Stand out for the right reasons
Financial Services Risk and Regulation

LIBOR transition: FCA calls on asset managers to act

AT A GLANCE

February 2020

What's new?

- The FCA published a Dear CEO letter - Asset management firms: prepare now for the end of LIBOR - on 27 February 2020.
- It sets out the regulator's expectations for the asset management sector as firms prepare for the end of LIBOR. It reiterates that firms should act now, and for LIBOR GBP, move to new SONIA products by the end of Q3 2020.
- Firms should not expect or rely on future regulatory relief, guidance or legislative solutions, and their transition plans should already be underway.

What does this mean?

- The letter is addressed to all UK regulated asset managers, including investments firms as well as managers of UCITS and AIFs.
- The regulator sets out its expectations of firms across a number of areas.
- Firms need to quantify and understand how LIBOR impacts their investments, operations and activities. In terms of investment exposure, firms need to quantify the extent of their exposure today, as well as beyond 2021.
- Based on their LIBOR impact and footprint, firms need to put in place a plan that lays out their transition (incl. dependencies), which needs to be continuously monitored. Underpinning that holistic plan is an adequate resourcing of a firm's transition.
- Governance is another theme highlighted by the FCA. The regulator expects the Board to oversee the transition, seeking challenge from the second and third lines of defence, and sign off the transition plan.
- Firms also need to be clear about which senior managers are responsible for each aspect of the transition, captured in Statements of Responsibilities required under the SM&CR.
- Firms are reminded that, as regulated entities, they have full responsibility for managing these risks, regardless of any intra-group or third party outsourcing arrangements.
- Firms should ensure that all clients are treated fairly and their interests are protected.
- Firms need to identify, mitigate or, where not possible, manage conflicts of interest associated with transition.
- Where a firm invests in instruments referencing LIBOR on behalf of clients, the regulator considers that managing the risks associated with transition may involve investing in instruments that reference alternative rates or have fallback provisions.
- Finally, the FCA reiterates that firms should identify risks and mitigate them appropriately, as per FCA's Q&As on conduct risk.

Contacts

Fiona Lehane
Partner

T: +44 (0) 7802 660565
E: fiona.m.lehane@pwc.com

Maximilian Seufert
Director

T: +44 (0) 7710 035777
E: m.seufert@pwc.com

Lucas Penfold
Manager

T: +44 (0) 7483 407581
E: lucas.penfold@pwc.com

Daniela Bunea
Senior Associate

T: +44 (0) 7561 789058
E: daniela.bunea@pwc.com

pwc

Stand out for the right reasons
Financial Services Risk and Regulation

AT A GLANCE

February 2020

What do firms need to do?

- The key themes raised in the letter broadly align with those raised in the equivalent letter sent to banks and insurers in September 2018.
- It is essential that firms act now to reflect the expectations from the FCA letter in their LIBOR transition plans.
- If they have not already done so, firms must develop a proportionate plan to transition away from LIBOR, with a clear governance and programme structure in place.

Firms should (depending on their transition programme progression):

- Establish appropriate governance, ensuring board oversight of the transition, and establish clear accountability for each aspect of the process, having regard to SM&CR.
- Assess their exposures to LIBOR, taking into account different legal entities within a group, funds, investors and geographies.
- Define their programme roadmap and plan incl. milestones and decision points.
- Design and run impact assessments across all business units (front to back offices incl. vendors) and products, including contracts and documents.
- Identify key risks and scenarios in relation to their LIBOR transition. The FCA makes particular reference to its Q&As on conduct risk during LIBOR transition.
- Start planning and executing engagement with clients now. It is important to have consistent communication across the customer base to avoid the risk of discriminative treatment.
- Consider (where appropriate) linking other strategic initiatives to their LIBOR programme (e.g. contract management, product innovation, operating model review) to capture synergies.

Contacts

Fiona Lehane
Partner
T: +44 (0) 7802 660565
E: fiona.m.lehane@pwc.com

Maximilian Seufert
Director
T: +44 (0) 7710 035777
E: m.seufert@pwc.com

Lucas Penfold
Manager
T: +44 (0) 7483 407581
E: lucas.penfold@pwc.com

Daniela Bunea
Senior Associate
T: +44 (0) 7561 789058
E: daniela.bunea@pwc.com

Next steps

- Firms should review their LIBOR business transition strategy on trading and products against the FCA letter.
- Firms must take proactive steps to progress their transition plans, rather than waiting for instructions from clients and counterparties or intervention from the regulators.