Solidatus
for Financial Services

Factsheet

Solidatus for **IBOR** transformation

The Benchmark rigging scandal in the US$350 trillion interest rate markets was the catalyst for a move away from the British Banking Association's Interbank Offered Rate (IBOR) calculation to alternative Risk-Free Rates (RFRs). This was further accelerated by the 27 July 2017 announcement from Andrew Bailey, the then Chief Executive of the UK Financial Conduct Authority (FCA), who announced that LIBOR (the London Interbank Offered Rate) will no longer be supported by the FCA after 2021 due to insufficient trading in the underlying markets.

Key principles and considerations

The first challenge of IBOR transformation has been identifying preferred alternatives. There are many and not all are consistent with one another. Where identified, the focus has been on technical aspects and the repapering of contracts – with little focus on systems and their contingent risks. Little focus has been applied to the practical realities of the change.

This change primarily affects regulated financial entities but also all institutions that use IBOR, including most corporations. They must know everywhere that rates are reported or used as part of any calculation. Every system, spreadsheet and report must be understood.

Regulators globally are starting to focus more on preparedness of regulated entities. There is also a broad trend towards the more rapid adoption of these new rates. Many institutions are ill-prepared, lack a comprehensive understanding of their data assets and their associated lineage. This failure introduces risk – position, pricing, audit, tax, regulatory reporting, treasury and finance.

Challenges

Institutions must identify and replace all IBOR rates in every system, spreadsheet and report. Any large growth in systems and data, and failure to have catalogued this comprehensively, means management will not understand the true impact. Institutions must remediate this by engaging in substantial discovery - enabling decision-makers to know what is used where.

Key benefits

- **Generate an operational data blueprint** that can help reduce risk around system transformation and regulatory reporting.
- **Map the delta of change** of regulatory updates to reduce future project work.
- **Assist in good data governance practice**, with effective controls around both process and data.
- **Demonstrate data lineage, model data quality** and manage user access rights and data retention.
- **Gain a competitive advantage** by analyzing and optimizing organizational data.
- **Identify data redundancy and duplication**, allowing efficiencies and cost savings over the entire data lifecycle from data capture, through storage, retention and timely, managed destruction.
- **Enhance collaboration** both internally and externally.
- **Create and leverage a single data repository** across jurisdictions creating consistent reporting.
- **Model future processes and workflows** to determine the impact and effectively manage change.
- **Perform a simple and clear gap analysis** on existing processes.

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Further challenges arise from managing the transformation and documenting the process evolution required to transition in a measured format, one which has the flexibility to reflect the different transition implementation dates. For instance, the calculations and processes required to manage the NPV of existing contracts and which new rate will be adopted.

Some institutions must manage transitioning away from a forward-looking rate, which includes default risk, to a backward-looking rate without default risk or the associated basis risks of the change. The derivative market faces further complications, for instance CDOs, which may have multiple underlying assets - any of which may reference an IBOR or which may also use varying RFRs.

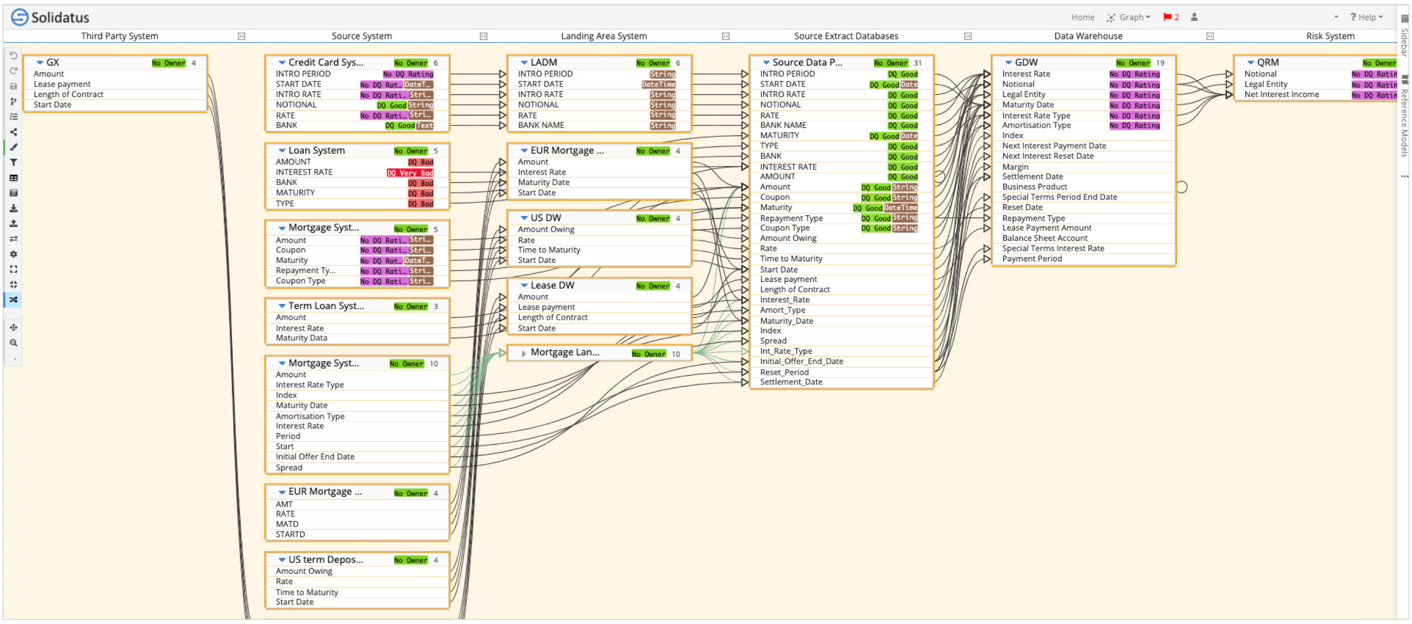
Different rates may be used for different currencies, so each currency is managed separately and with different implementation dates on a cross-currency basis. The effects of understanding the impact of this on hedging and aggregate positions, require adjustments to regulatory reporting.

The use of varying RFRs and their different bases – SOFR is secured, SONIA is unsecured – also affects the attractiveness of assets after the change and may impact valuations and potentially breach a mutual fund's prospectus for example.

Over time, these divergences will likely grow creating a timebomb that could cause at the least corporate embarrassment from a lack of oversight through to regulatory sanction.

Solidtus for IBOR

- Solidatus allows financial services firms to identify and discover the location and scope of IBOR use.
- Solidatus helps financial services firms assess the scope and organizational impact of the required IBOR replacement transformation.
- Solidatus enables clients to leverage and reuse previously discovered and documented IBOR-related data elements to accelerate the transition to ARR.
- Solidatus effectively supports the governance of transformational business risk through its clear organizational lineage.



About Solidatus

Solidatus is an innovative data management technology company, empowering organizations to unlock the true business value behind their data. Our lineage-first technology enables organizations to connect and visualize data relationships across the enterprise, simplifying how they identify, access and understand them. Launched in 2017, Solidatus is the chosen data management tool for both the regulators and the regulated. Its clients and investors include top-tier global financial services brands such as Citi and HSBC, healthcare and retail organizations as well as government institutions. Solidatus has offices in the United Kingdom, the United States and Singapore. For more information, visit **www.solidatus.com**

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