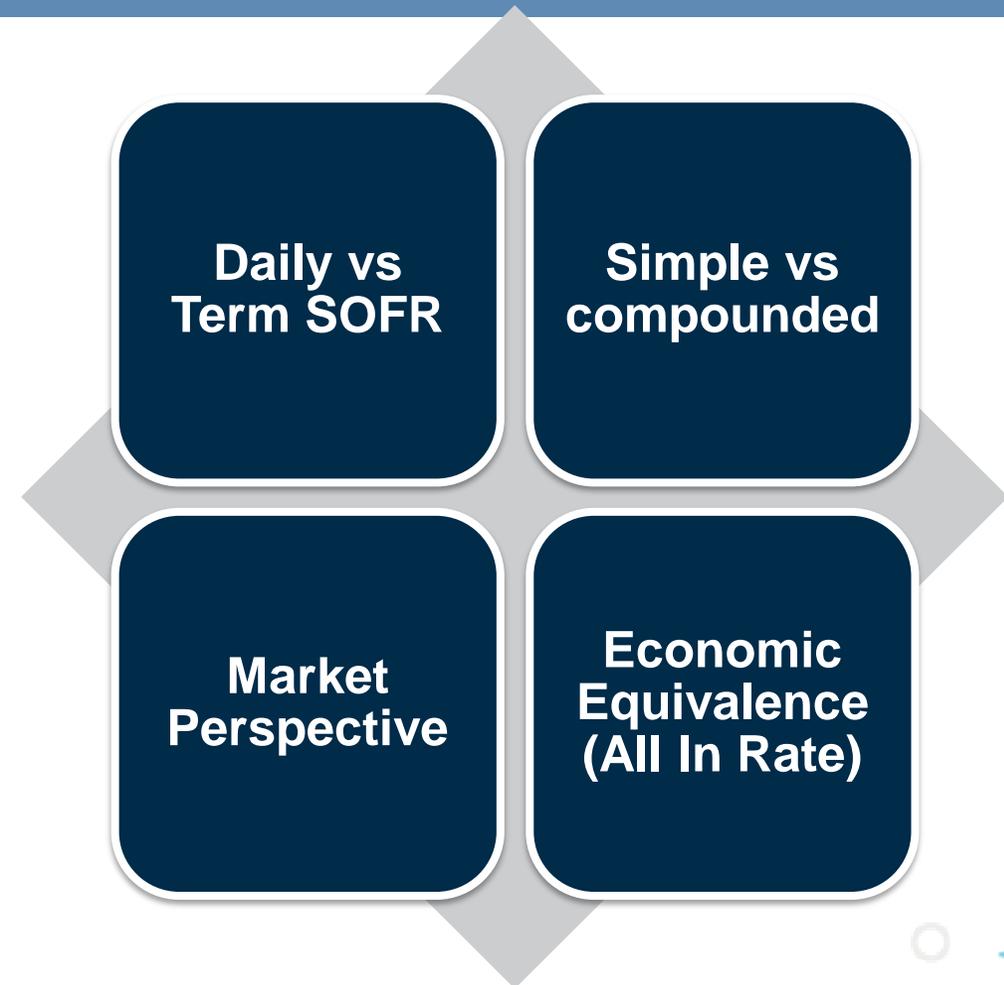
Source: PMC Treasury



Loans and Hedges

Navigating SOFR Loans and Hedges

- **Which type to use**
 - Swaps
 - Borrowers
- **Hedge Accounting**
 - Borrowing vs. Derivative
- **Supply Chain Finance**



ARRC Guidance/Spread Adjustments

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR, January 21, 2020

Page 2:

“It is important to emphasize that any ARRC-recommended spread adjustments are intended for use in LIBOR contracts that have incorporated the ARRC’s recommended hardwired fallback language or for legacy LIBOR contracts in which parties are able to and choose to select an ARRC recommended spread-adjusted rate as a fallback. **The recommended spread adjustments would not and are not intended to apply to new contracts referencing SOFR.**”

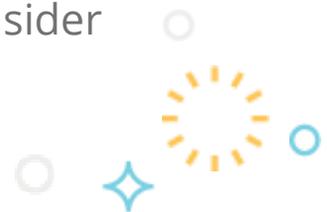


Supervisory Guidance

November 29, 2021 - On November 19th, the Federal Reserve [issued](#) Supervision and Regulation Letter 21-12 ("[SR 21-12](#)"), which answered a number of LIBOR transition questions pertinent to syndicated loans. We flag the critical questions below.

- **Question 2:** *If a loan contract will automatically renew after December 31, 2021, would this be viewed as a new contract?* **Answer:** Yes, the automatic renewal of the loan **would be viewed as a new contract** because it would extend the term of an existing LIBOR contract (*emphasis added*). A Board-supervised institution should take steps to address such automatic renewals.
- While **Question 7** doesn't directly address loans, it does indicate that the regulators are taking transition seriously. **Question:** *How will examiners assess Board-supervised institutions' LIBOR transition planning? Will supervisors issue MRAs and take other supervisory actions in connection with the LIBOR transition?* **Answer:** "...Board-supervised institutions that are not making adequate progress toward transitioning away from LIBOR could create safety and soundness risks for themselves and for the financial system. Accordingly, examiners will consider issuing supervisory findings and other supervisory actions if a firm is not making adequate progress."

Source: LSTA



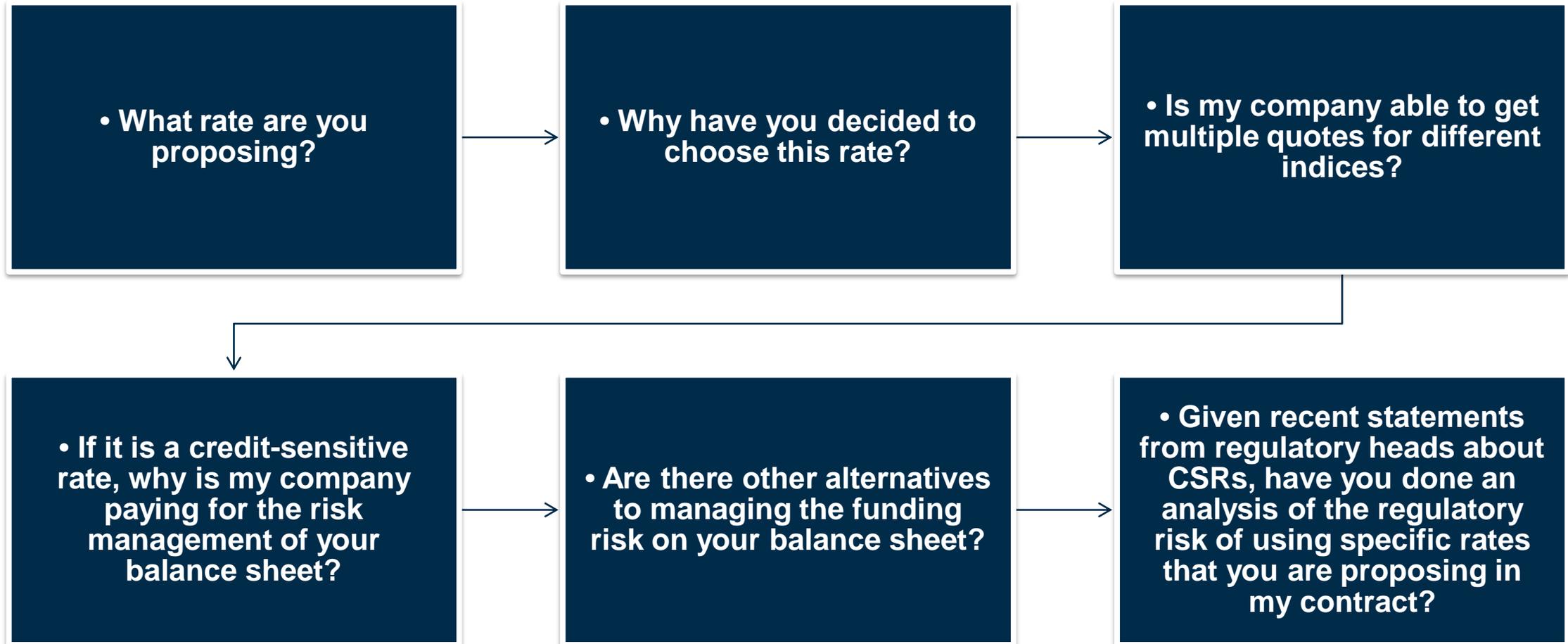
Polling Question #2

What are you seeing in terms of your Legacy SOFR spread adjustment discussions with your banks (Loans primarily)?

- A. Using ISDA spread adj rates as starting point**
- B. Landing inside of ISDA spread adj rates**
- C. Not using Spread Adjustment Rates/NA**
- D. Not sure**



Negotiation with Bank



Polling Question #3

What are you seeing in terms of your New Loan SOFR spread adjustment discussions with your banks?

- A. Using ARRC Recommended Spread Adjustments
- B. New loan spread adjustments are lower
- C. Not sure
- D. We have until 2023



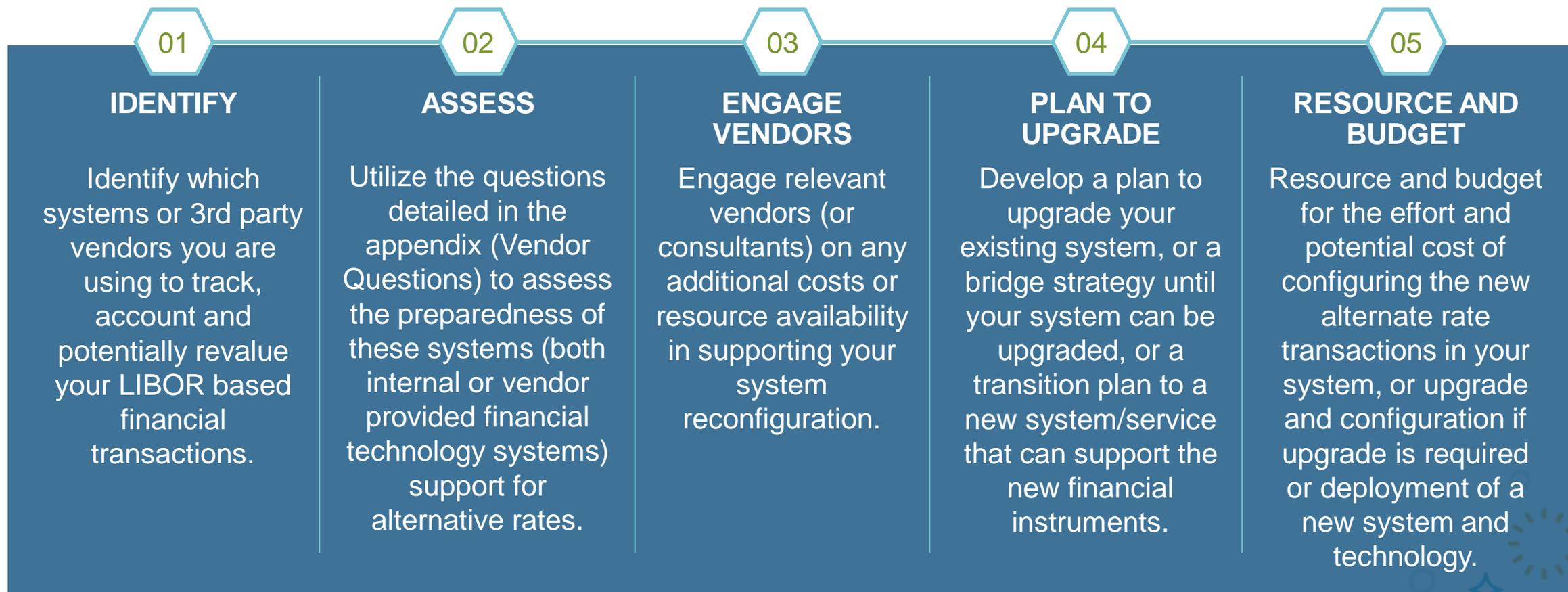
Treasury Technology Preparedness

Once you have successfully transitioned from your LIBOR based financial transactions to a new alternate rate (i.e. SOFR), you will require your systems (or provider) to perform 2 fundamental calculations.

- 1. Calculate interest for payments/settlements and associated interest accruals for accounting**
- 2. Calculate mark-to-market or valuation of instruments.**

A number of items must be in place for both of these calculations to work, and your financial systems or 3rd party vendors must be able to support these two basic functions

Technology Action Plan



What's Next after Dec 31?

- **OECD Discussion**
- **Multicurrency Loans**
- **In house banking/Intercompany activity**
 - ARRC Recommendation 30 Day Future SOFR



Transition Plan Takeaways

- **Engaging with your bankers**
- **Legislative initiatives**
- **Operational readiness**
- **Best practices**
 - Know your exposures
 - Know the deadlines to minimize exposure
 - Formulate plan to address if haven't already
 - Carryout your plan June 2023, LIBOR's Sunset



Q&A

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