Overcoming the challenges of LIBOR Contract Remediation

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The context

The journey to Risk Free Rates

As from the end of December 2021, your Financial Institutions (FIs) will no longer be compelled to submit LIBOR rates, as market regulators push for a transition to Risk Free Rates (RFRs) such as SONIA. What's more, end-2021 isn't the only LIBOR deadline you're facing: the Bank of England has said that by the end of Q3 2020, lenders should be in a position to offer non-LIBOR linked products to their customers – and that after Q3 2020, they should work with their borrowers to include clear contractual arrangements in all new and re-financed LIBOR-referencing loan products to facilitate conversion to SONIA or other RFR alternatives ahead of end-2021. Plus, all new issuance of sterling LIBOR-referencing loan products that expire after the end of 2021 should cease by the end of Q1 2021.

To avoid disruption, all banks, insurers, and asset and wealth managers need to meet these deadlines, and ensure they remove all remaining dependencies on LIBOR by the start of 2022. It's a tight timeframe. The transition has pervasive impacts that must be dealt with across your products and operations – and regulators have consistently stressed that the final deadline will not be pushed back.

Contract remediation: the biggest hurdle

Of all the aspects of the transition from LIBOR to RFRs, the remediation of existing contracts is often the largest single task, as well as being the most complex, costly and time-consuming. For FIs of all types, the contract remediation process involves switching potentially hundreds of thousands of back-book LIBOR-based contracts to RFRs – bringing significant implications and impacts for your front, middle and back offices, and for all your products and asset classes.

The scale and breadth of these implications mean that an immense effort is required to remediate all LIBOR contracts and any with terms extending beyond Q4 2021 must be amended and renegotiated. What's more, the challenge of meeting the deadline has been increased by the COVID-19 pandemic. This has redirected attention and resources to other priorities at a crucial time in the planning and preparation of contract remediation programmes, while also making it harder to ramp up and coordinate large project teams.

Four key steps – each raising multiple challenges

The end-to-end process for LIBOR contract remediation can be broken down into four distinct yet closely interdependent steps. For virtually every FI, each step raises a number of challenges. Failing to address the challenges at any stage can lead to inefficiencies and delays, and will risk critically undermining the entire programme and significantly increasing cost.

1 Identifying the in-scope contract population

Contracts are often scattered across an FIs systems in different business units, geographies and formats. This can make it difficult to identify how many contracts are impacted, what type they are, and where they're located. To be searched efficiently and accurately for LIBOR references, our view is that there's an absolute need to digitise all contracts in scope – not least to address Credit Support Annex (CSA) documents, understand interest rate language, and establish where that language is not being used in the FIs systems. However, some FIs find that digitisation of contracts is hampered by the variable quality of versions stored in different formats – from pdfs to Word to scanned faxes.

2 Collating the relevant contracts for remediation

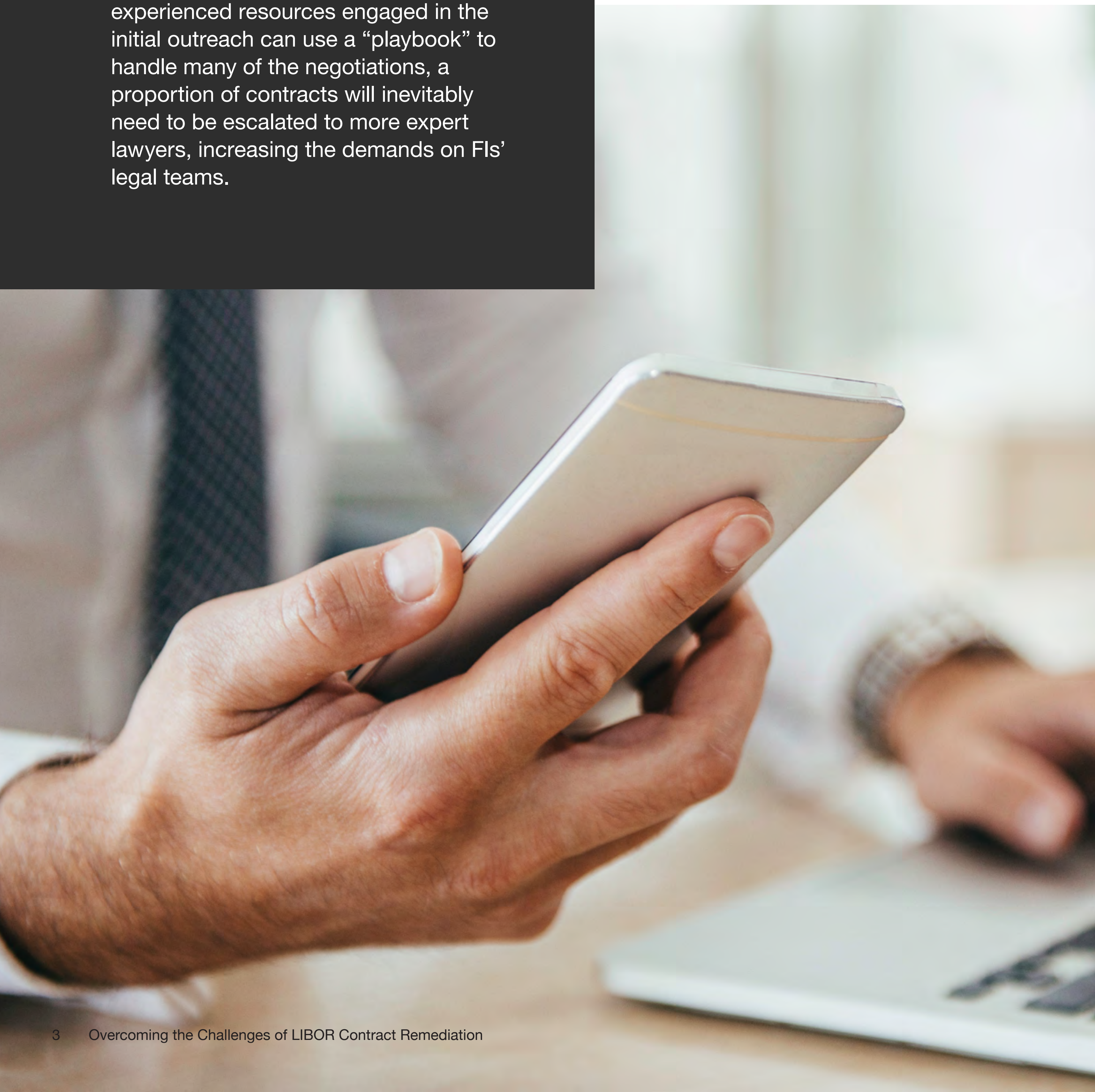
Differing data regulations can make it difficult for an FI to bring LIBOR contracts from different jurisdictions together in one place for remediation. A further source of complexity may be that some contracts – especially within the loans portfolio – still exist only in hard copy form, and need to be scanned and uploaded to systems as part of the remediation. Also, in many cases cloud solutions offer the best basis for tackling contract remediation, but some FIs' IT policies do not allow the use of cloud platforms to hold their own data and/or that of clients.

3 Remediating the contracts to effect the change

This requires significant input of legal expertise, and often language skills. Since it's difficult for FIs to free up in-house legal resources to work on contract remediation on a dedicated basis, this is often treated as a "side-of-the desk" task alongside the legal team's regular workload. Dealing with amended contracts can be especially complex, since the related documentation and supporting data is often hard to find. With a key dependency on legal, the in-house teams needs appropriate support to maintain the pace of the programme.

4 Reaching out to counterparties to negotiate their agreement to the remediated contracts

Again, this can demand significant legal resources and language skills. Getting up-to-date contact details for counterparties can be a challenge. Once they're contacted, counterparties are understandably eager to have the changes and resulting implications explained in detail. While less experienced resources engaged in the initial outreach can use a "playbook" to handle many of the negotiations, a proportion of contracts will inevitably need to be escalated to more expert lawyers, increasing the demands on FIs' legal teams.



Our solution

As your FI prepares to rise to the challenge of LIBOR contract remediation, we stand ready and able to help. Whether you need an infusion of experienced professionals to support your own teams, or a fully outsourced solution where we take over the problem and deal with it, we can deliver. We can flex to your unique operational, legal and IT needs. And for every client, we'll bring our unique combination of management input, technology expertise and human insight to ensure the best possible outcomes. The bottom line is that LIBOR contract remediation is a significant test for your organisation – and one you cannot afford to fail.

To help you tackle LIBOR contract remediation as accurately, quickly and cost-effectively as possible – and with the minimal disruption to business as usual – we provide global and local solutions that combine legal, regulatory and technology expertise, supported by deep industry-specific knowledge and experience.

Our solution consists of four key components:

1 LIBOR specialists
Our LIBOR subject matter experts have world-leading technical understanding of LIBOR and other interest rate mechanisms, and are available to provide guidance and advice on any issues throughout.

2 Technical legal expertise
Our legal capability is one of the largest in the world with over 4000 lawyers in 100+ countries fully equipped and already supporting a number of FIs in relation to IBOR transition. We can work on an outsourced basis, or in collaboration either with your own legal team and/or your chosen external legal advisers.

3 End to End Technology
We have combined our own proprietary technology with best-in-class third-party offerings to create a powerful end-to-end solution to LIBOR contract remediation. We also apply a flexible approach to technology, enabling us to adapt to and meet the unique requirements of every client.

4 Outreach
To contact counterparties and negotiate the remediated contracts, we have a large team of specially-trained outreach specialists based in service delivery centres worldwide. As well as having the necessary legal and language skills, these resources are highly cost-effective and efficient, combining high quality output with high volume throughput, using a proven “playbook” for the negotiation and escalating any counterparties who require more specialised legal attention.

Why PwC?

Covering all the bases

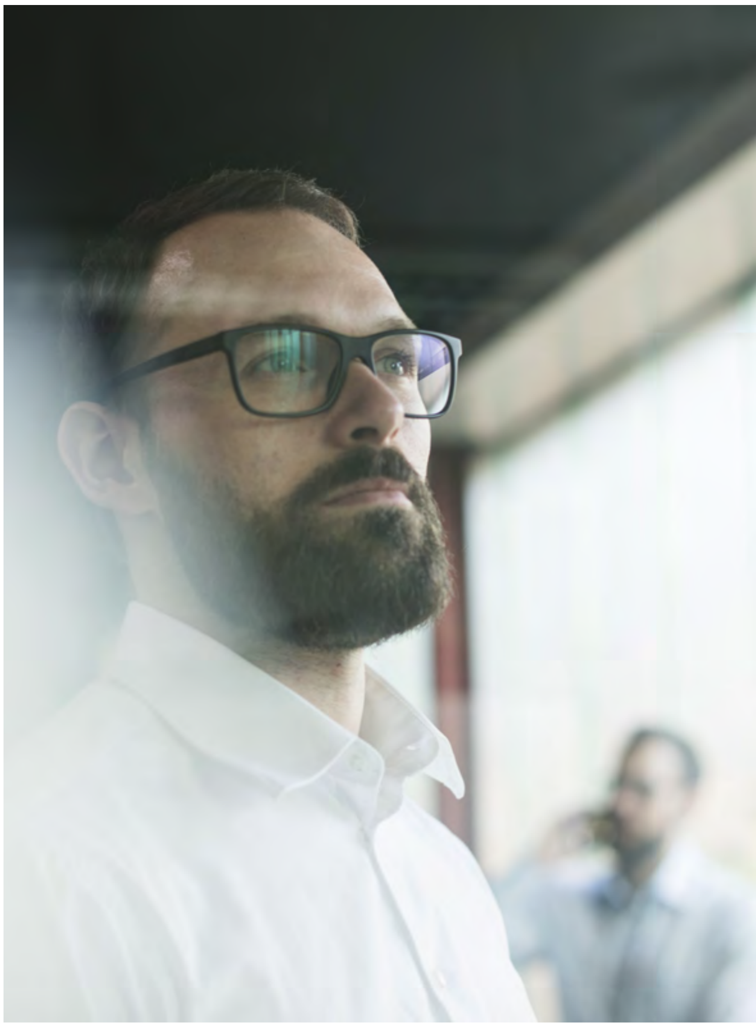
We combine the four key components required to plan, manage and execute an effective LIBOR contract remediation programme: technology, legal, outreach and LIBOR expertise. We also understand the regulatory expectations which firms need to meet. While other providers have one or more of these elements, we combine, integrate and optimise them in a way that enables us to deliver an unrivalled service.

Technology leadership

We are acknowledged leaders in developing and delivering technology solutions for FI clients, ~~including our specialist contract analysis technology, called eBAM.~~ Our experience also includes developing data models and workflows for the majority of LIBOR document types.

Worldwide reach

Our global presence and scale mean we can handle contract remediation for FIs of any size, spinning up high-quality multi-skilled teams at pace to meet your needs in virtually any geography worldwide.



Scalable, flexible workforce and engagement models

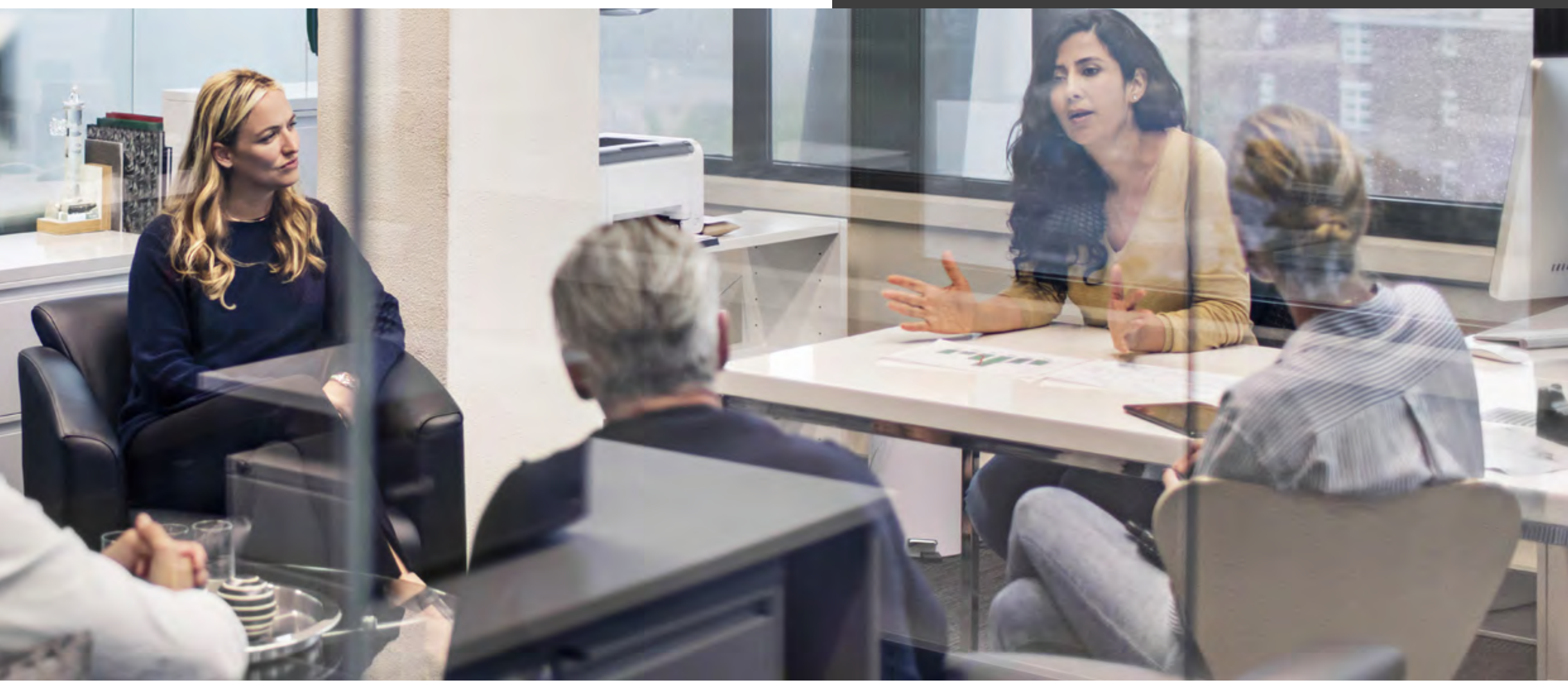
We can offer experienced and highly-qualified PwC people to work in-house for you on a flexible basis, for example joining your legal team to handle peaks in demand. This same flexibility applies to our engagement models: depending on your needs, we can offer a full managed service or work in collaboration with your own teams.

Programme delivery

Our track record and experience in delivering large, complex programmes – often global in scope – is second to none, backed by proven processes, infrastructure and tech.

Going beyond compliance: improving internal capability

Some FIs are approaching LIBOR contract remediation not just as a compliance exercise, but as an opportunity to improve internal capability. This can involve additional time and effort – but it means that the next time a similarly impactful change comes along, you'll be better-placed to tackle it faster, with less disruption and at lower cost. We can help you achieve this as part of our solution, by enabling your organisation to leverage and learn from our enhanced technology, processes and data.



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