

COUNTDOWN to 2021: The End of LIBOR is in Sight

Take the right steps to modernization

With less than two years to go, financial institutions and corporate treasuries are preparing for a world without the London Interbank Offered Rate (LIBOR). **The biggest task:** modifying client and counterparty contracts, a process known as repapering.



LIBOR

\$350 TN

LIBOR has long been the dominant benchmark interest rate for adjustable rate financial products. The majority of LIBOR transactions are derivatives, but with millions of **corporate loans and home mortgages** also indexed to LIBOR (for a total of \$350 trillion), its demise will be widely felt across industries.

Nowhere will the impact be greater than financial institutions and corporate treasuries, which have to **repaper and renegotiate millions of contracts** that expire after 2021 and index LIBOR with no risk-free rate (RFR) fallback language.



Repapering is complex and involves multiple steps, from impacted contracts and language identification, to final agreement with clients and counterparties. Regardless of their size, organizations face substantial work ahead.

Here's a clear path for getting started and succeeding in the repapering process

- ### 1 Start at the beginning: Assess the number of contracts affected.

A sample study of contracts, prioritized by clients and positions.

 - Prioritize** based on the valuation of exposures including off-balance sheet products.¹
 - Determine** the number of contracts and the form in which they're stored.
- ### 2 Build an operating model and a transition plan: Define the target operating model components.

 - Take the time to **define** key building blocks, processes and roles and responsibilities across the enterprise.
 - Once you have defined the operating model and completed the assessment, you can **build** a solid transition plan.
- ### 3 Implement OCR and trained machine learning:

 - OCR quality 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.
 - Ensure your **metadata** is rich for fewer exceptions and the less rework.
- ### 4 Don't wait for final consensus on language remediation

Consensus on fallback language remains a work in progress.

 - The Alternative Reference Rate Committee (ARRC), ISDA and the other National Working Groups around the world should publish the final recommendations in the course of 2020.
 - In parallel, organizations should build develop solutions that combine AI and rules-based systems, and plan for remediation.
- ### 5 Launching the repapering processes. LIBOR program execution can start, enabled around a few key functions:

 - 1 Comprehensive contract management.** The systems provide an organized way to store, annotate and track workflow right up to the client or counterparty signature.
 - 2 Operations management.** Key tasks include monitoring each department's progress towards compliance and exploring opportunities to automate workflows across each department.
 - 3 Alignment across the enterprise,** including trading, collateral management and core banking systems

Cognizant's solution is:

- A complete solution**
- Already production-tested**
- Understandable by everyone**

LIBOR phase-out represents a window of opportunity

Modernizing contract processes that are fragmented and outdated is an important advance for every organization.

What's more, advanced contract management solutions can help serve other purposes such as the requirements for qualified financial contracts (QFCs), KYC/Onboarding or Credit Reviews.

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

To learn more, read our solution overview at: www.cognizant.com/LIBOR-phase-out