

# Accelerating LIBOR compliance through automated regulatory framework

Global solution for multi country/product powered by Loan IQ platform

## About the client

With a presence in 34 countries across the globe, the client is one of the leading multinational banks in APAC region. It serves more than 8 million customers. As of 2021 the bank had an asset size of more than \$900 billion.

## Background

LIBOR, London Inter-bank Bank Offer Rate, is the benchmark interest rate at which major AAA rated global banks borrow from one another. It is calculated based on submissions from selected panel banks. There have been multiple instances where LIBOR was subjected to manipulation and scandal making it less credible as a benchmark rate. This led to a regulatory mandate to move towards alternative Risk-Free Rates (RFR) by 2021.

## Impact of LIBOR transition



\$400 trillion worth of existing LIBOR rated contracts need to be renegotiated to the new rates



There is a need to restructure existing banking systems to adapt to the new ARR



Relook and agree on fallback language post-LIBOR exit involves significant negotiations due to rate changes



Remediation of several impacted areas, such as loans, derivatives, bonds, securitized products, etc.

## Design challenges



Multiple systems were impacted as a result of the LIBOR transition. Identifying, assessing, and analyzing impact proved to be a major challenge



Handling two rates and indexes at the same time during the period of transition/ remediation was very complex



Lack of automated reconciliation process for data mapping between the existing core banking systems and target application



Regression testing during the upgrade and migration phase due to large contract volumes and loan size for migration



Multiple tactical solutions across the group necessitating customization of testing scenarios



Identification and remediation of loan application-level changes due to renegotiation of loan contracts

## Solution delivered

The main objective of the program was to enable the bank to comply with the LIBOR transition. There were several prerequisites that had to be completed before the actual transition journey could begin. Therefore, HCL Technologies jointly drafted and executed a layered approach (transition states) for the LIBOR transition along with the bank.

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### Transition State I:

The objective of the Transition State I Technology upgrade was to create the required IT infrastructure for the transition.

This included

- Loan IQ version upgrade from 7.4 to 7.5.1.1
- Upgrade DB infrastructure (Unix) to Oracle
- Windows migration to VMware, etc.
- Support end-to-end testing for all upgrades/migration

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### Transition State II:

The objective of Transition State II was to perform all required activities for LIBOR transition. The following steps were involved in the Transition State II

- Replacement of LIBOR rates to ARR rates in impacting applications
- Migration of loans containing LIBOR rates to ARR rates
- Validation of data mapping for rates system (to ensure rates flow through from external applications seamlessly)
- Update of API definition to ensure correct rates are reflected across impacting applications and downstream feeds
- Complete integration testing, progression testing, and regression testing for all impacting applications

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### Transition State III (Ongoing):

Following are the activities that are part of the ongoing Transition State III

- Loan IQ version upgrade from 7.5.1.1 to 7.5.1.4
- Implement a common loan servicing capability approach by rolling out Loan IQ in multiple countries replacing the current loan servicing system



## Business benefits



Enabled LIBOR transition compliance ahead of the stipulated timeline



Accelerated product upgrades for multiple loan servicing system through seed product SMEs



Created reusable framework for testing that could be used across IT programs within the group



Enabled consolidation to a common loan servicing system across countries through strategic partnership with Loan IQ

## How can HCLTech help

HCL Technologies has helped multiple banks comply with LIBOR transition ahead of the timeline. We have also created a suite of accelerators to fast-track implementation of LIBOR transition. Given below is a snapshot of the accelerating pillars/levers of our LIBOR Transition suite.



**System Impact Analyzer:** Helps to remediate LIBOR references with ARR



**Profitability Analyzer:** Helps to identify impact of ARR migration and suggests changes to credit spread



**Document remediation using Exacto:** Helps to enable transition of LIBOR contracts to ARR contracts, facilitating digital customer journey



**Automation testing using HCL PEAK:** Helps with ready-to-deploy test scenarios/test cases to perform end-to-end regression testing

# HCLTech's LIBOR solution suite

Integrated suite		Exacto + profitability	
Database	Tools	Agreement	Tools
<b>Consolidated ARR database</b>	<b>Amend &amp; finalize contracts via Exacto*</b>	<b>Legal agreement remediation system</b>	Amend & finalize contracts via Exacto*
All major ARR/RFR included	Profitability analysis tool	Updated contracts & addendum handling	Profitability analysis tool
API's built to fetch & update rates	Simulation graphs (LIBOR VS ARR)	Interim fall-back provisions against new fall-back	Simulation graphs (LIBOR VS ARR)
Compounding calculations as per RFR standards	Code analyzer (Replace LIBOR referenced rates to ARR)	Tax & accounting considerations to handle valuation changes	ARR simple/ compound index comparison
Like to like compounding tenors	RPA toolkit to handle treasury updates	Legacy agreements management	Other product simulations
Code Analyzer + ARR database		Analytics suite	
Database	Tools	Database	Tools
Consolidated ARR database	Identify & replace LIBOR referenced rates considering:	Consolidated ARR database	Profitability analysis tool
All major ARR/RFR included	Spread adjustments against Libor	All major ARR/RFR included	Simulation graphs (LIBOR VS ARR)
API's built to fetch & update rates	Look back rates data	API's built to fetch & update rates	ARR simple/ compound index comparison
Compounding calculations as per RFR standards	Compounding index comparisons		Other product simulations
Like to like compounding tenors	Agreement management & new fall back language		
<b>End to end testing services for LIBOR transition include recession testing suite, automation testine framework for loan related applications etc.</b>			

## Key differentiators

- Ability to pick and choose individual solutions for LIBOR transition based on client's LIBOR transition lifecycle stage
- Ready to use test scenarios/ test cases for LIBOR transition
- API based lean framework for quicker integration with existing application landscape
- Robust automation testing framework to support end-to-end integration testing
- Flexible profitability and index comparison analytical suite