



LIBOR Transition Toolkit Guide

Assessing your LIBOR exposure



LIBOR Exposure Assessment

The purpose of this Toolkit is to provide you with a guide and template to assist in gathering the appropriate documentation to assess your LIBOR-linked exposure, which includes on-balance sheet LIBOR-linked instruments and off-balance sheet exposures such as accounting considerations, valuation and risk management models, third-party vendors, information technology and treasurer management systems.

Documenting your LIBOR-linked exposures is an imperative initial step in developing a LIBOR transition plan in consideration of the facts and circumstances applicable to your portfolio.

Following the completion of your LIBOR exposure assessment, you will have to consider the next steps in your firm's transition away from LIBOR. Depending on the breadth and depth of your LIBOR exposure, this could involve the establishment of a change management project with its own governance and project managers to ensure swift progress and implementation of your transition plan. Which includes documentation of milestones achieved, all in consideration of regulatory guidance and industry practice.

For further information on the specific data items to be populated in the LIBOR Toolkit catalogue, please reference the glossary at the end of this document. Once you have populated your LIBOR Toolkit catalogue, please contact your Kroll representative to discuss the proposed next steps regarding your LIBOR transition plan. Additional information on who to contact is located at the end of this LIBOR Exposure Assessment Toolkit.



LIBOR-linked exposure assessment and documentation

No.	Step	Guidance
1	Produce a list within your LIBOR Toolkit catalogue of all the instruments you have <u>issued</u> referencing LIBOR rates that will mature after December 31, 2021.	<p>LIBOR is currently published in five currencies which are USD, GBP, EUR, CHF and YEN. References to LIBOR are often included:</p> <ol style="list-style-type: none"> 1. Interest rate swaps 2. Cross-currency swaps 3. Interest rate futures and options 4. Securitized products, e.g. MBS and CLOs 5. Floating-rate notes 6. Bilateral loans 7. Syndicated loans 8. Mortgages 9. Trade-receivables <p>Key Consideration:</p> <p>Where you are the issuer of LIBOR-linked instruments, you may need to negotiate the transition to a suitable replacement for LIBOR with your counterparties, depending on the fall-back arrangements included within the terms of the product. Where this is not possible before December 31, 2021 and these products reference USD, GBP or JPY LIBOR, you are mainly able to rely on synthetic rates (in the cases of GBP and JPY) and the fully representative USD LIBOR rate on the basis that your LIBOR-linked instrument qualifies as tough legacy contracts.</p> <p>Where you are the lender in a bilateral loan, you must negotiate an effective replacement rate with the borrower.</p>

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No.	Step	Guidance
2	Produce a list within your LIBOR Toolkit catalogue of all the instruments you have <u>invested</u> in referencing LIBOR rates that will mature after December 31, 2021.	<p>LIBOR is currently published in five currencies: USD, GBP, EUR, CHF and YEN. References to LIBOR are often included in the following products:</p> <ol style="list-style-type: none"> 1. Interest rate swaps 2. Cross-currency swaps 3. Interest rate futures and options 4. Securitized products, e.g. MBS and CLOs 5. Floating-rate notes 6. Bilateral loans 7. Syndicated loans 8. Mortgages 9. Trade-receivables <p>Key Consideration:</p> <p>Where you are the investor in a debt obligation, the issuer will likely approach you with their transition proposal. They may also inform you whether they will be able to use the synthetic or continuing LIBOR rates for tough legacy contracts. Based on this information, you will need to form a view on whether you would agree with the transition proposal or whether you want to take additional action. Where you are the borrower in a bilateral loan, your lender will likely approach you with their transition proposal. You will have to form a view on you agreement with this proposal and what your minimum goal will be.</p>
3	Commercial contracts: Include in your LIBOR Toolkit catalogue all commercial contracts which reference LIBOR.	<p>Questions to consider:</p> <ul style="list-style-type: none"> • Do you reference LIBOR as part of transfer pricing agreements? • Do you reference LIBOR in procurement contracts?

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No.	Step	Guidance
4	Accounting: Include in your LIBOR Toolkit catalogue all the uses of LIBOR for accounting purposes.	<p>Questions to consider:</p> <ul style="list-style-type: none"> • Do you rely on hedge-accounting referenced to LIBOR? • Potential impact on fair value accounting and impairment to profit and loss and credit allowances Considerations to transfer pricing implications • of a multi-rate environment on intercompany funding arrangements and derivatives LIBOR disclosures in all SEC filings • Any investors whose fee structure (e.g., performance-based fees) or performance reporting (e.g., use of LIBOR-linked benchmark)
5	Valuation and risk management: Include in your LIBOR Toolkit catalogue the uses of LIBOR in your valuation approach and risk management techniques.	<p>Questions to consider:</p> <ul style="list-style-type: none"> • Do you use LIBOR for cashflow discounting? • Do you use LIBOR for historical data needs for valuation, pricing system and model updates? • LIBOR exposures when updating business and enterprise-level risk management routines
6	Third-party vendors: Include in your LIBOR Toolkit catalogue all third-party vendors who (to your knowledge) rely on LIBOR when providing services to you.	<p>Third-party vendors who may have exposure to LIBOR may include:</p> <ul style="list-style-type: none"> • Loan management tools and software • Accounting tools and software • Any additional back office tools or software • Outsourced cash flow modelling and valuations

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No.	Step	Guidance
7	IT and treasury management systems using LIBOR: Include in your LIBOR Toolkit catalogue all systems which ingest LIBOR rates. Consider whether they are capable of ingesting risk-free rates (RFR) data and support compounding in areas.*	<p>Systems might include:</p> <ul style="list-style-type: none"> • Risk management systems • Treasury management systems • Information technology systems (e.g., accounting, investor reporting, risk, valuation or trading) • Planned changes to compliance procedures, controls or surveillance systems designed to monitor LIBOR-linked instruments or contracts
8	Other uses: Include in your LIBOR Toolkit catalogue any other potential uses of LIBOR within your firm.	Consider whether your firm relies on LIBOR in any other way which would not be captured by the points above. You may want to ask a group of key employees to think critically about any documents, methodologies or policies which reference LIBOR.
9	Include in your LIBOR Toolkit catalogue all derivatives products which are subject to the International Swaps and Derivatives Association (ISDA) protocol.	ISDA has developed fallback language which ensures the transition of your derivative exposure on the date of LIBOR cessation.
10	Include in your LIBOR Toolkit catalogue all derivatives which are centrally cleared.	Clearing houses have adopted the same fallback mechanisms as ISDA.

No.	Step	Guidance
11	Include in your LIBOR Toolkit catalogue all derivatives which are neither subject to the ISDA protocol nor centrally cleared.	<p>As a first step, it is critical to understand in detail the contractual fallback arrangements in place for each of these derivatives. You will likely face three cases:</p> <ul style="list-style-type: none">• Effective fall-back arrangements: Record the reference rate agreed for fallback.• Ineffective fall-back arrangements: Some arrangements might only consider the temporary unavailability of LIBOR, not its permanent cessation. You will need to negotiate with your counterparty. Where this is not possible or likely before 31 December 2021, you may be able to rely on synthetic rates based on the argument that these products are tough-legacy contracts.• No fallback arrangement included: Again, you will have to negotiate the fallback rate with your counterparty and may be able to rely on the argument that the product is part of the tough legacy contracts.



LIBOR transition toolkit glossary

- 1. Filename** – The name of the respective LIBOR-linked agreement or documentation that is being reviewed
- 2. Instrument Type** – Indication of the LIBOR-linked instrument type. Dropdown menu includes the following instrument types: interest rate swaps, cross-currency swaps, interest rate futures and options, securitized products, floating-rate notes, bilateral loans, syndicated loans, mortgages, trade receivables, derivatives, and other loan
- 3. Exposure Type** – Indication of the exposure type related to your LIBOR exposure. Drop down menu includes: asset, liability, hedge, model, software, third-party vendor, accounting and other
- 4. Position** – Indication if you are an issuer, investor, borrower, lender or N/A in relation to your LIBOR-linked exposure
- 5. Administrative Agent** – Party or parties appointed to facilitate administrative tasks of the loan and act as an intermediary between the borrower and lender(s)
- 6. Issuer/Co-Issuer** – Legal entity responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions
- 7. Collateral Manager** – Party or parties appointed to manage the respective collateral of your LIBOR linked exposure
- 8. Borrower(s)** – If applicable, party or parties acting as the borrower(s) with respect to your LIBOR linked exposure
- 9. Currency** – LIBOR is currently published in five currencies which are USD, GBP, EUR, CHF and YEN
- 10. Governing Law** – Clause that specifies that the laws of a mutually agreed upon jurisdiction will govern the interpretation and enforcement of the terms of the contract
- 11. Aggregate Principal Amount** – The amount due to satisfy the payoff of the underlying obligation, less interest or other charges
- 12. Issue Date** – The date on which the LIBOR-linked instrument is issued and begins trading
- 13. Term** – Period of time assigned to the lifespan of the LIBOR-linked exposure
- 14. Maturity Date** – The date in which the LIBOR-linked exposure is set to cease
- 15. Renewal** – Yes/no dropdown indicating if the LIBOR-linked exposure has a renewal option
- 16. Renewal Period** – Specification of the renewal period in month
- 17. Timeframe Relevant** – Yes/no dropdown indicating if the LIBOR-linked exposure will mature after December 31, 2021
- 18. Amendment Possible** – Yes/no dropdown indicating if your LIBOR-linked exposure can be amended and transitioned to an alternative reference rate
- 19. ISDA Protocol** – Yes/no dropdown indicating if your LIBOR-linked exposure is subject to the ISDA protocol
- 20. Centrally Cleared** – Yes/No dropdown indicating if your LIBOR-linked exposure is centrally cleared
- 21. Collateral Asset Type** – Specification of the underlying asset type associated with your LIBOR linked exposure
- 22. Collateral Rate Type** – Specification of the underlying rate type associated with your LIBOR linked exposure
- 23. LIBOR Relevant** – Yes/no dropdown indicating LIBOR exposure relevance (in the case you include additional non-LIBOR exposed instruments in the LIBOR Toolkit catalogue for completeness purposes)

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24. LIBOR – All relevant information pertaining to the reference of LIBOR in the respective file being reviewed. References can include, but are not limited to: LIBOR rate definitions, applicable margins, default rates, rate calculations, source of LIBOR rates, etc.

25. Determining Party – Specification of the party that has the authority, but not the obligation, to select the alternative replacement rate as the LIBOR replacement. The determining party

confers that authority once a LIBOR discontinuance event has occurred.

26. Fallback (LIBOR) – Contractual provisions that specify the trigger events for a transition to a replacement rate, the replacement rate and the spread adjustment to align the replacement rate with the benchmark being replaced

27. Alternative Reference Rate(s) – Description of the alternative reference rate(s) that will be utilized in replacement of LIBOR



With the decommissioning of LIBOR quickly approaching, it is crucial to identify and replace references and dependencies. Kroll offers a unique skillset that allows us to assist clients in the LIBOR transition, end-to-end. From documentation review to financial modeling, Kroll can serve as your single source provider for LIBOR transition advisory services.

Lean on Kroll for our vast array of subject matter experts with the background and experience to handle any steps necessary to mitigate risks associated with LIBOR replacement.

Our LIBOR transition advisory services team



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Across 30 countries and territories



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