Association For Financial Professional ARIZONA

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LIBOR transition to SOFR and impact to corporate treasurers & banks

Beatriz Saldivar / Director, Treasury & Payments

beatriz.saldivar@axletrees.com

Did you know?

"Every weekday about 11am., 18 large banks, report the rate at which they believe they can borrow a reasonable amount of dollars from each other …"

Source: Blomberg, AFP, PWC, The Global Treasurer, CNN Money, CNBC,

What is LIBOR?

- London Inter-Bank Offered Rate

Inter-bank lending rate (interest rate at which banks offer to lend funds

Benchmark rate "for over $200 trillion of USD – based derivatives & loans"

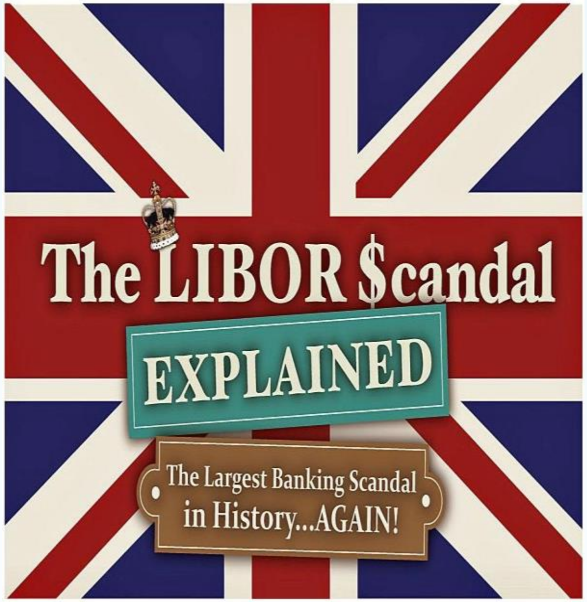
Source: Blomberg, AFP, PWC, The Global Treasurer, CNN Money, CNBC,

LIBOR SANDAL

2012 Financial Industry Regulators discovered manipulation

Between large US and European Banks

By 2013 widespread manipulations was discovered



Timeline of events

End of an era

The benchmark Libor will soon be replaced by the Secured overnight financing rate, or SOFR. Here is a timeline of events

Summer 2012: Several big banks cited for manipulating Libor

June 2017: Fed committee recommends SOFR as an alternative to Libor

July 2017: U.K. regulator announces that Libor will be phased out

April 2018: New York Fed begins publishing daily SOFR prices

December 2021: Phase-out of Libor set to begin

Source: American Banker

LIBOR SANDAL

Barclays was the first bank to settle

December 2012 investment bank UBS, had agreed to pay $1.5bn to, UK and Swiss authorities

September 2013, ICAP agreed to settle (first interdealer broker to settle)

UBS, Barclays and Royal Bank of Scotland paid a combined $2.4bn in penalties

Board of Governors Federal Reserve System Bank of New York

Alternative Reference Rates Committee (ARCC)

*June 2017, its identification of the Secured Overnight Financing Rate (SOFR) to replace LIBOR

What is SOFR?

Secured Overnight Financing Rate

Broad measure of the cost of borrowing cash overnight collateralized by Treasury securities

Intended to take the place of LIBOR when is discontinued at end of 2021

Planning Ahead

- "LIBOR Fallback" Language is not limited to:

Derivatives

Lending

Debt

Impact to Corporate Treasurers

LIBOR has been around for 30 years, why should I care?

Committed lines with banks	Future credit facilities	Floating-rate debt instruments
Intercompany funding agreements and late payments penalties	ISDA Master agreement	Corporate's systems and processes

Impact to Corporate Treasurers

- Costly changes
- Hedging & Hedge Accounting
- New benchmark could critically affect existing hedge accounting treatments
- Tax consequences
- LIBOR has 5 different currency benchmarks
- Risk of practical mechanics

Impact to Corporate Treasurers

Steps to take now

Internal assessment

↓

Develop a plan next by the next 8 months

✓Contracts	✓Systems	✓Processes

↓

Consider impact and mitigate risk

↓

Negotiate with your bankers the “LIBOR fallback language” for all your agreements

Impact Across Corporate Treasury

Source: The Global Treasurer & Financial Times

Impact Across Corporate Treasury

"It therefore matters what happens to Libor or, more importantly, what replaces it — so the markets can continue to function as normal, and companies can continue to raise funding or capital and manage the interest rate risk that comes with it."

Source: The Global Treasurer & Financial Times

Impact to Banks

"SOFR is based on overnight repurchase agreements, so it doesn't reflect longer-term credit risk. Libor, by contrast, is the rate reflects what banks pay to borrow from one another, so it always takes credit risk into account.

The result is that the rates, at least right now, vary widely, and if that's the case when SOFR takes effect in three years, banks could find themselves locked into loans that don't match up with benchmark rates."

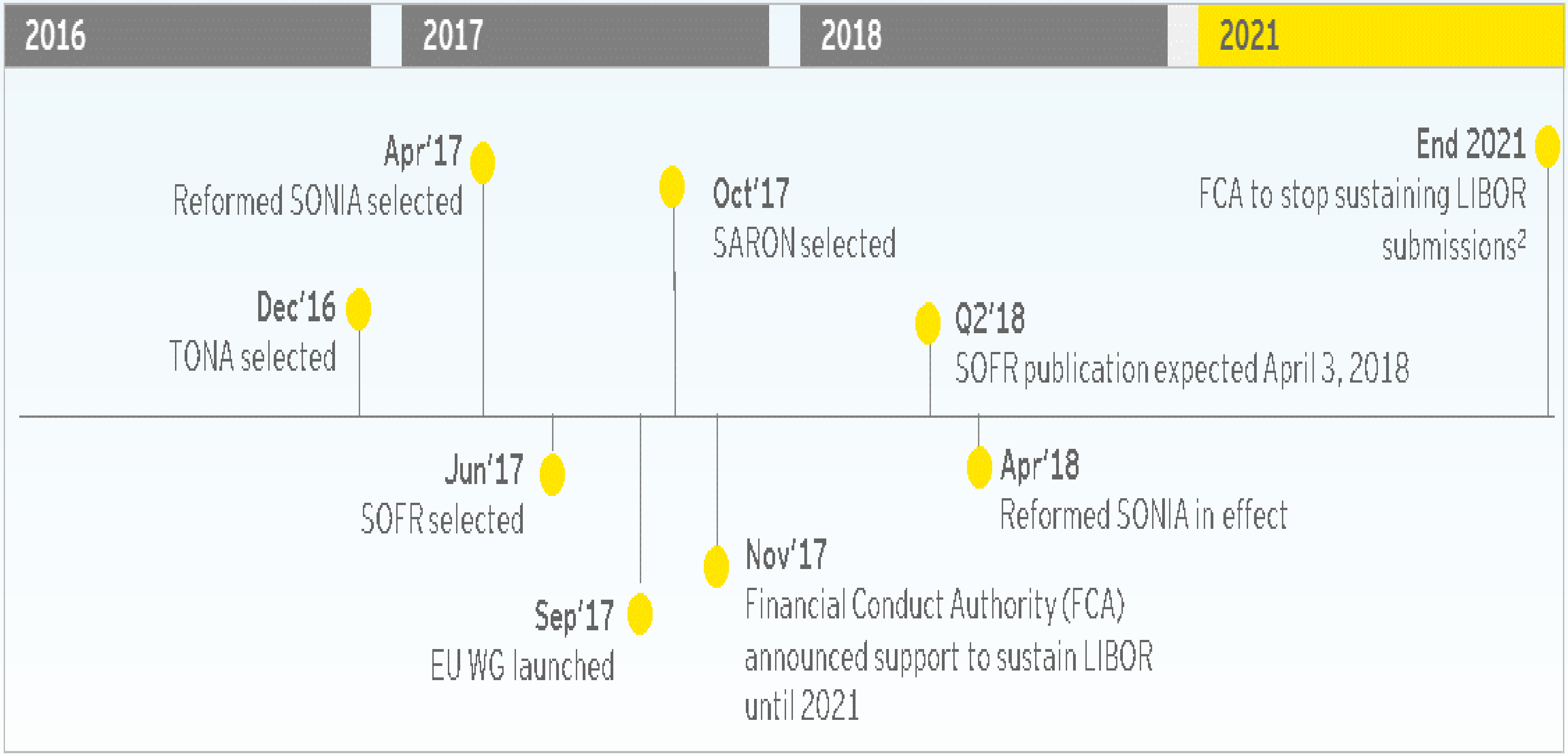
Source: American Banker

Adoption of ARRs multi-annual process

Jurisdiction	Current benchmark	Recommended alternative RFR
United States	USD LIBOR	Alternative Reference Rates Committee recommended the secured overnight financing rate **(SOFR)**
United Kingdom	GBP LIBOR	WG on Sterling RFR recommended the reformed Sterling overnight index average **(SONIA)**
Europe	EURO LIBOR, EURIBOR	Euro overnight index average (EONIA) is being considered as a potential alternative to replace EURO LIBOR, EURIBOR
Switzerland	CHF LIBOR TOIS	The National WG on CHF Reference Rates recommended the Swiss average rate overnight **(SARON)**
Japan	JPY LIBOR, TIBOR	Study Group on Risk-Free Reference Rates recommended the Tokyo overnight average rate **(TONA)**

Source: The Global Treasurer

Adoption of ARRs multi-annual process



Source: The Global Treasurer

Key Takeaways

- Benchmark rate term structures
- Global consistency
- Liquidity of new and legacy products
- Credit spread differential
- System infrastructure
- Fall back provisions – Derivatives
- Fall back provisions – Corporate lending
- Fall back provisions – Debt and floating rate securities
- Benchmark rate for hedging
- Tax consequences

Source: PWC

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