

Cognizant Banking

Countdown to LIBOR: What You Need to Know

When does the LIBOR transition take effect?

By December 31, 2021.

What exactly is it?

It's the planned end of major benchmark interest rates that will be replaced by risk-free rates. The London Interbank Offered Rate is the dominant rate for interest payments on adjustable-rate financial products. The majority are derivatives, but millions of corporate loans and home mortgages are also indexed to LIBOR.

What does the end of LIBOR mean?

Publication of LIBOR will be discontinued by the end of 2021. LIBOR's demise will be widely felt across industries. The biggest task for financial institutions and corporate is modifying client and counterparty contracts to alternative risk-free rates, a process known as repapering. Millions of contracts that expire after 2021 and index LIBOR have to be renegotiated.

How the End of LIBOR Impacts Your Organization

Repapering is complex and involves multiple steps. Here's a clear path for getting started and succeeding in the repapering process

- **Start at the beginning.** Assess the number of contracts affected. Undertake a sample study of contracts, prioritized by clients and positions. Knowing where contracts sit within your organization and how many there are allows you to start planning the work you need to do to be ready by year-end 2021.
- **Build an operating model and a transition plan.** We often hear organizations express concern about how best to digitize LIBOR-based contracts without first developing a

comprehensive operating model. Once you have defined the operating model and completed the assessment, you can build a solid transition plan

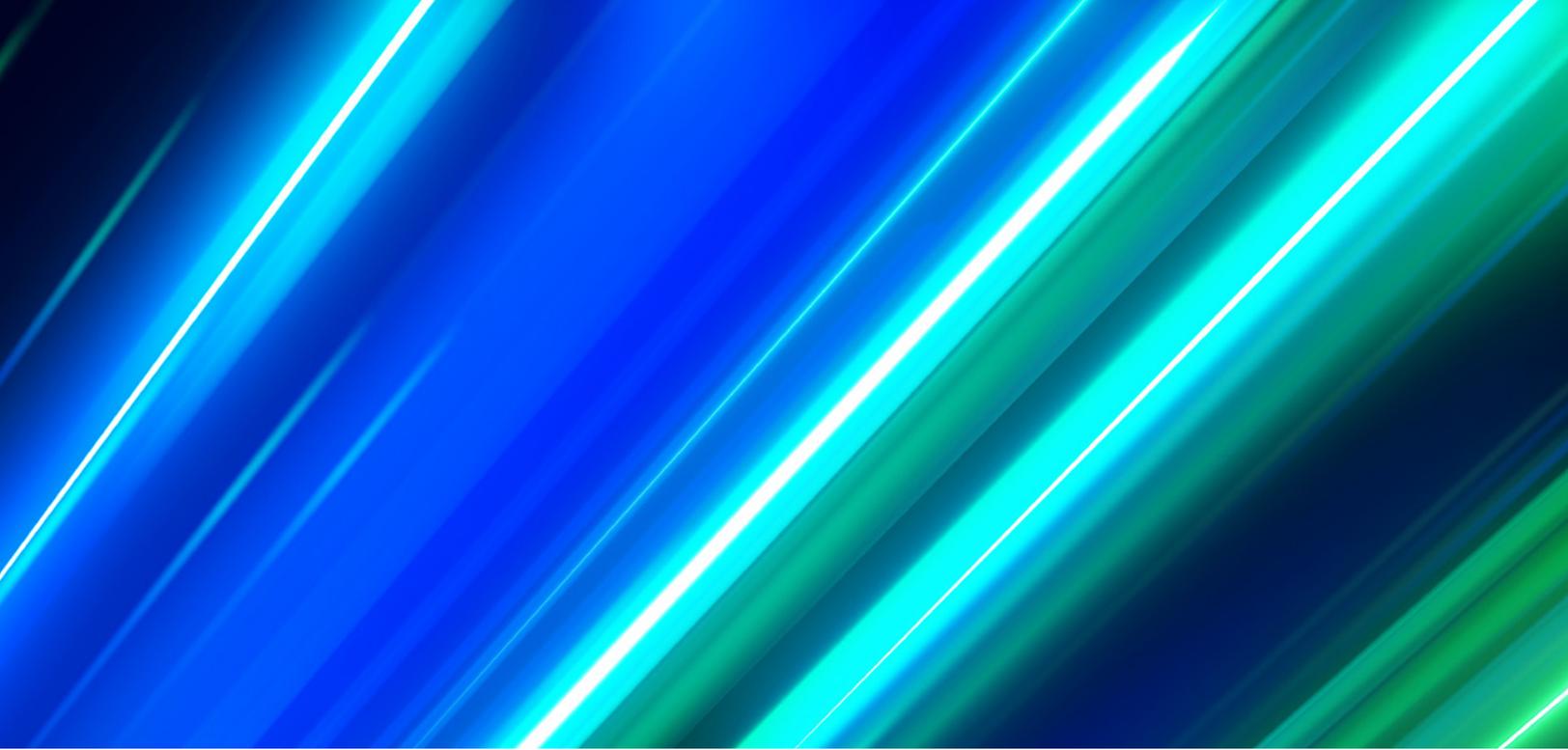
- **Implement OCR and trained machine learning.** Scanned contracts present significant challenges given the variable quality of optical character recognition (OCR). The use of trained AI engines will be required to digitize OCR'd contracts.
- **Don't wait for final consensus on language remediation.** While consensus on fallback language remains a work in progress, organizations need to seek solutions combining rules and AI and plan for remediation. It's key to make it a priority.

Kick off LIBOR program execution around a few key functions:

- **Comprehensive contract management** to allow for digital annotation, tracking, versioning including with clients.
- **Operations management,** including management for stakeholders from legal, business and risk to finance and IT.
- **Alignment across the enterprise,** including trading, collateral management and core banking systems.

Like any reform, LIBOR phase-out represents a window of opportunity: Modernizing contract processes for LIBOR can serve other purposes such as the requirements for qualified financial contracts (QFCs), know your customer (KYC) and client onboarding.

Now is the time to see the countdown to LIBOR as opportunity.



About Cognizant Banking and Financial Services

Cognizant's Banking and Financial Services (BFS) practice is one of the largest industry verticals that partners with large financial institutions (FIs) to evolve their business and technology landscape and enable end-to-end digital transformation. Seventeen of the top 20 North American FIs, and all of the top 10 European banks (which includes those in the UK), rely on us to manage their technology portfolio across multiple business entities and geographies. We serve the entire financial services spectrum, including retail and wholesale banking, consumer lending, cards and payments, investment banking and brokerage, asset and wealth management, securities services, and governance, risk and compliance. Our consulting-led approach, deep domain expertise and partner ecosystem enable clients to address the dual mandate of "optimizing the business" while "driving digital at scale." From large-scale core banking or payment transformation to adoption of cutting-edge technologies like artificial intelligence, analytics, blockchain and robotic process automation, we partner with FIs to envision and build the digital bank of the future. Learn more about Cognizant's BFS practice at www.cognizant.com/banking-financial-services.

About Cognizant

Cognizant is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the United States, Cognizant is ranked 193 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow us @Cognizant.

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