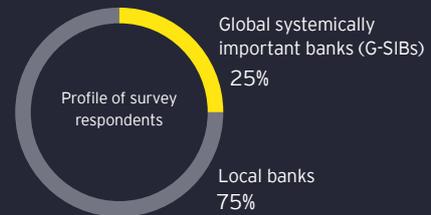


IBOR transition readiness: where banks are and next steps

As the end of 2021 nears, there is greater clarity on the path to IBOR transition. However, our third annual IBOR Transition Readiness Survey finds that banks, and market participants, need to pick up the pace of progress with the bulk of the transition yet to take place.

28 banks participated in the survey:



Despite making significant progress banks face ongoing challenges; with technology and repapering remaining as key areas of focus.

Bank's program readiness to meet the end-2021 transition deadline:



Expect front book transition to be complete



Expect back book transition to be complete

IBOR program budgeting for 2021:

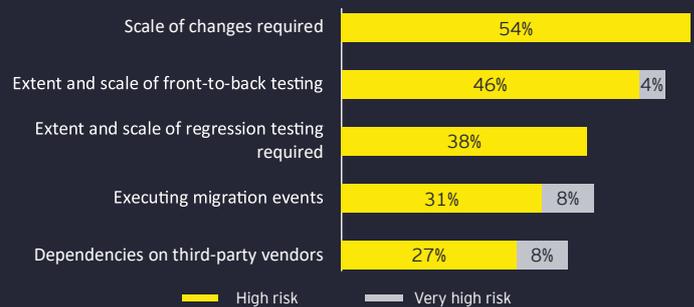
- The majority of G-SIBs will spend over **\$100m**; with the majority of local banks spending under **\$25m**.
- The largest areas of spend are technology and legal repapering, which together represent over half of the total spend across banks' transition programs:



The scale of technology execution and the associated testing requires strategic focus from banks in 2021.

Banks identified the scale of technology change as the biggest risk in 2021 for technology execution, with dependency on third-party platforms seen as less of a risk than in 2020.

The biggest risks banks face around technology:



50% of banks perceive the implementation of front-to-back testing to be of high, or very high risk to their transition journey; but only **29%** have fully established program test leadership.

While Sterling transition is on track, there is less momentum for US Dollar (USD). The limited extension set by the ICE Benchmark Administration (IBA) has eased the timeline for the transition for some part of the USD legacy book.

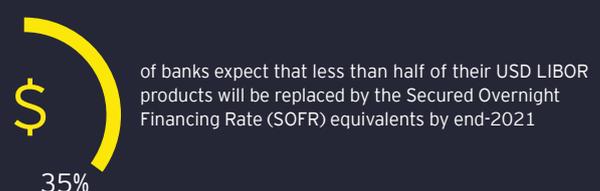
Focus must remain on meeting key regulatory and industry milestones. The key challenges facing banks are:

1. Their own infrastructure readiness to offer new products
2. Sufficient market liquidity
3. Client uptake of the new risk-free rate (RFR) products

Most banks are confident of meeting the Sterling RFR working group milestones for 2021:



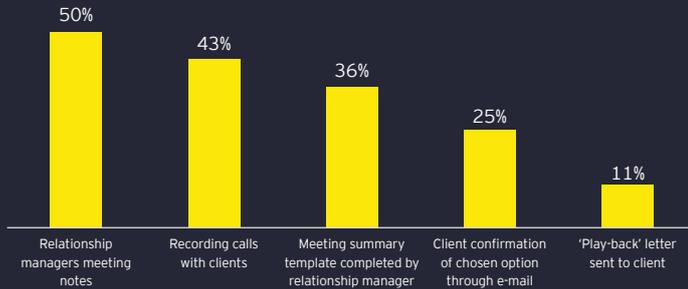
Banks expect to struggle with the revised timelines, set by the Federal Reserve (FED), for a cessation of USD IBOR usage for new transactions post 2021:



The client journey remains a key piece to mapping conduct risk - which banks are well-positioned for, despite a varied approach across the market.

71% of banks have either completed, or are in the process of mapping conduct risks and controls to individual client journeys

Banks varied approach to capturing client conversations on IBOR:



Banks have started to move clients away from IBOR; and most favor an active transition.

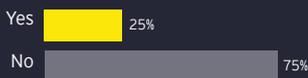
Many banks have begun moving their clients away from IBOR, starting with lending products (including pilots and reverse enquiries).



of banks, in the context of loans, have a design principle to repaper legal contracts only once – reducing the number of touchpoints with customers

Shortage of skilled legal resources remains a clear risk for banks in their move away from IBOR.

Do you have the necessary in-house resource to transition legacy contracts:



To fill the gap:



While banks have progressed in understanding fallback implications for their structured notes portfolio; the majority have yet to complete defining remediation strategies.

68% of banks are in the process of assessing transition risks across their structured notes portfolio

64% of banks are in the process of defining remediation strategies for their structured notes portfolio

Summary

Banks have progressed in transitioning from IBOR, but as we approach the endgame toward the ambitious target of end-2021, for their next moves banks should:

1. Stay on track with their implementation plans
2. Manage infrastructure rollout including systems and data
3. Engage with their clients on both existing and new products
4. Manage conduct and operational risks appropriately
5. Prepare for complex changes to reporting and accounting, in line with evolving expectations, such as from the accounting standards board

For more insights, please contact:

Shankar Mukherjee | UK IBOR Lead, Ernst & Young LLP | smukherjee@uk.ey.com | +44 75845 88320

Vera Kukić | UK IBOR Lead, Ernst & Young LLP | vkukic1@uk.ey.com | +44 77898 76250

Simon Woods | EY Global & EY EMEA IBOR Lead, Ernst & Young Ltd | simon.woods@ch.ey.com | +41 58 286 3879

David Williams | EY EMEA IBOR Technology Lead, Ernst & Young LLP | dwilliams2@uk.ey.com | +44 20 7951 4893

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

What makes EY distinctive in financial services

Over 84,000 EY professionals are dedicated to financial services, serving the banking and capital markets, insurance, and wealth and asset management sectors. We share a single focus – to build a better financial services industry, one that is stronger, fairer and more sustainable.

© 2021 EYGM Limited. All Rights Reserved. EYG no. ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as legal, accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com/fs