

The background of the slide is a low-angle photograph of several modern skyscrapers with glass facades, reaching towards a clear blue sky. The buildings are slightly out of focus, creating a sense of depth. A horizontal decorative bar with a green-to-blue gradient and a dashed line pattern runs across the middle of the image.

AFS Best Practices Leadership Council Webinar Series Presents: 2021, A Year for Transition – Leaving LIBOR Behind

January 20, 2021

- AFS Update
- SOFR in the News
- ARRC Updates
- Survey Results
- Poll Questions
 - *LIBOR Cessation Notices*
 - *Billing Statement*
 - *LIBOR Communication to Customers*
- Questions

- Completed AFS Level III™ and AFSVision® development:
 - *New Fields for Compounding in Arrears*
 - *Updates to Statements and Syndication Notices for Compounding in Arrears*
 - *Compounding Interest in Arrears – Compounding the Rate Calculation*
 - *Compounding Interest in Arrears – Compounding the Balance Calculation*

- List of Upcoming Developments
 - *Observation Shift: 2 Methods Being Supported*
 - *Assignments (Balance type 56 and 93) Retro Deliverable*
 - *Trader Workstation/Funding Memo (Cost of Carry, Deferred Compensation)*

- AFS has been assisting clients with installation and testing

- AFS continues to participate with ARRC developments

- Lingering questions about the need to accrue negative interest



Poll Question

As part of SOFR, do you anticipate needing to accrue negative interest amounts in 2021?



- January 11, 2021: The ICE Benchmark Administration and Refinitiv launched respective **term SONIA 1-month, 3-month, 6-month, and 12-month tenors**. ARRC plans to launch term SOFR by the end of June 2021.
- January 7, 2021: FCA synthetic LIBOR (SOFR plus a modifier) for so-called “tough legacy” LIBOR contracts (mainly for Swap hedges). Experts believe that **losses from synthetic LIBOR could face legal challenges**.
- November 30, 2020: The ICE Benchmark Administration Ltd. is consulting on plans to extend the retirement date for **3-, 6- and 12-month London Interbank Offered Rates on dollars until late June 2023**.
- October 19, 2020: Freddie Mac processed first-ever credit risk transfer **linked to SOFR**. While using the 30-day SOFR as its index, Freddie Mac structured the deal so it could shift to a one-month term if and when that rate is approved.
- October 14, 2020: **JP Morgan and Unilever execute \$500M SOFR Swap**, Corporate hedge transaction has adds momentum to US rates market's transition from LIBOR.

IBA November 30, 2020 announcement: LIBOR to SOFR deadline extension – June 2023

- USD LIBOR will continue until June 2023 apart from 1-week and 2-month LIBOR. February announcement may fix the Spread Adjustments.
- On November 18, 2020, IBA's intention that the Euro, Sterling, Swiss Franc, and Yen LIBOR would cease at the end of 2021 still stands.

ARRC best practice recommendations despite the extension: business loans should stop originating loans in LIBOR as of 6/30/2021. OCC/FDIC banking agencies gave a hard stop as of 12/31/2021 or as soon as practicable.

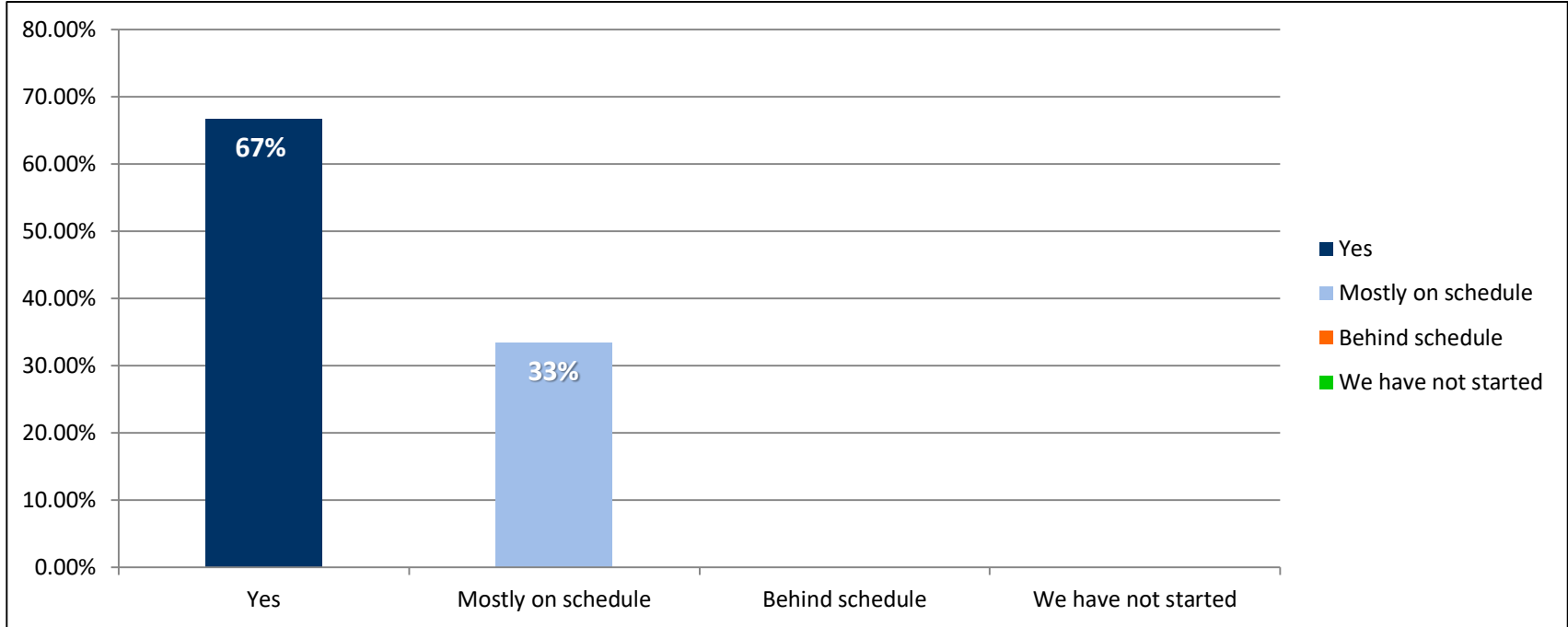
- New contracts entered into before December 2021 should either reference a rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR ends (e.g., a hardwired fallback).

Trading Impact: Delayed Compensation and Cost of Carry SOFR will be an average of daily rates despite the tenor. LIBOR today uses the one-month LIBOR tenor rates.

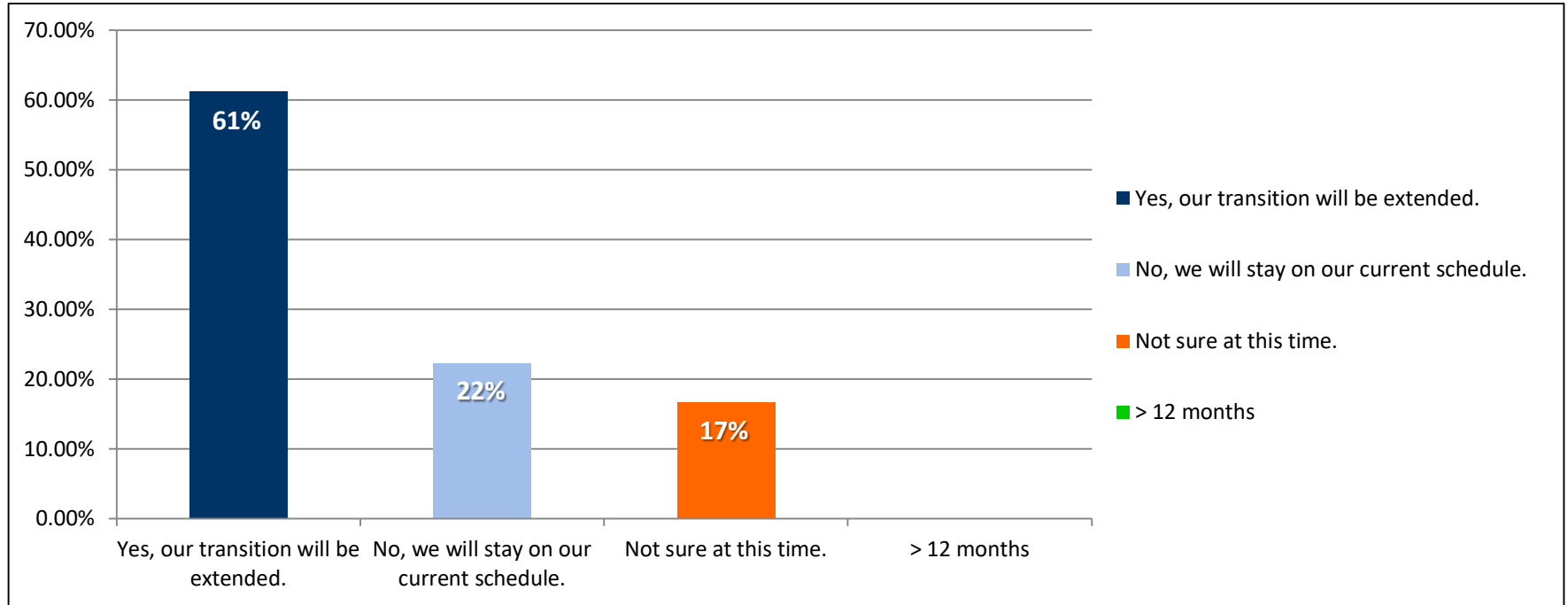
Bilateral Hedged Loan Approach – ISDA interest methodology.

Bloomberg Publishing – Multiple tenors being printed but variants of SOFR share same Spread Adjustment. Historical 5-year median difference.

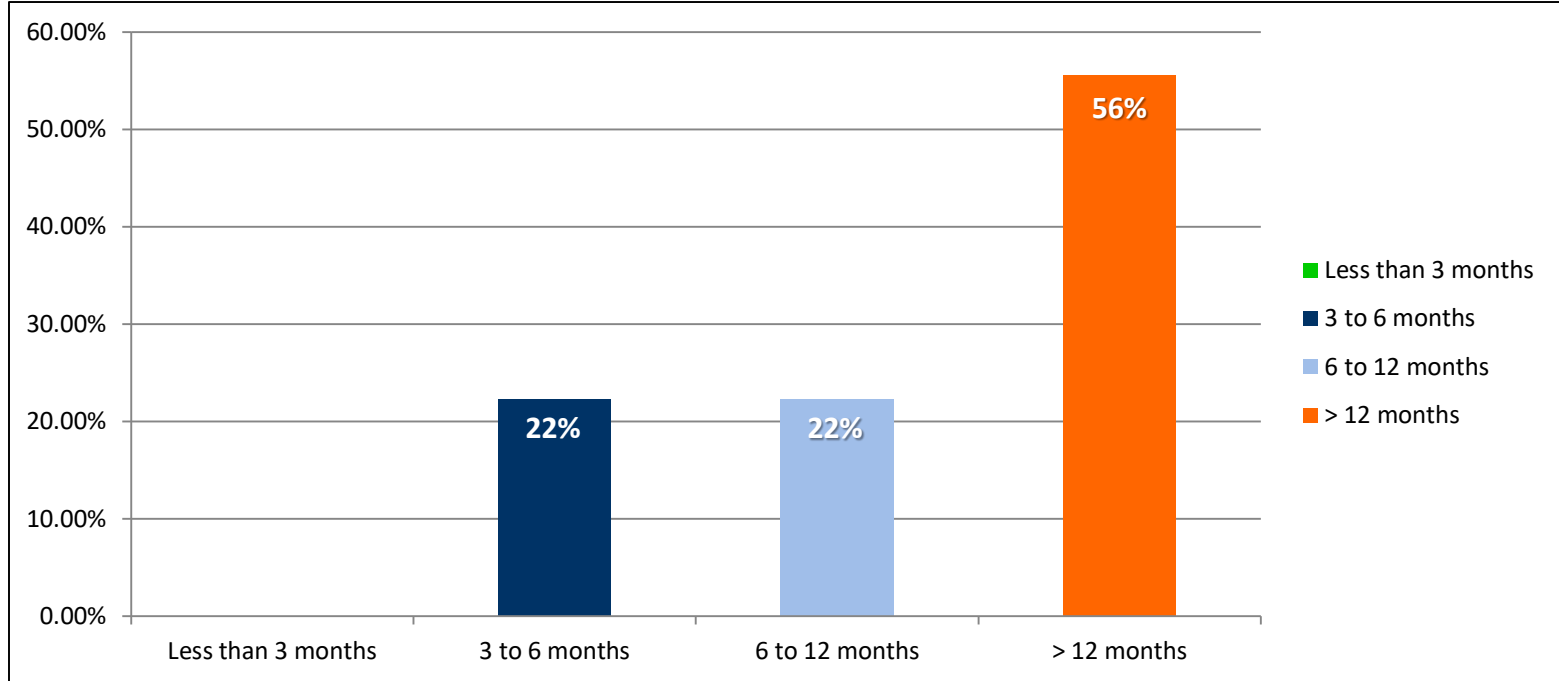
Is your organization's LIBOR transition on schedule?



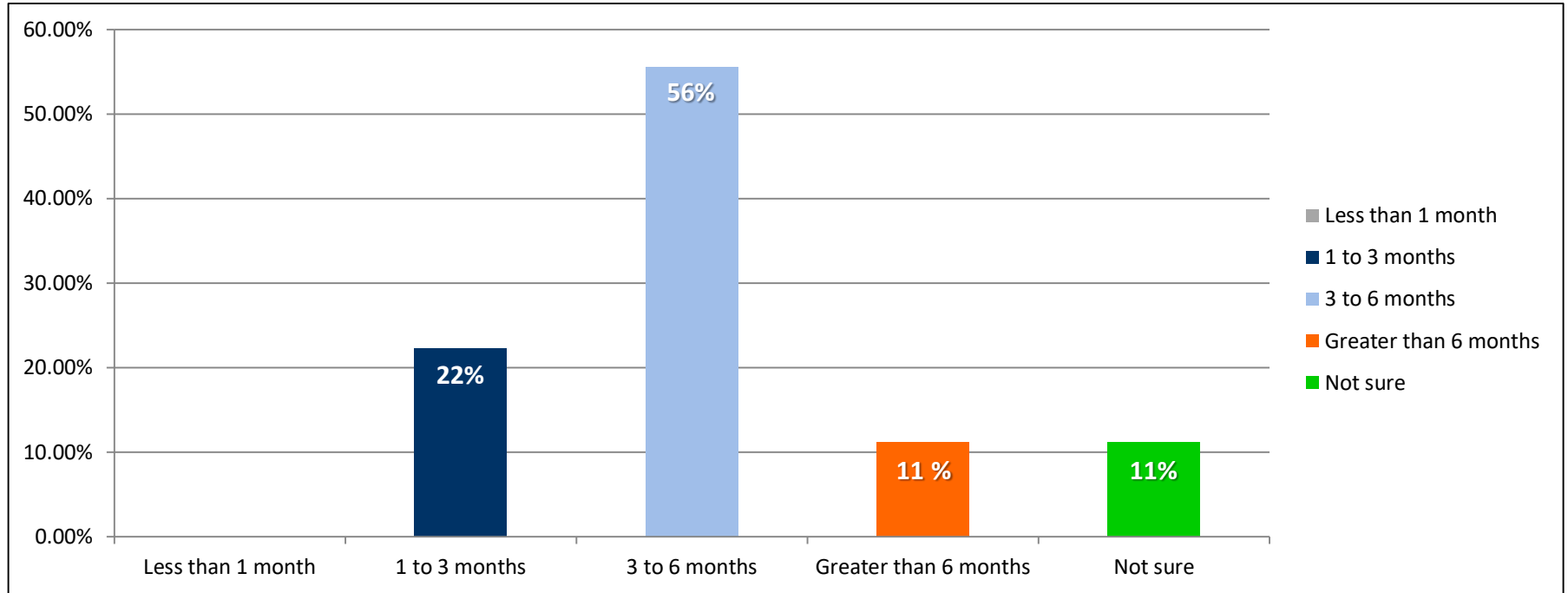
Do you expect the recent announcement by the ICE Benchmarking Administration, extending the LIBOR retirement date to 2023, to impact your current LIBOR transition plans?



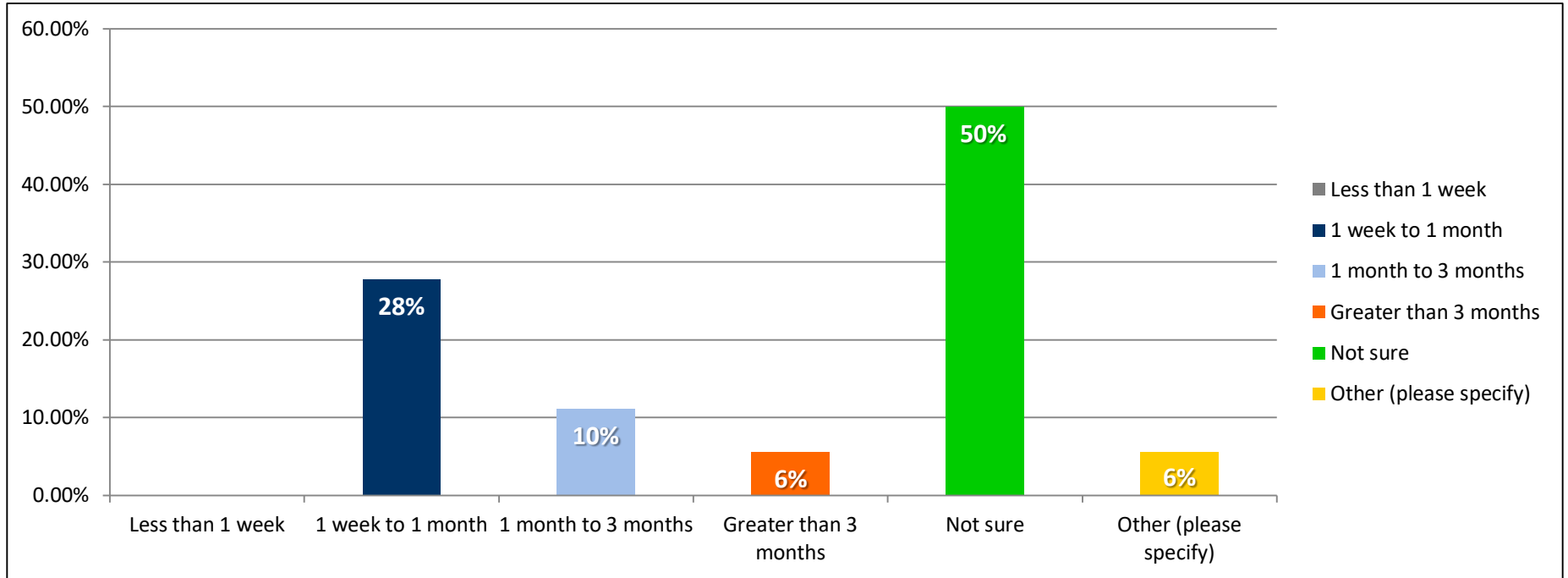
Which of the following best equals the amount of time your organization will require to complete your LIBOR transition?



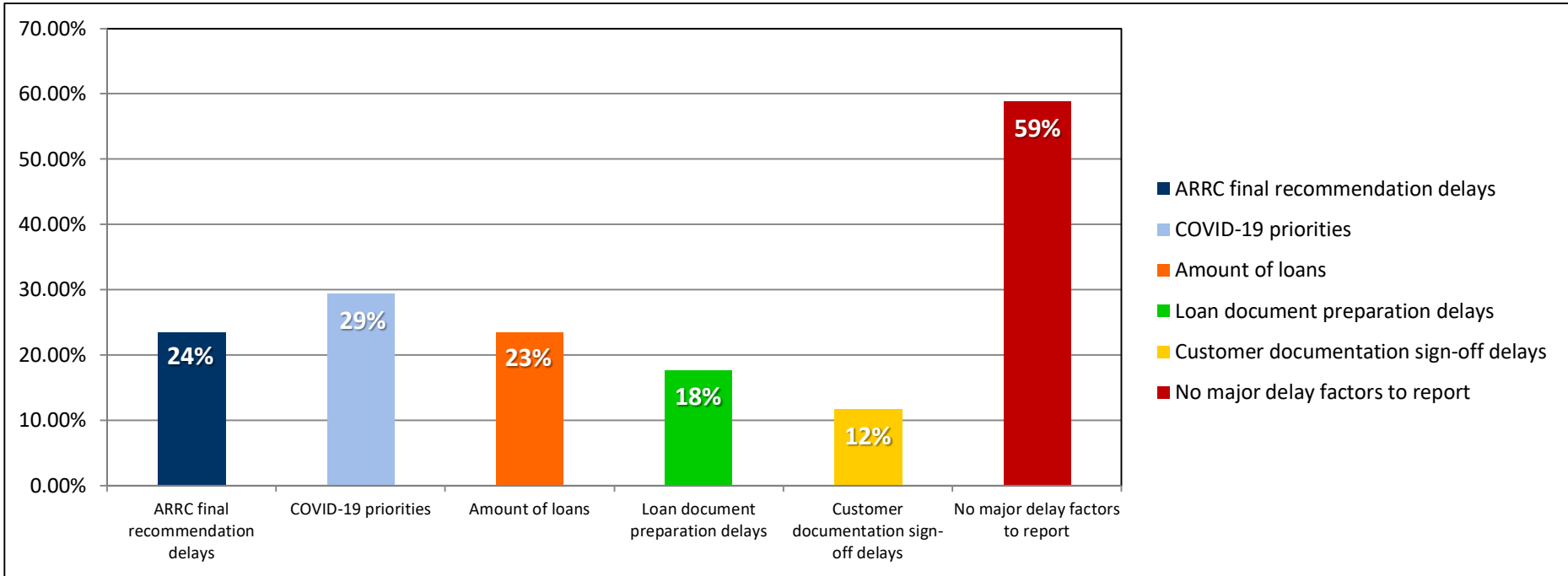
Which of the following best equals the amount of time your organization will require to complete the new loan documentation for the LIBOR transition?



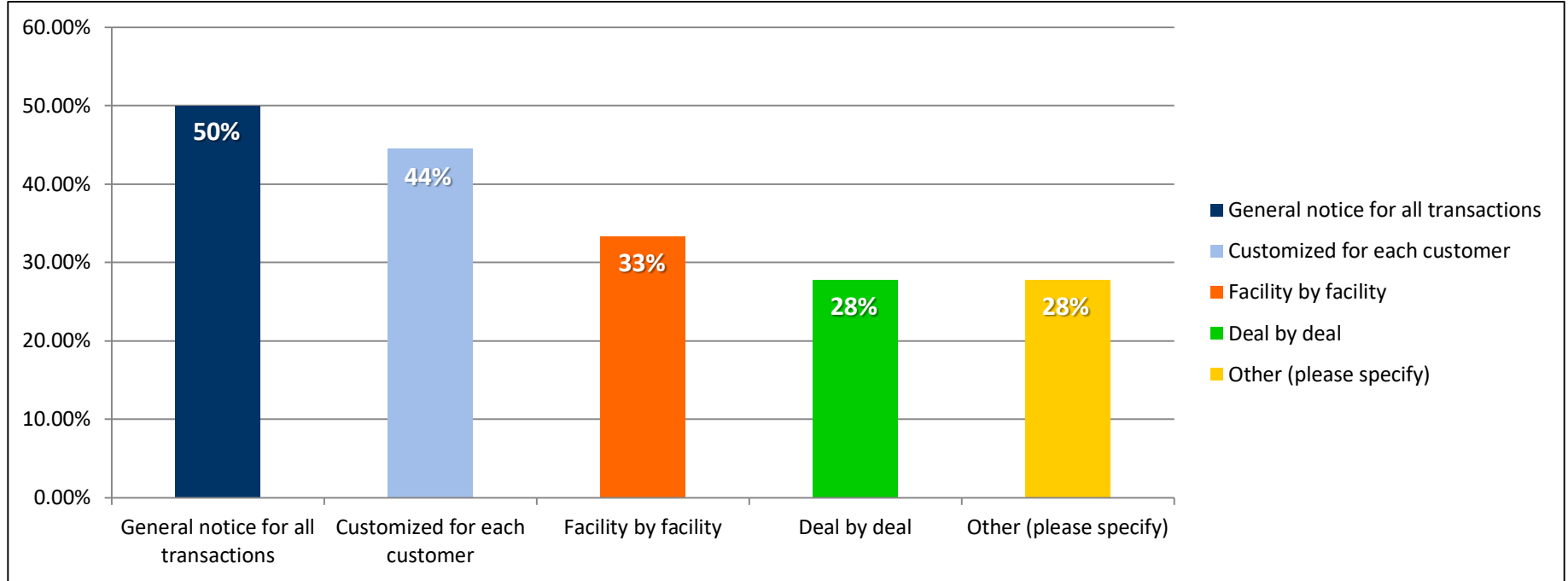
Which of the following best equals the amount of time required to receive individual customer signoff for all LIBOR transition documentation?



Which of the following best describes the reasons for any delays with your organization's LIBOR transition project? (choose all that apply)



Which of the following best describes how your organization plans to inform your borrowers of LIBOR cessation? (choose all that apply)



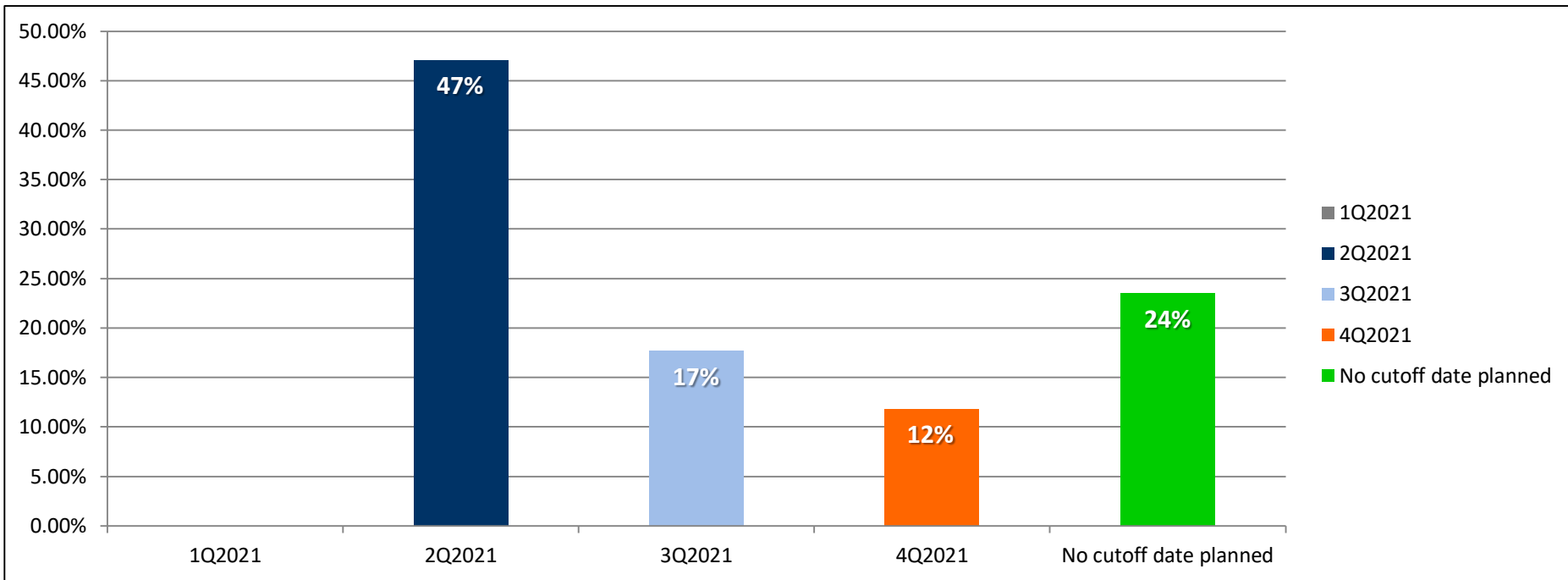


Poll Question

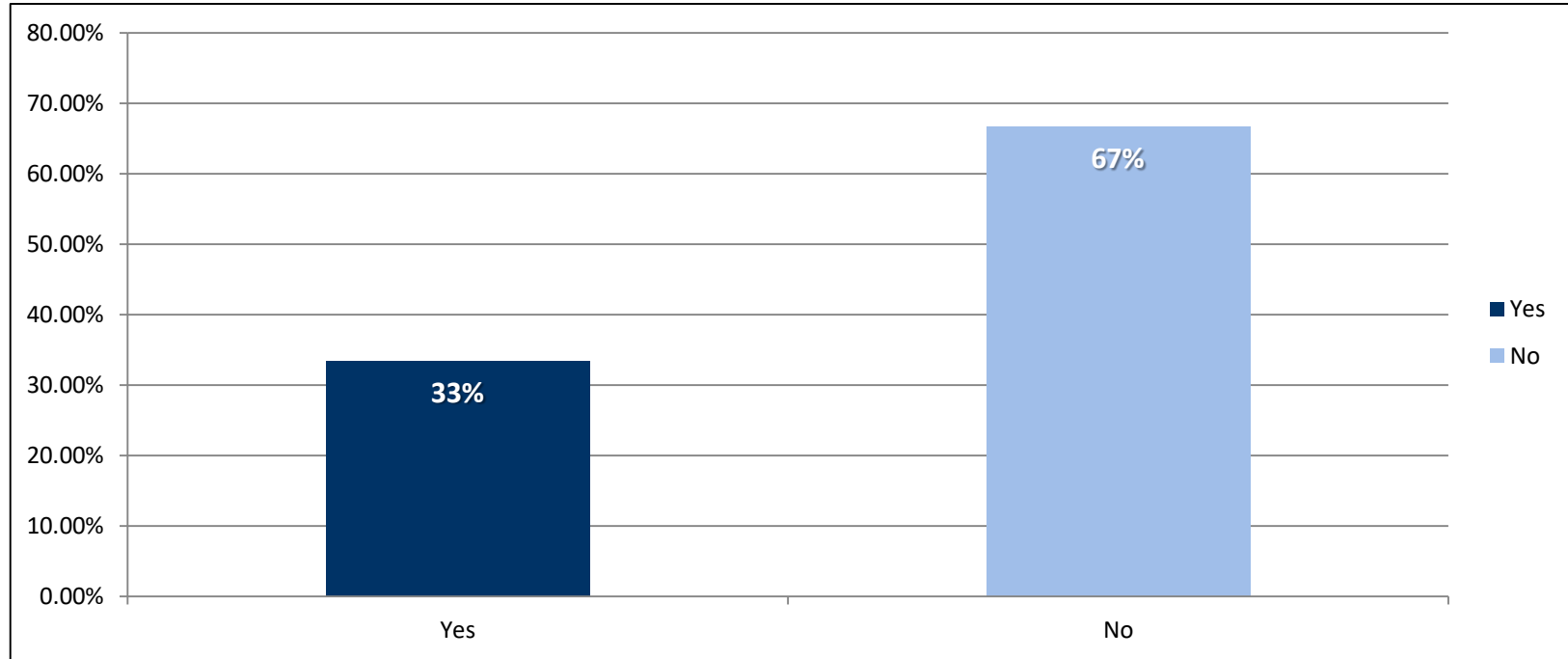
Which of the following best describes your readiness with the LIBOR Cessation Notification process?



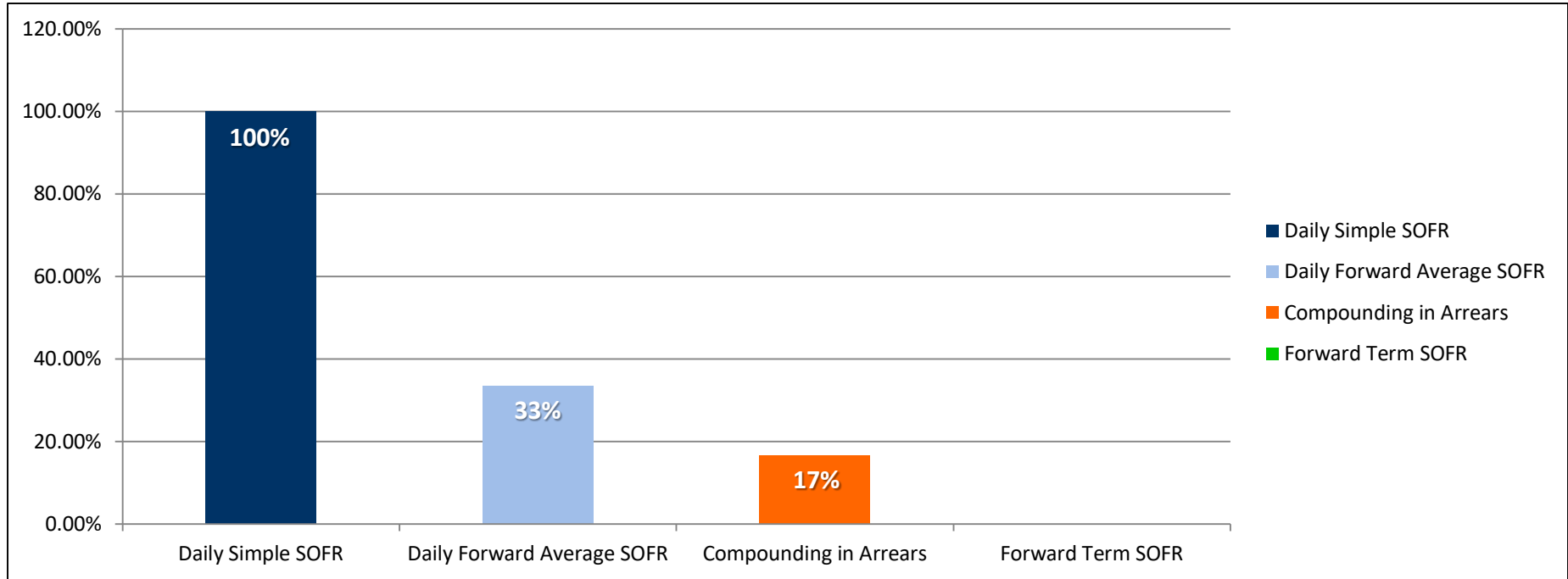
What is your organization's planned cutoff date to stop writing LIBOR deals?



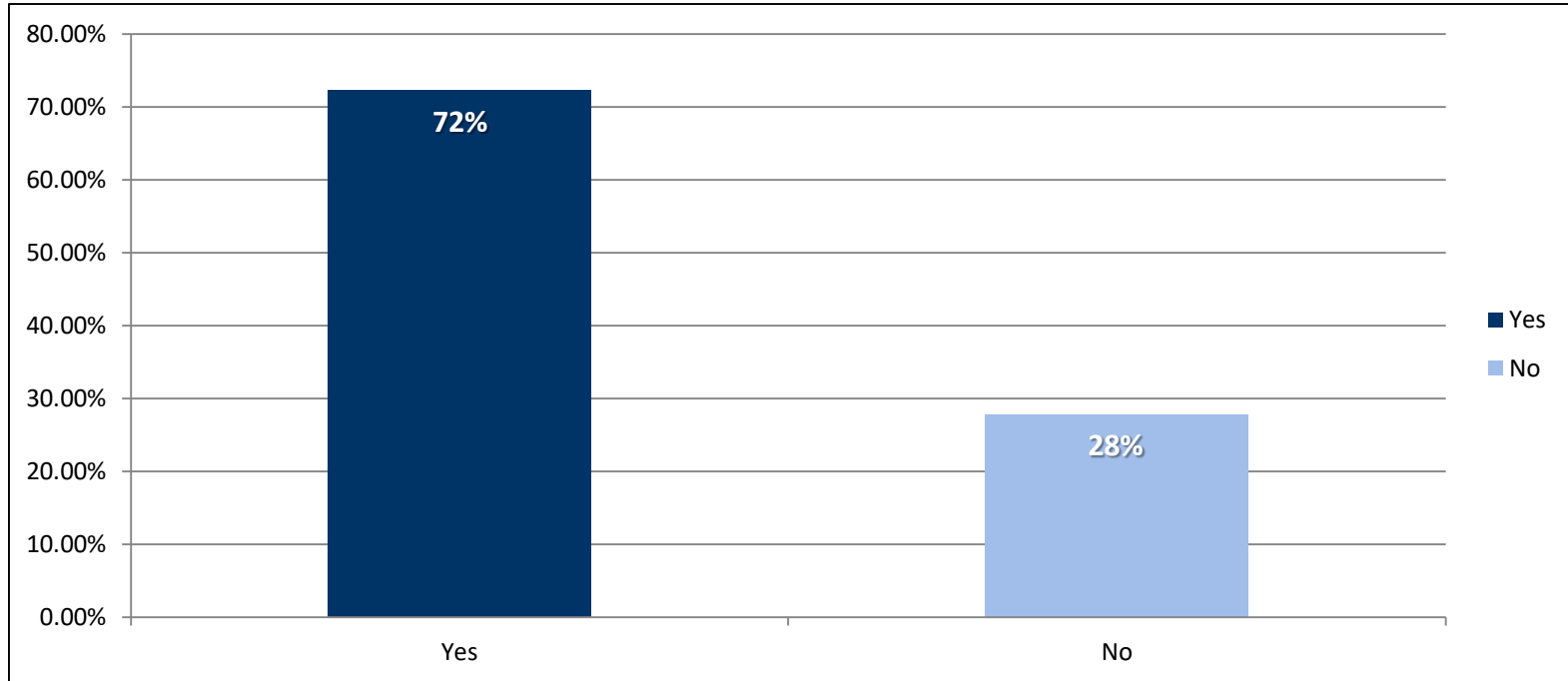
Has your organization entered into new loan agreements with a SOFR rate?



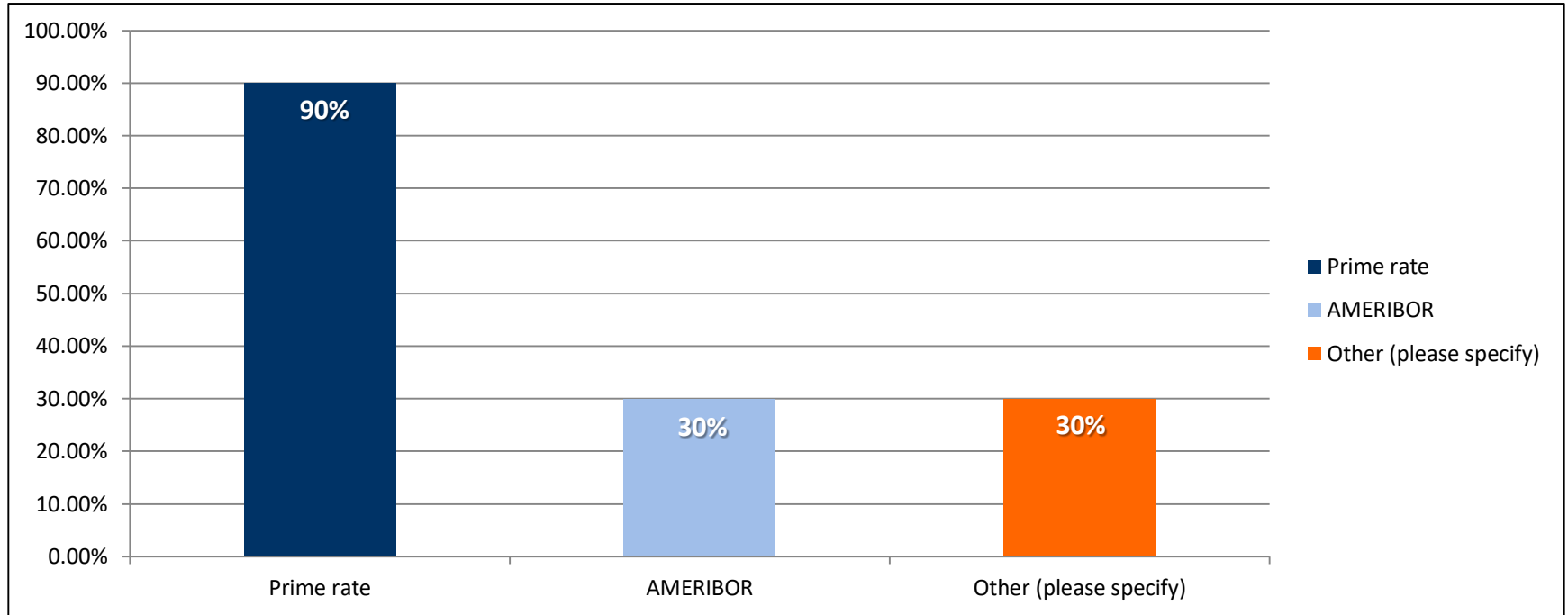
Which of the following SOFR rates have been applied to the new loan agreements? (choose all that apply)



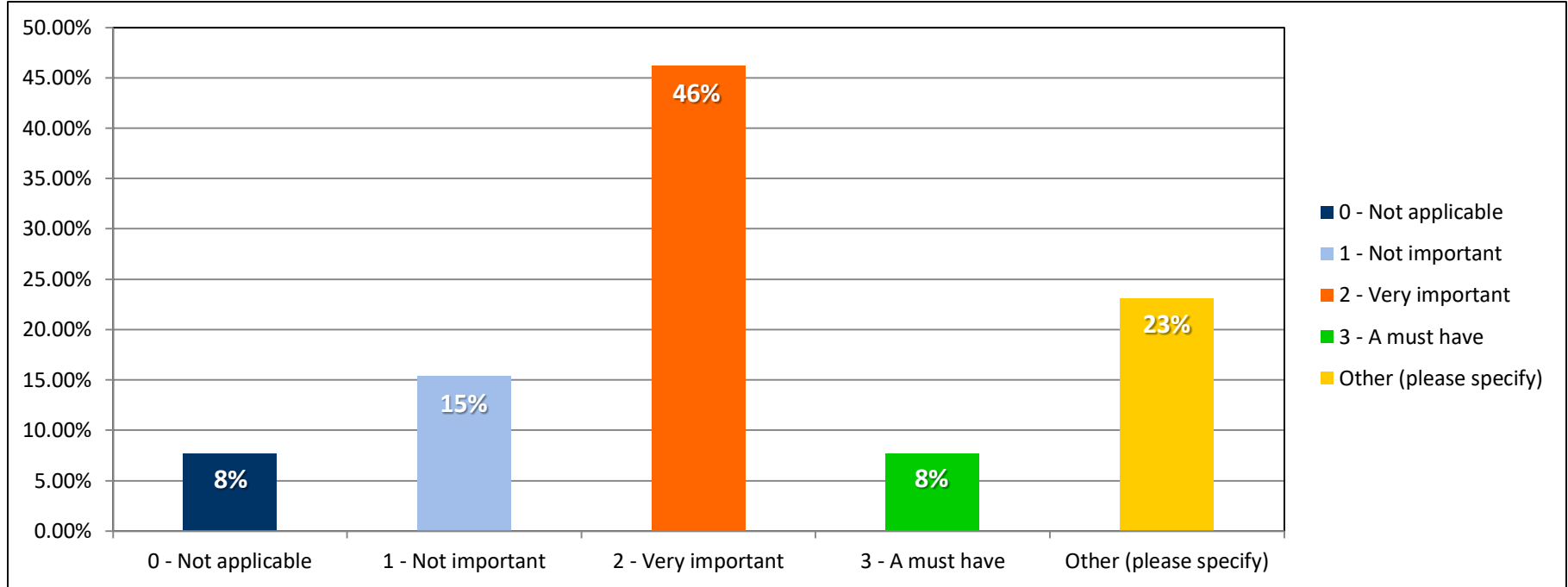
Is your organization offering (planning to offer) an alternative rate to SOFR?



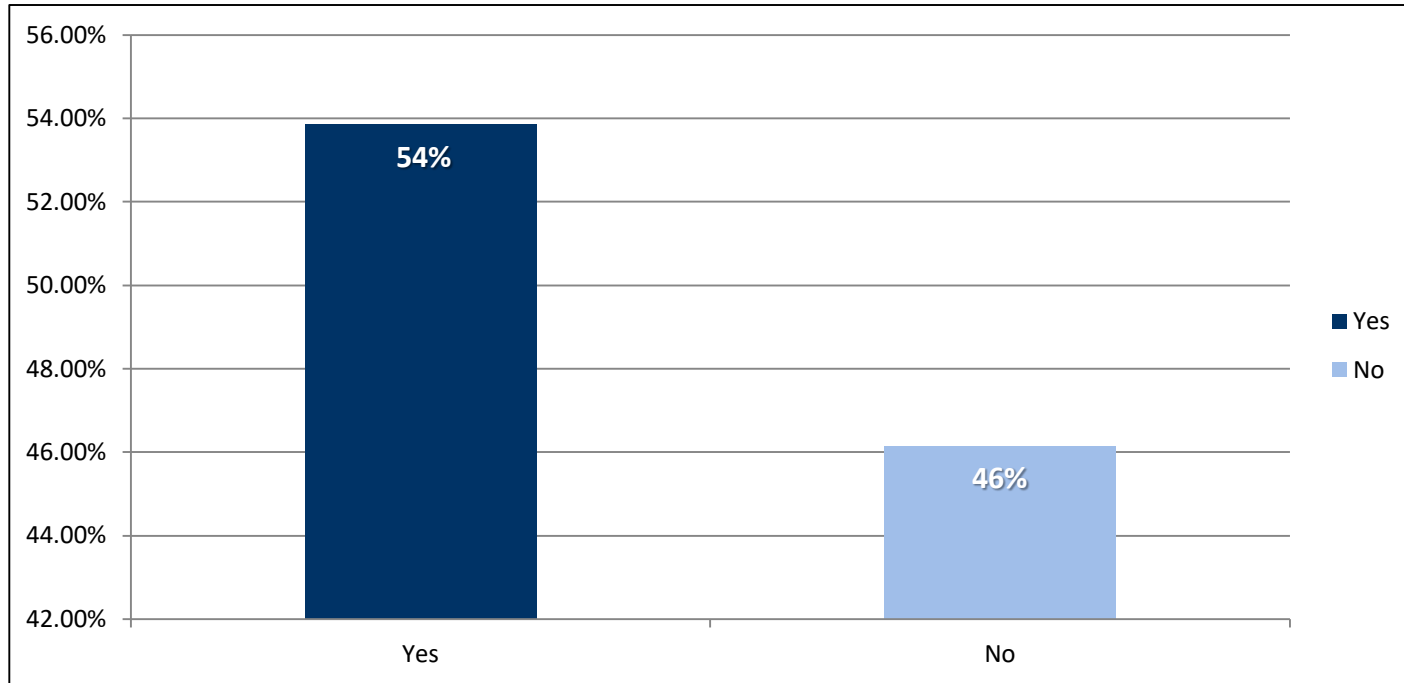
Which of the following additional alternative rates have been offered to your customers?
(choose all that apply)



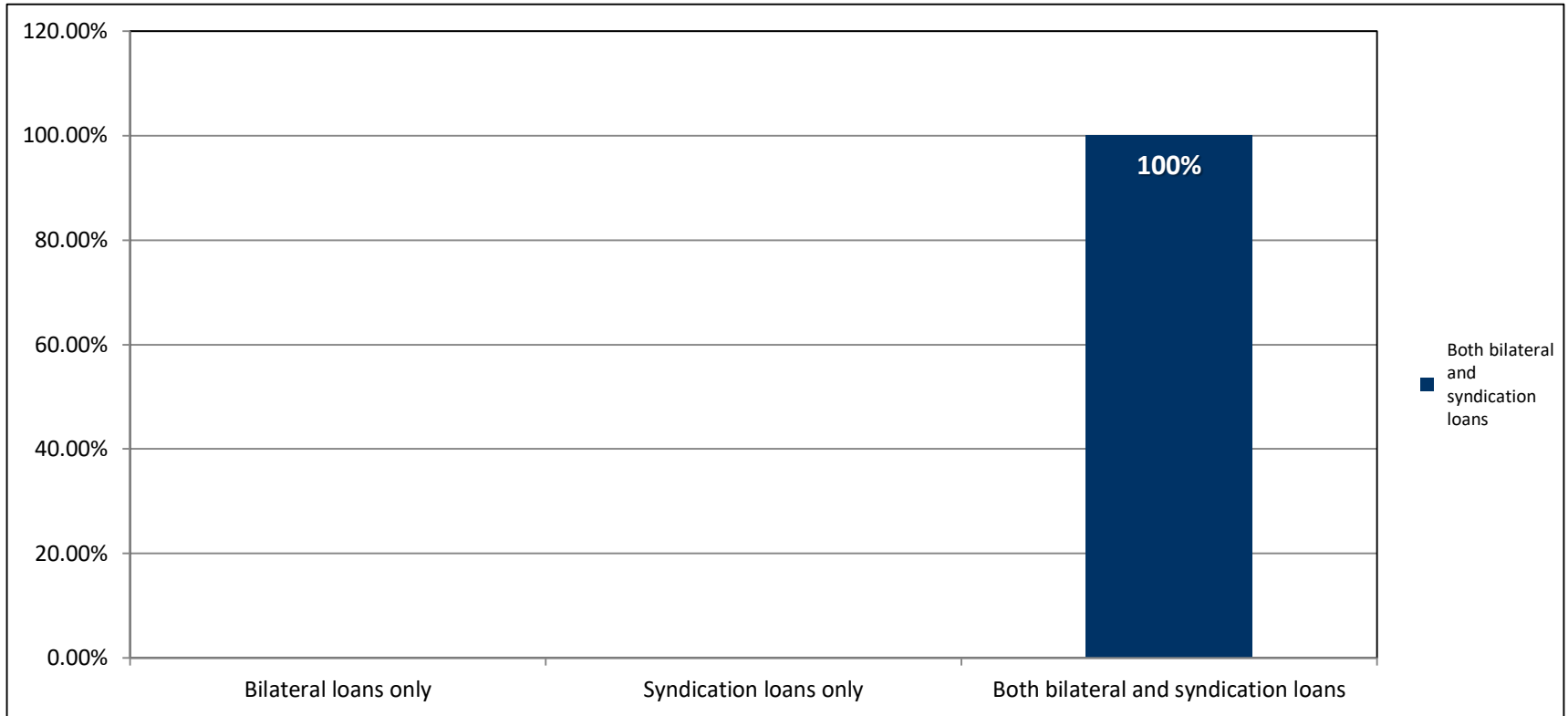
How important is a published Forward Term SOFR rate to completing your LIBOR transition implementation?



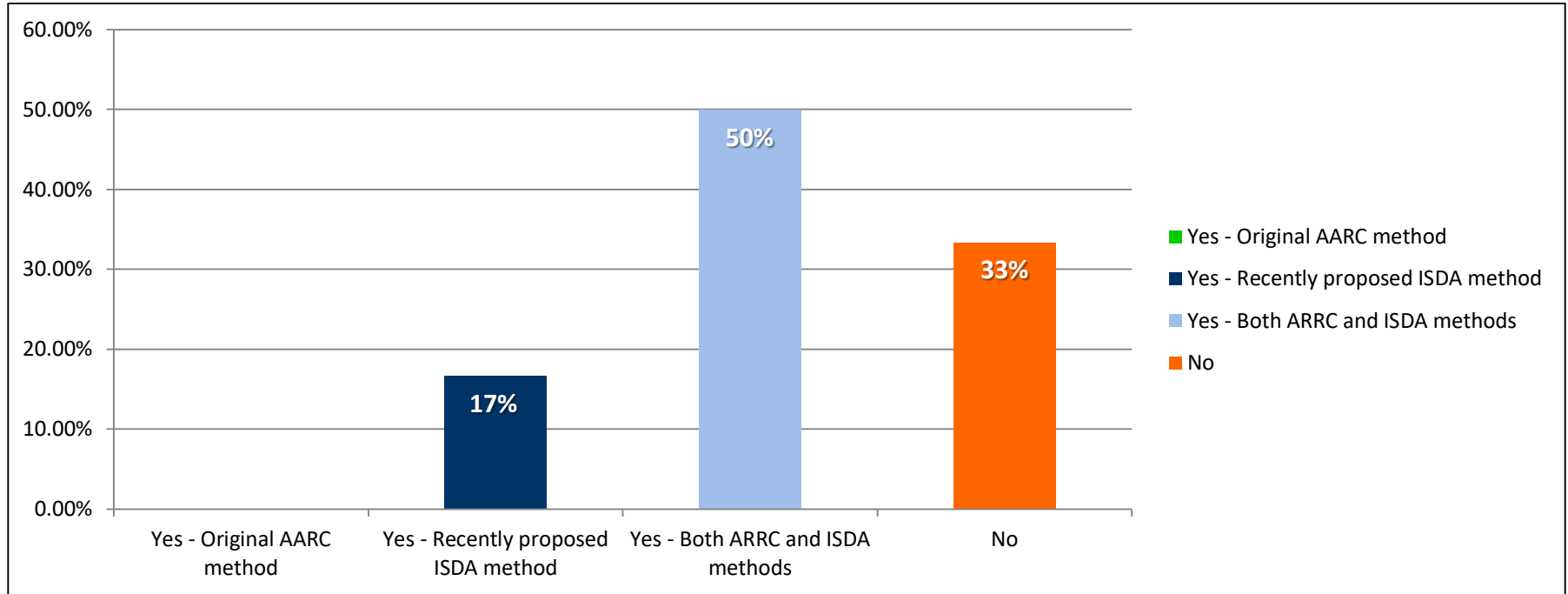
Is your organization using SOFR rates to hedge your loans?



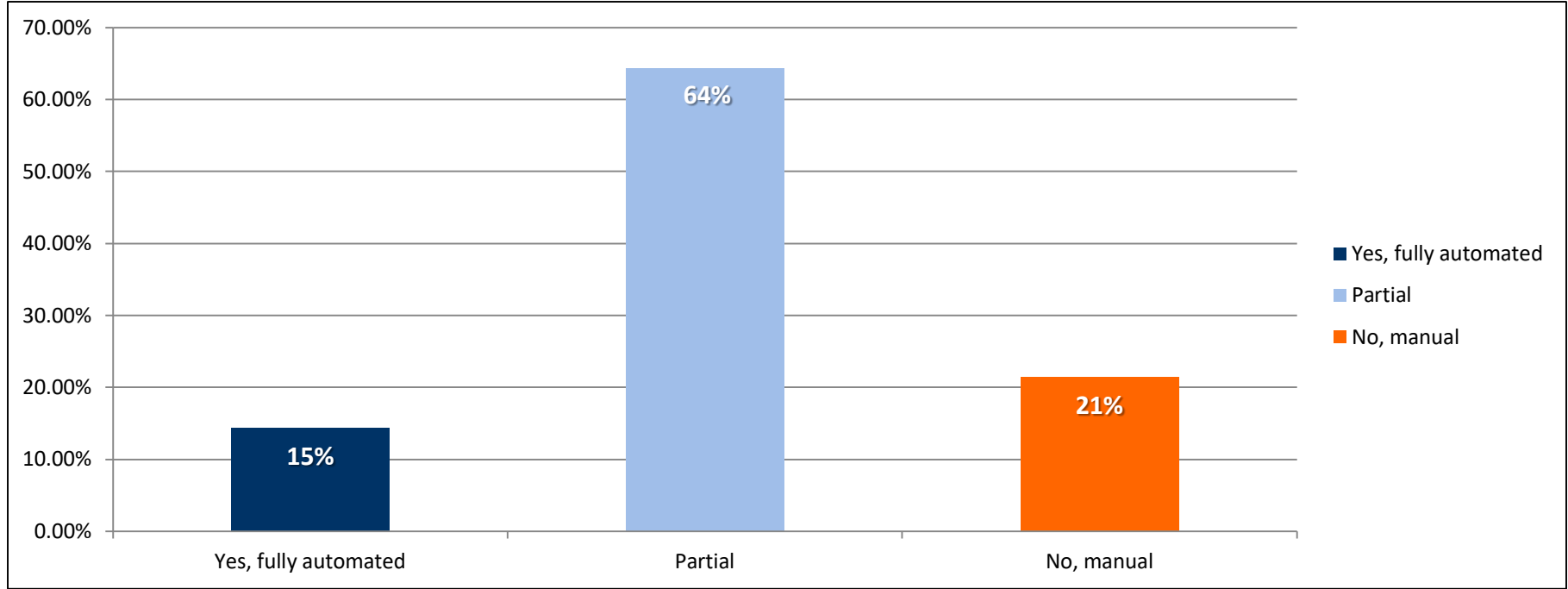
Which of the following loans types will be hedged?



If you are hedging bilateral loans, will you be applying an observation shift?



Are you planning any automated conversion of loans from LIBOR to SOFR?





Poll Questions

Which of the following best describes your FI's changes to SOFR related billing statements?

Does your FI plan to send targeted or generic notices to all legacy LIBOR loan customers?

How will your FI deliver notices?



Upcoming Webinars

| Topic |
|---|
| ▪ RMA/AFS RAS Webinar hosted by RMA |
| ▪ AFS BPLC Webinar: Pricing Fundamentals, 2020 Year in Review of the Commercial Lending Landscape |

| Date |
|------------------|
| January 28, 2021 |
| February 4, 2021 |

Register at <http://www.afsvision.com/News-Events/Webinar-Registration>

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Thank you!

