

IBOR transition support

The transition poses a complex challenge for market players,
see how the FX Software solution can help!

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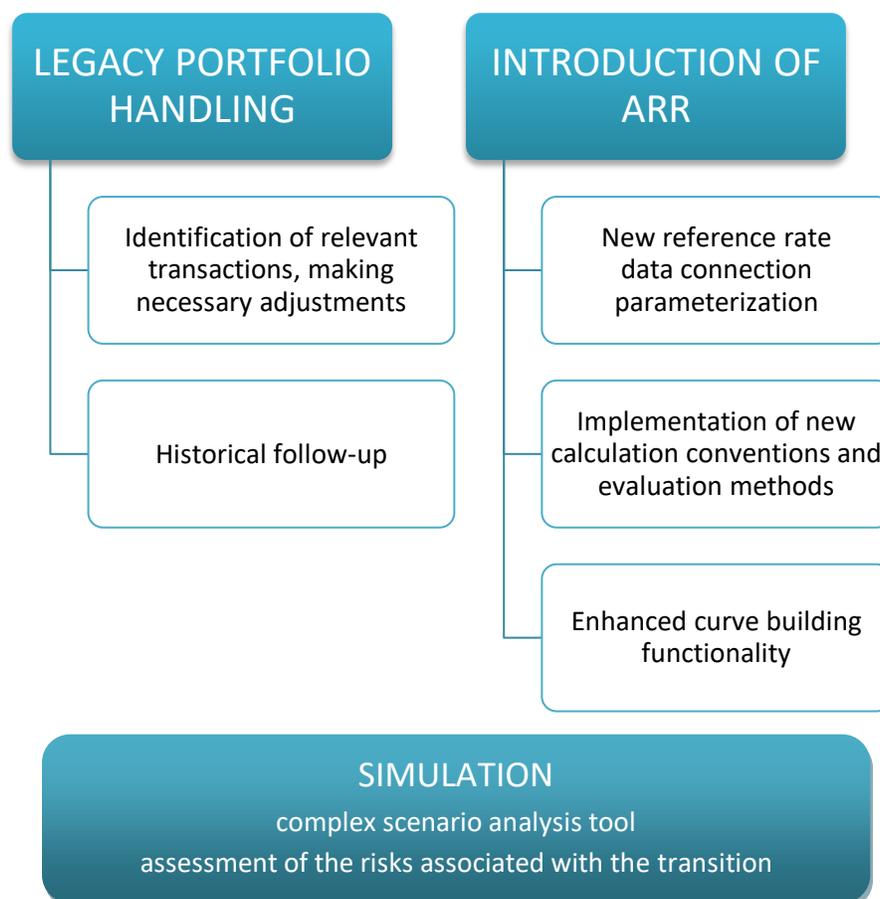
The smooth implementation of the IBOR transition scheduled for the end of this year is putting increasing pressure on financial institutions. The cessation of IBOR, which has been considered a benchmark for decades, and the application of new, alternative reference rates have a wide range of implications for the activities of market players in the sector. Compliance with the transition poses a complex challenge to market participants.

At FX Software, we want to facilitate the transition related to treasury processes. Our solutions available in InFoRex, our integrated treasury system, help:

Our solutions in our InFoRex, integrated treasury system, help you to

- introduce and use alternative reference rates (ARRs),
- properly record and revalue existing IBOR affected portfolios (Legacy portfolios),
- quantify the risks arising from the transition in advance (simulation).

If you have not had an IBOR affected portfolio so far, but plan to enter into alternative reference rate transactions in the future, we recommend our “Introduction of ARR” solution.



The introduction of ARR not only involves the use of a “different” market data source, but also raises complex methodological issues in addition to setting new conventions. To assess the risks associated with the transition, we recommend our simulation tool, which makes portfolio evaluation comparable along IBOR and ARR-based valuation settings.

LEGACY PORTFOLIO HANDLING

<p>Identification of relevant transactions, making necessary adjustments</p>	<p>The ceasing IBORs can serve as a basis for products such as loans, bonds and various interest rate derivatives. It is necessary to identify those transactions or securities whose maturity is later than 2021. The transition (changing settings or closing and reopening a transaction) basically done manually in InFoRex with the appropriate authority.</p> <p>To identify the transactions in question, the general Deal List functionality in InFoRex provides support with its complex filtering functionality.</p>
<p>Historical follow-up</p>	<p>The reference rates that appear as inputs in the system can be retrieved with full history on a separate screen designed for this purpose.</p> <p>The basis of the transaction types involved in connection with the IBOR transition is provided by the so-called cashflow templates, which must be defined separately in our system. On these templates we can record the set of rules of cash flows related to the transaction. The transition may involve modifying these templates, we can monitor the different states of the cash flow on a separate screen in the system.</p>

INTRODUCTION OF ARR

<p>New reference rate data connection parameterization</p>	<p>Different alternative reference rates are defined for each currency, the use of which becomes necessary with the phase-out of each IBOR. In the system, we parameterize and thus make available the data sources to be used for each data provider. Depending on the data provider, we agree on the specific tickers to be used newly (e.g. Bloomberg, Refinitiv).</p>
<p>Implementation of new calculation conventions and evaluation methods</p>	<p>The interest calculation convention for the newly used alternative reference rates is fundamentally different from what has been the case so far for different IBORs. The new rates are retrospective, the amount of interest to be paid in a given interest period is determined only as the average of valid overnight quotations when due.</p> <p>Conventions related to the new rates can be recorded in our Cashflow template, such as</p> <ul style="list-style-type: none"> ■ fixing frequency (daily for overnight quotes), ■ observation lag (how many days the quotation is valid on a given day),

	<ul style="list-style-type: none"> ■ average calculation method (e.g. arithmetic, compound interest) ■ rounding rules <p>The interest calculation is determined in our system according to the created settings.</p>
<p>Enhanced curve building functionality</p>	<p>The cessation of IBOR quotation will not only affect the treatment of products that build directly on it, but may also cause methodological changes in other valuations. Instead of long-term composite swap curves based in part on IBOR quotations, it may be necessary to use discount and forward curves based on new overnight quotes in currencies concerned. In our system it is possible to build OIS curves according to the new rules.</p>

SIMULATION

<p>Complex scenario analysis tool</p>	<p>In the new scenario analysis functionality based on the existing complex position management of InFoRex, it is possible to evaluate a given stock under several market scenarios, and the effects of changes in the stock can also be quantified with “what if” transactions.</p> <p>Here's how functionality can help:</p> <ul style="list-style-type: none"> ■ examining the effects of assumed changes in market conditions on a bank portfolio ■ in measuring the effectiveness of different hedging strategies ■ in mapping the risks associated with the transfer of a stock that is considered a “legacy portfolio” in the IBOR transition.
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Please consult with your auditor on the effect of alternative rates and related new calculation conventions on IFRS calculations.

We are constantly monitoring the development of market consensus related to the IBOR transition. Stay in touch with us to help ensure a smooth transition, the use of alternative reference rates for treasury activities! If you are interested in our solutions, feel free to contact your customer relationship manager or product development account manager at one of the following contacts:

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