

IBOR Transition – The Technical Work

In 2021 IBOR benchmarks will be no more. Their demise a direct result of abuse and bad publicity.

This change impacts a global portfolio of over \$350 tr USD of contracts and every major financial institution. Different geographies are publishing different Alternative Reference Rates (ARR) with SONIA for the UK, SOFR for the US, ESTER just released for Europe and others following suit.

What does this all mean for your organization in practical terms and how can you get the work done. Here is a simple step by step guide:

Client Need	CPQi Offers
You need to inventory your contracts so you have a list of those that reference IBOR rates	A tool to identify where IBOR occurs in your electronic contracts
Given this list you will need to determine which contracts will extend beyond 2021 and the business needs to decide on fall back language for those contracts. The business will need to asses any Profit and Loss impact for changes.	A tool to identify the end date of contracts and list those who have IBOR in them after 2021
For other contracts you need to decide if the contract will continue to run under the current terms until it expires	
The business will need to decide if new contracts will already start to use new rates. If so which ones for which geographies. Be aware new rates can only be used if your systems and operations are able to cope with them.	
Your systems will need to be able to access and process the new benchmarks that you plan to use for each geography	A review of the trading and risk systems to determine where data is being sourced and how it will need to change
Any risk calculations, pricing, curves, calendars, simulations or screens for the front office and middle office will need to re-worked to use the new benchmarks and be fully tested	Program management and development/testing of all needed changes by geography
Your backoffice systems will need to be adapted to ensure that they can book, clear and settle the new benchmarks per geography. This may include T+1 adjustments	Program management and development/testing of all needed changes by geography
All existing contracts maturing after 2021, or any other that the business determines, will need to be	Migration, testing and deployment of all relevant contracts to the new platform. Full reconciliation

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migrated to use the new calculations and be fully tested	
You may need to run parallel calculations if you intend to continue using IBOR and ARR rates side by side until after 2021. This requires careful planning	Production support managed services for trading and risk platforms that can be turned off for relevant platforms after 2021
Your confirmations and reporting templates will need to be changed to show the new rates	Review, development and testing of all reports for the new benchmarks
Your rates submission process, if relevant, will need to be adjusted for the new benchmarks	Adjustments of the submission process in line with regulator requirements
Any Asset Liability Management systems will need to be adjusted for the new benchmarks and a heavy testing process completed on them.	Full review, development, testing and program management for ALM systems under the new benchmarks
As the rules are still somewhat in flux in certain geographies you need to keep up to date with all proposed changes and consultations for replacement benchmarks	Provision of a business analysis led service that pro-actively provides you with the needed information on changes
Management fees for buy side organization may suffer some level of adjustment	Assessment of the financial impact carried out by our Business Analyst on the fee impact for your organization with the introduction of the new benchmarks
Your documentation will need to be adjusted or amended to include clauses relating to the new benchmarks	Our tools will enable you to identify any documents that are impacted and need adjustment

Project Route or Managed Service

In order to understand the costs and timelines for your organization a proper plan needs to be developed that looks at the volumes, systems and complexity of your trading. This is required whether you decide to fund this as a single project or use the opportunity to move to a managed service.

Project Route

A formal project will be established with a defined scope of change based on the known factors for IBOR transition as they exist today. The normal project disciplines will be implemented of analysis, plan development, business analysis completion, development, testing, reconciliation, deployment and into production support. For budgetary purposes a budget of between \$50,000 and \$100,000 USD would be set aside, depending on the size of your organization, to get to the point of plan development. This plan will determine expected timelines, resources and costs. A specialist organization such as CPQi would be well positioned to help you get to this point. From here an organization would be able to RFP if they desire or contract in a project service.

CPQi has extensive experience in projects for this area. Providing an excellent structure for oversight, management, delivery, testing and management of the process, we can estimate to a high level of accuracy the amount of work involved and the price. Our split site model means that we are able to offer a cost effective solution for the project work with project management and business analysis always onsite. Our development and testing capability is either onsite if clients permit or in our SOC2 compliant offshore centre in the same time zone of Fortaleza Brazil.

Our expertise in this space provides you with a reliable, tried and tested project team that use the latest methods to ensure you have a quality delivery that is both on time and in budget.

Managed Service

With constant change in the regulatory environment as well as other market changes such a IBOR transition, several clients are taking advantage of our managed service offering.

Taking your existing budgets for production support as well as any known change budgets we assess the long term team size requirements for your systems and assign a dedicated team at a flat rate budget over the lifetime of the contract. Within the terms of the agreement we are able to expand up and down from this baseline to accommodate larger changes such as IBOR, Upgrades and other major steps. This ensures that you have a quality delivery when needed without having to hire or contract, then fire resources. This level of predictability ensures you are protected from Macro economic shocks as well as other growth or downside risks. An IBOR transition can be included in the migration to a managed service and implemented by the team who will continue to work with you for the long term. This is done using the same project methods as discussed above.

Transformation

In addition to providing a high quality managed service, CPQi also works to modernize your application portfolio. We do this by focusing on 4 key areas:

- Moving any possible applications to the cloud
- Doing all future development using DevOps
 - Microservice architecture
 - Building for auto-testing
 - Infrastructure expansion and reduction in the code
 - Continuous integration continuous deployment
- Replacing workflow predictions with AI where it makes sense to do so
- Reviewing and improving your channels strategy in partnership with you

The transformation agenda seeks to be as self funding as possible by using our nearshore centre where it is possible to do so and by reducing the reliance on major licensed platforms enable you to reduce licensing costs. In addition any funds allocated for future development are applied using DevOps methods ensuring you do not require additional platform licenses wherever possible.