SOUTH AFRICAN RESERVE BANK

Prudential Authority

# TECHNICAL REPORT

## SUPERVISORY FINDINGS ASSOCIATED WITH THE PRUDENTIAL AUTHORITY LONDON INTERBANK OFFERED RATE BENCHMARK TRANSITION SURVEY - 2020

**September 2021**

## Disclaimer

Please note that the contents of this report are for information purposes and should not be disclosed to any other third party. In addition, no part of this report may be copied or reproduced without prior written consent from the Prudential Authority (PA). The London Interbank Offered Rate (LIBOR) transition remains the responsibility of financial institutions to adequately and timeously address, in line with the relevant global authorities and industry guidance that is issued from time to time. The PA will continue to monitor transition programmes of all supervised institutions and engage on a bilateral basis, where necessary.

For further information, please email the PA Interbank Offered Rate (IBOR) monitoring team at: PA_RSD-MarketRisk@resbank.co.za.

# Foreword by the Deputy Governor and CEO of the Prudential Authority

As the end of 2021 draws closer, the transition away from LIBOR remains a significant priority globally. Continued efforts from institutions, in conjunction with supervisory guidance where applicable, remain critical to support LIBOR transition efforts and promote global and jurisdictional financial stability.

In September 2020, the PA issued a LIBOR survey to institutions falling within its supervisory scope. The outcomes of the survey provided jurisdictional insights on LIBOR exposures, the extent of incorporation of fallback language into LIBOR-linked exposures, adoption of risk-free rates, and the manner in which institutions addressed the historic transition. These outcomes have been captured in this report and serve to inform supervised institutions' awareness of the status of the LIBOR transition in South Africa. The PA will continue to engage with institutions bilaterally and through industry platforms through its dedicated LIBOR supervisory monitoring programmes.

All requests for further information related to this report may be submitted via email to the PA IBOR monitoring team at PA_RSD-MarketRisk@resbank.co.za.

**Kuben Naidoo**
**Deputy Governor and CEO: Prudential Authority**

**Date:** 23 September 2021

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# LIST OF KEY ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ARRC | Alternative Reference Rates Committee |
| ECB | European Central Bank |
| FSB | Financial Stability Board |
| IBOR | Interbank Offered Rate |
| LIBOR | London Interbank Offered Rate |
| ISDA | International Swaps and Derivatives Association |
| OTC | Over the Counter |
| PA | Prudential Authority |
| RFR | Risk-Free Rate |
| SARB | South African Reserve Bank |

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# 1. Introduction

Following the 2007-09 global financial crisis, efforts have been taken globally to strengthen the robustness and reliability of existing IBORs and promote the development and adoption of alternative Risk-Free Rates (RFRs). Notwithstanding the reforms to LIBOR, in July 2017, the United Kingdom (UK) Financial Conduct Authority (FCA) announced its intention that it would no longer be necessary to persuade nor compel banks to submit to the LIBOR panel after 31 December 2021. Since then, the FCA and other official sector bodies have strongly advised end-users of the need to transition from LIBOR by 31 December 2021. Consequently, there have been efforts across jurisdictions to identify and develop alternative reference rates, as depicted in Figure 1.

**Libor currencies, transition working groups and corresponding alternative risk-free rates**

| | | | | | |
|---|---|---|---|---|---|
| Working Group | Alternative Reference Rates Committee | Working Group on Sterling Risk-Free Reference Rates | Working Group on Euro Risk-Free Rates | National Working Group on Swiss Franc Reference Rates | Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks |
| Replacement For | USD LIBOR | GBP LIBOR | EUR LIBOR | CHF LIBOR | JPY LIBOR |
| Alternative Reference Rate | SOFR (Secured Overnight Financing Rate) | Reformed SONIA (Sterling Overnight Interbank Average Rate) | €STR (Euro-Short term rate) | SARON (Swiss Average Rate Overnight) | TONA (Tokyo Overnight Average Rate) |
| Underlying Market | Secured overnight funds | Unsecured overnight funds | Unsecured overnight funds | Secured overnight funds | Unsecured overnight funds |
| Publication Date | Published since April 2018 | Reformed since April 2018 | Published since October 2019 | Published since 2009 | Published since 1992 |
| Administrator | Federal Reserve Bank of New York | Bank of England | European Central Bank | SIX Swiss Exchange | Bank of Japan |

**Figure 1: LIBOR currency information**

LIBOR is currently calculated for five currencies (EUR, CHF, JPY, GBP, and USD) and for seven tenors in respect of each currency (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months, and 12 Months). This currently results in the publication of 35 individual rates (one for each currency and tenor combination) on each applicable London business day.

The prospect of LIBOR continuing post 2021 lies at the discretion of the benchmark's administrator – Intercontinental Exchange (ICE) Benchmark Administration (IBA)[1] – and the panel banks. The IBA and FCA, have set out clear end dates for both the new use of LIBOR and for its cessation as a representative panel-based rate:

- On 5 March 2021, the IBA stated that it will cease the publication of (i) the overnight and 1, 3, 6 and 12 months USD LIBOR settings immediately following the LIBOR publication on 30 June 2023 and (ii) all other LIBOR settings, immediately following the LIBOR publication on 31 December 2021. The IBA stated that it will not have access to input data necessary to calculate LIBOR settings on a representative basis after those dates[2].
- The FCA issued a separate announcement confirming that the IBA had notified the FCA of its intent to cease providing all LIBOR settings. The FCA confirmed that all 35 LIBOR settings will either cease to be provided by any administrator or will no longer be representative as of the dates set out by the IBA. The FCA also stated that, subject to the establishment of new proposed powers under UK law, it would consult on the issue of requiring the IBA to produce certain LIBOR tenors on a synthetic basis[3].

Despite the fact that LIBOR is intended to be discontinued after end-2021, it is still being referenced in many new and legacy financial contracts worldwide. A continued reliance of market participants on LIBOR poses risks to financial stability. To contain such risks, all relevant stakeholders need to advance the transition to alternative reference rates.

In January 2021, the ISDA IBOR Fallbacks Protocol and IBOR Fallbacks Supplement came into effect[4]. With the Protocol coming into effect, legacy derivative contracts may now incorporate ISDA's new fallbacks if both counterparties to a certain transaction have adhered to the Protocol or agreed to include the new fallbacks in their contracts. The Supplement ensures that any new derivative contract that incorporate the 2006 ISDA definitions and reference a relevant IBOR will also incorporate the new fallbacks. Several initiatives that mimic the ISDA approach with respect to fallbacks have been developed by industry bodies for non-derivative contracts to address the risk(s) associated with the LIBOR transition.

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[1] ICE LIBOR® (also known as LIBOR) is a widely used benchmark for short-term interest rates. Used globally, LIBOR is often referenced in derivative, bond, and loan documentation, and in a range of consumer lending instruments such as mortgages and student loans.
[2]https://www.theice.com/publicdocs/ICE_LIBOR_feedback_statement_on_consultation_on_potential_cessation.pdf
[3] https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf
[4] https://www.isda.org/2021/01/25/new-ibor-fallbacks-take-effect-for-derivatives/

From a South African (SA) perspective, the PA, in collaboration with other departments in the South African Reserve Bank (SARB), participated in a joint IBOR reform survey issued by the Financial Stability Board and the Basel Committee on Banking Supervision (FSB-BCBS), in addition to a survey issued by the International Association of Insurance Supervisors (IAIS) in 2020. The PA issued the questionnaire to large local and internationally active banks and insurers. This allowed the PA to obtain a high-level overview with respect to the progress of the LIBOR transition in SA. These questionnaires were conducted purely in line with the questions posed by the FSB-BCBS and IAIS LIBOR transition surveys.

Based on the results of the abovementioned surveys, the PA observed that many financial institutions (FI) in SA were still in relatively early stages of preparing for this historical shift. Many institutions viewed the LIBOR transition primarily as a regulatory event and were managing it from a compliance perspective against the backdrop that it may materialise as a significant market, liquidity, credit, and operational risk set of stress events as well. This may have serious implications to the financial sector, if not managed appropriately. Collective coordination is required to ensure jurisdictional readiness to manage the transition and mitigate the possibility of risks building up in the financial system.

Considering the relevance of the LIBOR transition complexities, the PA conducted a further survey, for data as of 31 July 2020 (the results of which are contained in this report), which was positioned at a deeper and more granular level compared to the previously conducted surveys. More specifically, a key objective of this survey was to assist with the identification of institutions that may be lagging in relation to their transition progress when benchmarked against the wider industry sample set.

## 1.1. Overview of the survey

The survey contained the following aspects, amongst others:

- Foundational questions related to qualitative aspects of FIs' LIBOR transition programmes.
- Questions to solicit exposure to the various LIBOR rates.
- A proposed checklist that described an illustrative set of high-level infrastructural capabilities required for the LIBOR transition; and

- An industry best-practice implementation checklist with milestone recommendations in line with the Alternative Reference Rates Committee[5] (ARRC).

The survey was issued to banks[6] and life insurers through the Banking Association South Africa (BASA) and the Association for Savings and Investments South Africa (ASISA), respectively. The survey focused on the LIBOR transition and excluded the Johannesburg Interbank Average Rate (JIBAR). Finally, the survey was limited to institutions which fell within the supervisory scope of the PA. However, considering banks' role as the sell-side of the financial sector, it is envisaged that much of the LIBOR exposure contained within the South African financial sector would be captured.

[5] The ARRC is a group of private-market participants, convened by the Federal Reserve Board and the New York Fed, that have an important presence in markets affected by USD LIBOR and a wide array of official-sector entities, including banking and financial sector regulators, as ex-officio members.

[6] Banks in the report have been categorised as follows: Banking peer group 1 refers to the top five SA banking groups by total assets. Banking peer group 2 refers to SA branches of international banks. Banking peer group 3 refers to banking institutions not included in banking peer group 1 and 2.

# 2. Detailed findings derived from the responses submitted to the survey

The following section is arranged according to the questions posed in the survey.

## 2.1 Finding 1: General transition readiness

The survey posed general questions on financial institution transition readiness. In line with the ARRC[7], FIs should develop an institution-wide transition programme across functions and business units, within an applicable governance framework, with senior management oversight. This is intended to assist with the appropriate evaluation and mitigation of risks associated with the LIBOR transition. Institutions need to develop an agile approach to quantify and monitor LIBOR-linked exposures through the transition period. Furthermore, FIs need to develop capabilities to value RFR-based products and understanding the financial, technological, client, and legal impacts resulting from transitioning away from LIBOR, with specific considerations towards unique products and client exposures. Thus, legacy exposures that need to be transitioned must be quantified and managed accordingly. A robust plan to address the large-scale data, operational, and technological needs to enable a successful transition is paramount.

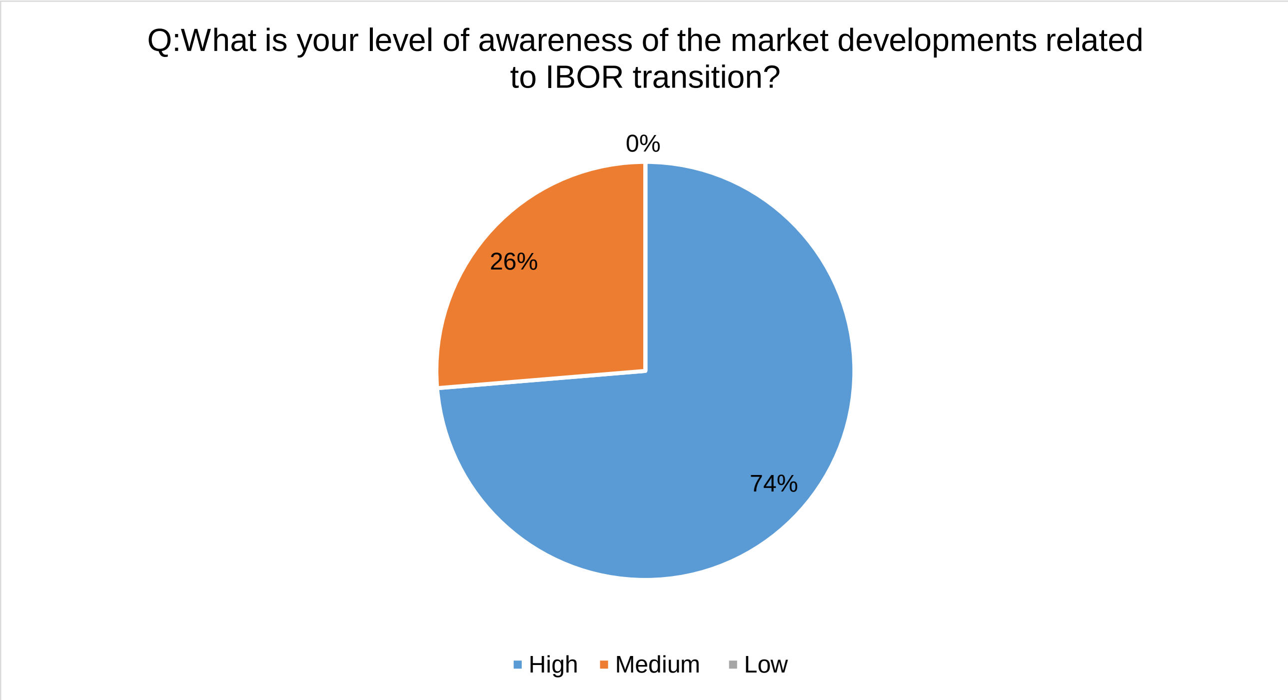
Figure 2 illustrates that the level of awareness demonstrated by surveyed institutions with regards to the LIBOR transition remained high amongst banking institutions, while most insurers were found to be relatively aware. Banking groups and international branches alluded to tracking developments as frequently as weekly across global industry forums such as the ISDA and the ARRC, with international branches actively participating in global working groups such as the Working Group on Sterling Risk Free Reference Rates[8] and the European Central Bank (ECB) Working Group on Euro Risk-Free Rates[9]. It is worth noting that the South African branches of international banks were observed to be relatively inactive compared to the local banks in the benchmark transition, as the transition programmes were largely handled by centralised technical hubs within the respective international banking group.

[7] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC-SOFR-Checklist-20190919.pdf

[8] https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor/working-group-on-sterling-risk-free-reference-rates

[9] https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html

## Q: What is your level of awareness of the market developments related to LIBOR transition?



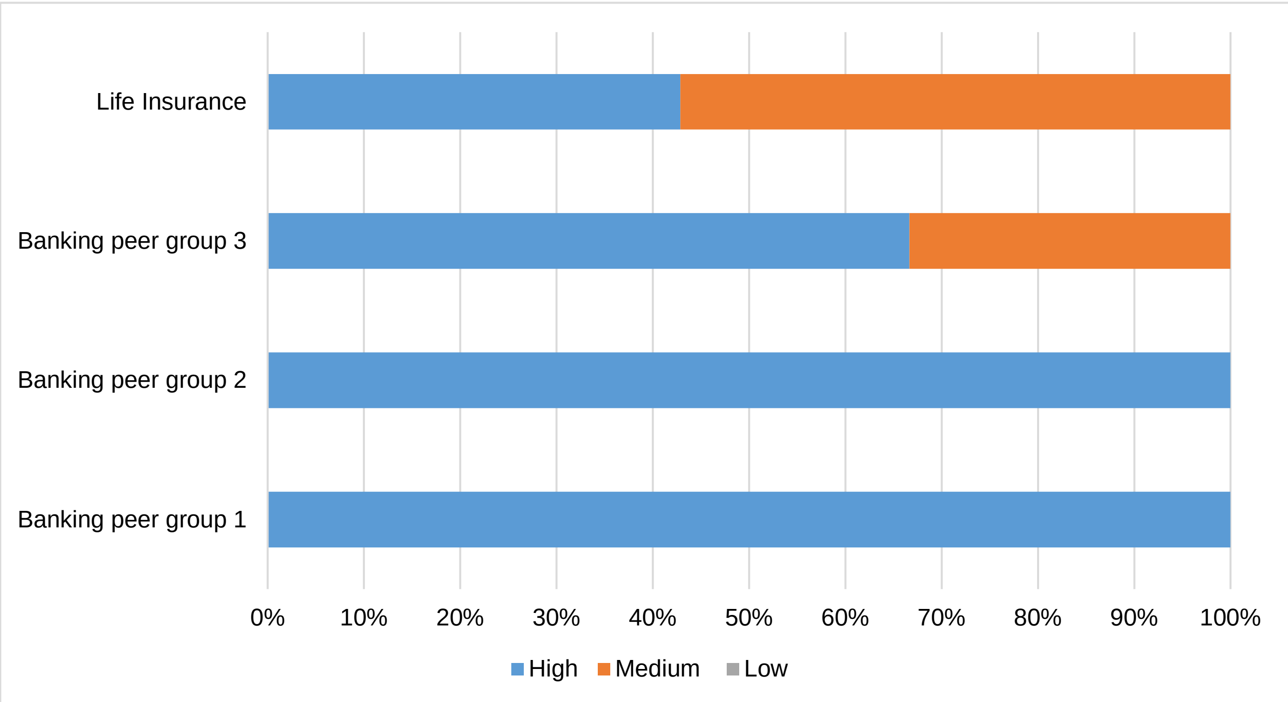



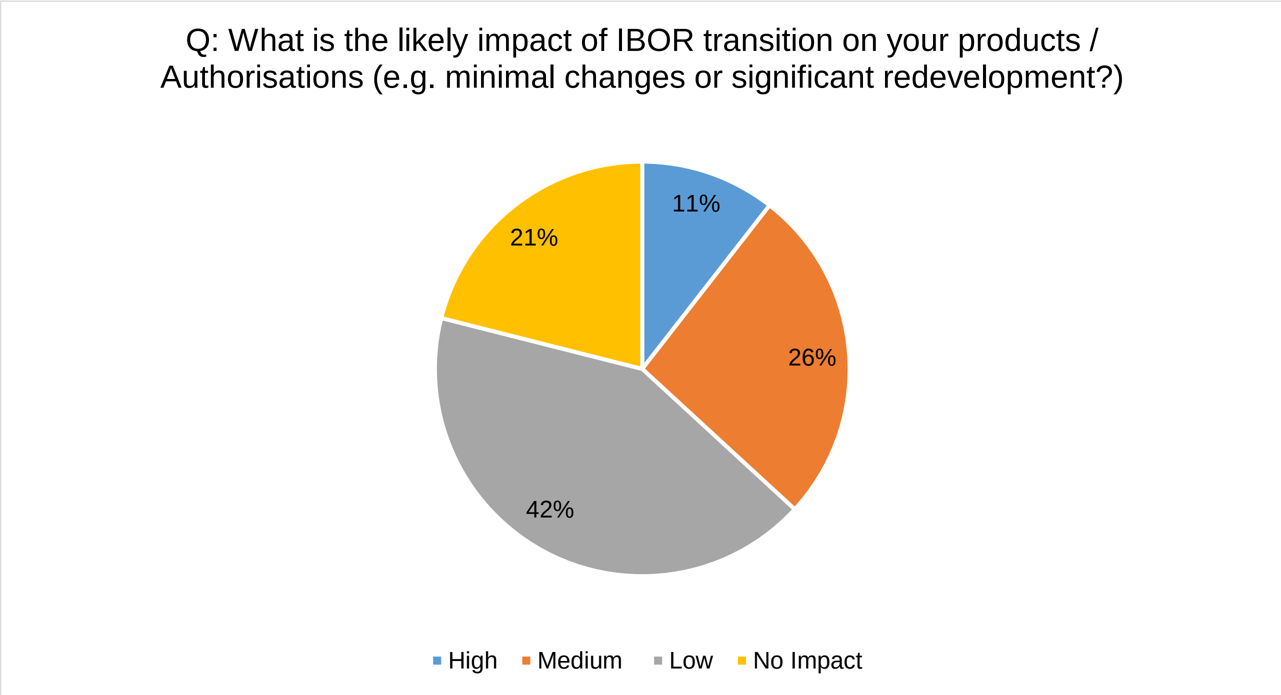

**Figure 2: Status of SA FIs awareness of LIBOR transition at a jurisdictional level and per institution type**

Many banking respondents demonstrated a clearly defined implementation roadmap with active tracking of deliverables, which had been developed as early as the first half of 2019. In contrast, most insurers had not developed deliberate implementation roadmaps at the time of the survey. These implementation roadmaps were approved by group executive committees with IBOR specific work streams and committees established to execute upon the roadmap. Consequently, workstreams were developed to cover impacted areas such as legal, technology and accounting, with some banks, predominately international branches, having constructed additional cross-regional workstreams. Banks, in this regard, proactively monitored their implementation progress using various metrics and remained responsive to changes in an ever-evolving landscape. On the other hand, only some insurers established working groups to discuss the LIBOR transition. In general, banking respondents demonstrated relatively mature transition programmes in relation to the cessation date. Similarly, certain insurers exhibited comparatively mature transition programmes. However, in the main, most insurers lacked sufficient depth in their programmes to meet transition milestones.

Figure 3 illustrates the levels of envisaged impact of the LIBOR transition. Although operationally complex and coupled with several dependencies, peer group 1 banking respondents indicated that the likely impact of the LIBOR transition on products and operations was moderate. Vanilla products presented a straightforward transition path, however, were still seen as critical in terms of observed transaction volumes. Conversely, complex products required more extensive infrastructural considerations. Most international branches anticipated a low impact with regards to the LIBOR transition. This was a result of branches having minimal transactions in South Africa that needed to be transitioned in relation to the rest of their global operations. Furthermore, smaller banking respondents had minimal (vanilla type products) to no exposure to LIBOR. Meanwhile, most insurers did not expect any impact on the products that they sold to policyholders, with the main impact emanating from the asset-side portfolios linked to LIBOR.

Banking respondents noted they had a good understanding of key enhancements that were required to ensure readiness for the LIBOR transition within their respective institutions. Changes and enhancements would mainly include the allowance for the use of alternative overnight rates, provision for fallback language, new curve construction, new discounting curves, product valuation, the allowance of product flexibility, risk management, and legal contracting. Thus, enhancements and upgrades to core platforms, systems and technical support were required to cater for the new rate implementation and updating of products for new and legacy contracts across business units. Some insurers also demonstrated a good understanding on some of these key enhancements.

**Q: What is the likely impact of LIBOR transition on your products / authorisations (e.g., minimal changes or significant redevelopment)?**



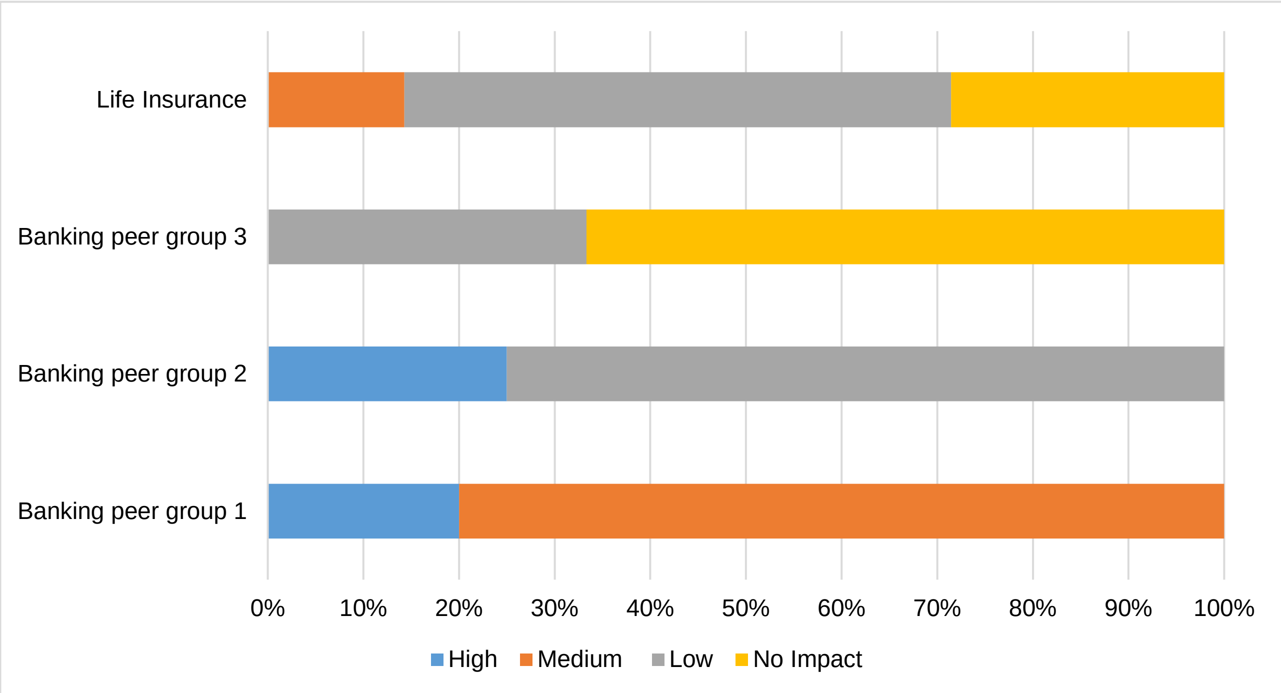



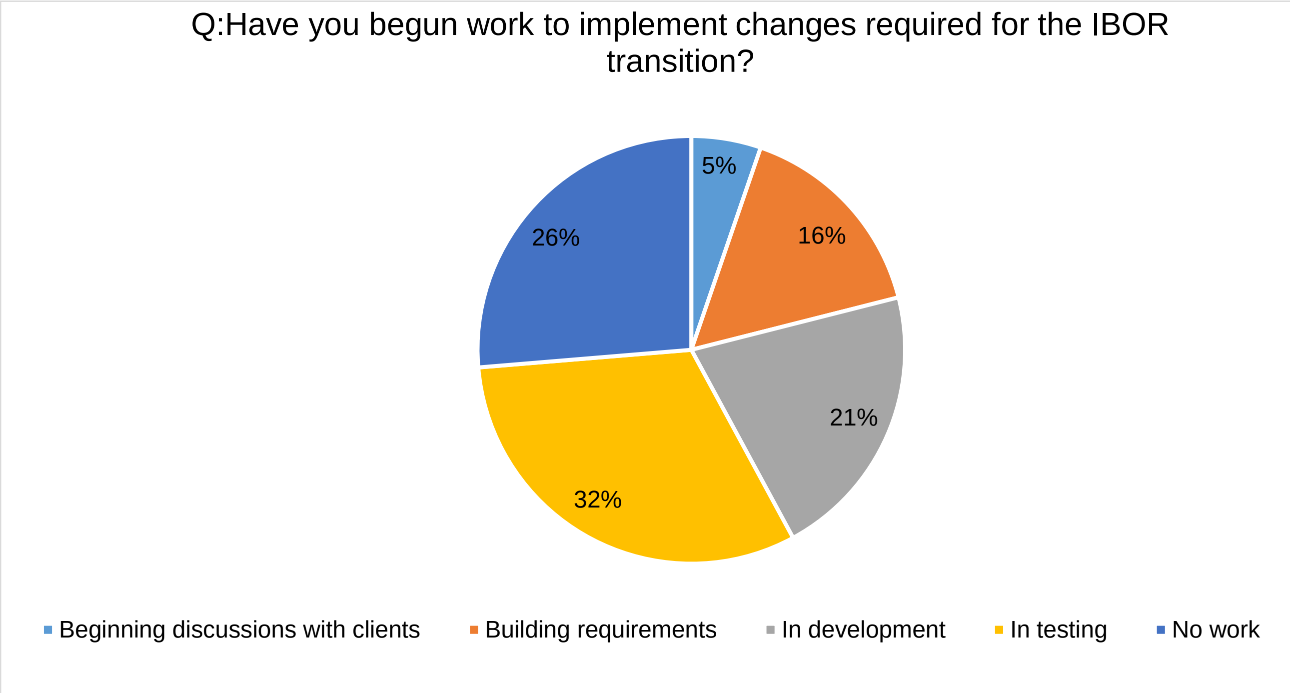

**Figure 3: Envisaged impact of LIBOR transition in the jurisdiction and per institution type**

Figure 4 illustrates the status of implementation efforts; peer group 1 banks and insurers were working towards functionality that would allow for legacy LIBOR-linked positions to be transitioned to alternative RFRs. In addition, banks identified most of their legacy LIBOR-linked positions and were driving discussions to create awareness with impacted clients.

Banks had also identified the various systems that were impacted, and the requisite enhancements.

With regards to external dependencies required, responses across banking participants were generally similar, with slight variations observed. Clarity was still sought on transitioning to alternative RFRs for certain products (including 3rd party publication of LIBOR fallback spreads), enactment of the ISDA protocol into law, and system changes, both internally and from external vendors, for new benchmark replacements. Other dependencies included understanding customers' and counterparties' willingness to sign up to the new ISDA protocol, the Loan Market Association (LMA) fallback provision, as well as clarity from regulatory authorities on when new LIBOR-linked contracts should cease being written (as opposed to guidance).

## Q: Have you begun work to implement changes required for the LIBOR transition?



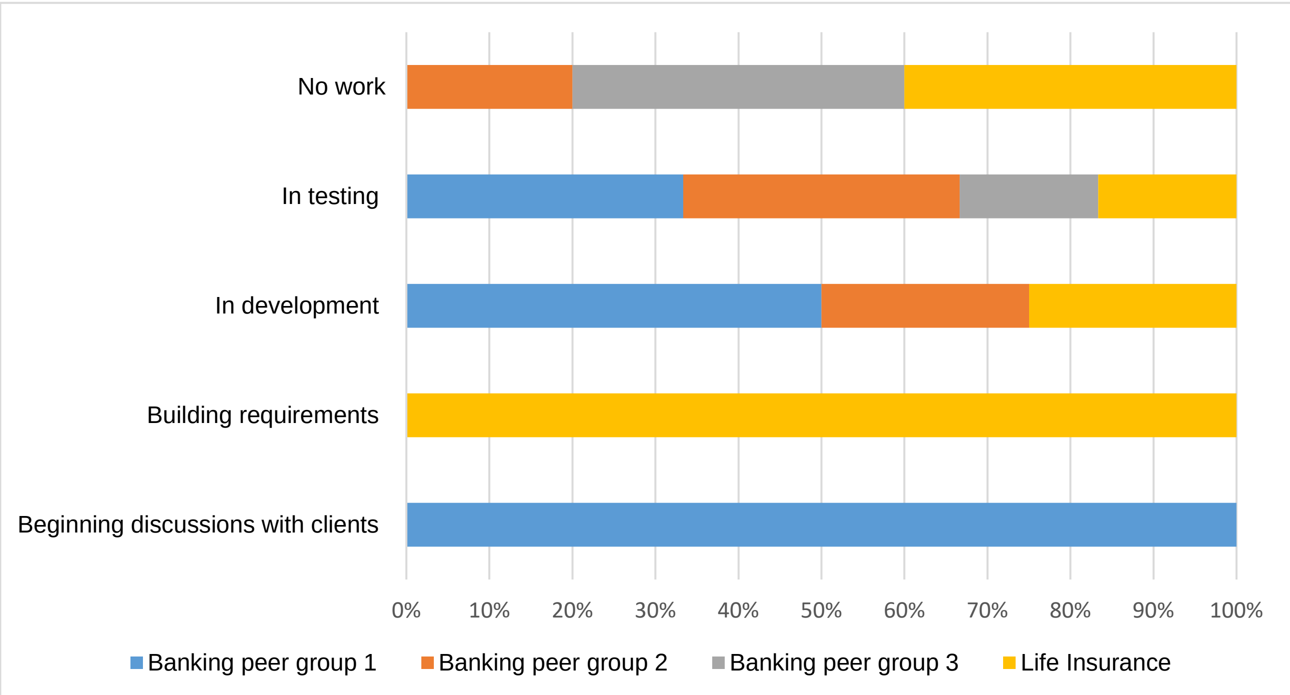




**Figure 4: Status of work in progress in preparation of the LIBOR transition**

## 2.2 Finding 2: Communication

The survey posed general questions on FIs' approach regarding communication with clients. FIs' should have clearly articulated client communication strategies embedded into their LIBOR transition programmes. A communication strategy should build a client journey with respect to the LIBOR transition and remain flexible enough to be expanded to a broader set of stakeholders.

Based on the survey responses, all peer group 1 banking institutions had commenced engagement with their respective clients on the LIBOR transition. Various forms of communication had been issued, such as letters to affected clients notifying them of the impending change, an interactive webpage (that was centrally managed and controlled) that allowed clients to engage with the institution, and bilateral discussions. However, it was noted that most peer group 1 banking institutions had not held detailed discussions with their clients on the respective business requirements. The majority had indicated that business requirements would be discussed with impacted clients on a one-on-one basis at a future point. However, all peer group 1 banking institutions had indicative timelines in place for communicating anticipated changes, testing and ultimately implementation.

Peer group 2 banking respondents indicated that active engagements were held with their clients. Most respondents had sufficiently detailed discussions with their clients regarding the transition and the accompanying business requirements. Communication with clients was mainly conducted through one-on-one discussions. Respondents had indicated that communication with their clients had occurred as early as the first half of 2020.

Respondents from the insurance sector indicated that some form of communication had taken place with their clients and sell-side participants. These forms of communication included ad-hoc engagements with fund managers and bank counterparts and through annual financial statement disclosures. Most respondents indicated one-on-one discussions were the preferred form of communication as opposed to emails and informal outreach programmes.

## 2.3 Finding 3: Transition release framework

The survey posed general questions on FIs' release frameworks**.** FIs are expected to operate their business with minimal to no reliance on LIBOR. It would not be in their interest to continue to increase exposures to LIBOR, or to have a large stock of legacy contracts that would become subject to significant legal uncertainty. FIs need to focus on shifting new products/business from LIBOR to alternative RFRs and should put in place a clear transition plan, with set milestones to mitigate the risk of an inadequate transition.

Many peer group 1 banks had demonstrated a well-defined release strategy for their products. The majority of peer group 1 banks indicated that the new rates would be implemented in key systems per the set timeline and in accordance with industry milestones. All peer group 1 banks indicated that changes related to existing products had been considered.

Most peer group 1 banks had defined business strategies and timelines for reducing the reliance on LIBOR for new product issuance. However, FIs that did not have a defined strategy and timeline indicated that they were taking an approach of encouraging their clients to consider alternative RFR products. In addition, soft fallback clauses were inserted into new contracts from the first quarter of 2020. Furthermore, revised fallback clauses were agreed in quarter four of 2020 and would be inserted in all new LIBOR-linked contracts in the same quarter to support the transition process. One peer group 1 bank indicated that their current approach was to continue to issue products linked to LIBOR until the market had fully adopted a new benchmark rate; all new products would contain fallback language to move from LIBOR to the alternative RFR and would be catered for per its product offering.

Peer group 2 respondents indicated that a well-defined release strategy was in place and that the changes required for existing products had been considered. In addition, the banks indicated that they had a defined business strategy and timeline in place to reduce the institution's reliance on LIBOR for new product issuances.

Insurer respondents indicated that the changes required for existing products had been considered. However, for some insurers, the development of a well-defined release strategy was still in progress i.e., the process of finalising milestones related to the expected development work was still being scoped. Additionally, it was observed that asset management mandates would be revised to reflect investments linked to alternative RFRs.

Figure 5 illustrates the varied system interventions that would be leveraged to enable the LIBOR transition.

## Q: Highlight how the changes required for the LIBOR transition will be delivered

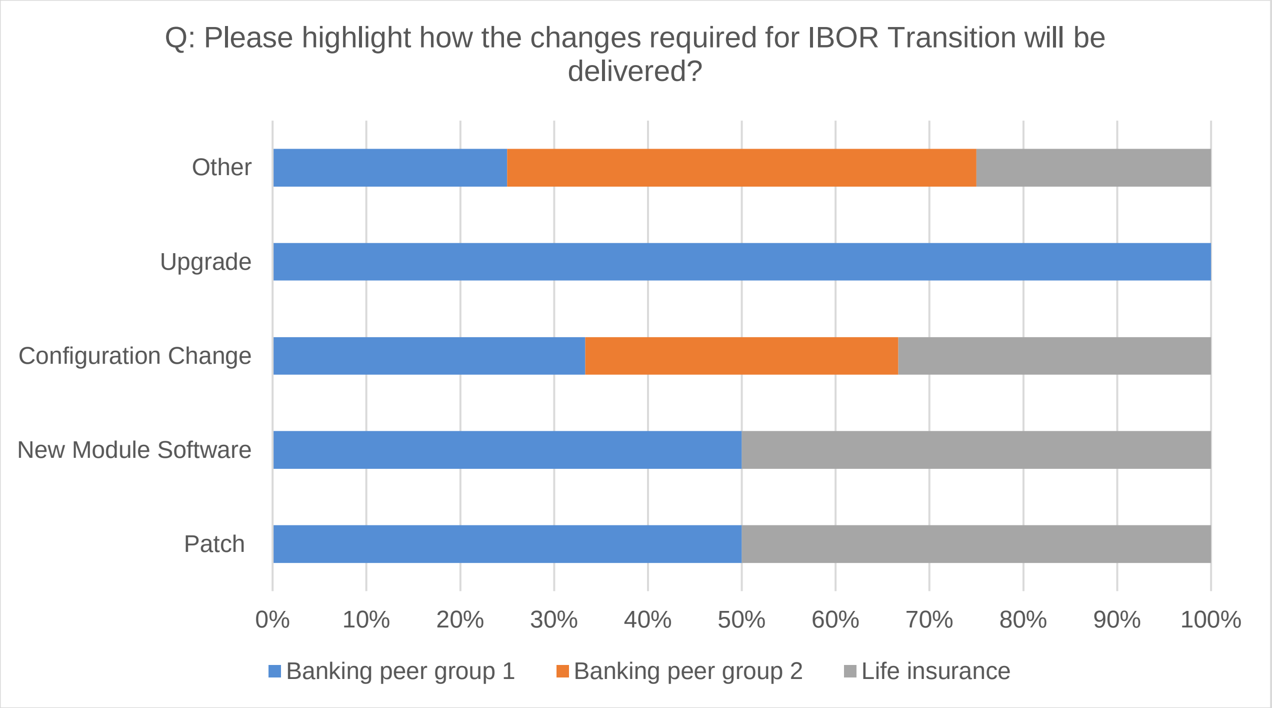



**Figure 5: Possible platforms of delivering system changes[10] required for the preparations of LIBOR transitions as reported per institution type.**

[10] "Other" refers to a combination of the above-mentioned approaches and would be considered on a case-by-case basis.

## 2.4 Finding 4: Information requests

The survey posed a question on whether FI’s needed any guidance from the industry for them to determine implementation timelines/required updates. Peer group 1 banks indicated that they were awaiting guidance from large international bodies such as the LMA, International Capital Market Association (ICMA) etc. However, for LIBOR-linked derivative contracts, most FIs were adopting the ISDA Fallbacks for alternative RFRs. Since ISDA Fallbacks were finalised, it is expected that a large portion of derivative exposures would be transitioned in a relatively seamless manner. In the corporate loan market, several FIs in SA indicated that they were still awaiting guidance from the LMA. One peer group 1 bank mentioned that the majority of their loan contracts were based on LMA templates, and as such, their transition project was largely dependent on clear and robust fallback language from the LMA across these contract types.

Peer group 2 respondents indicated that they were awaiting legislative guidance from the Federal Reserve (New York), the European Commission and the UK Parliament. Generally, international branches were actively involved in global industry working groups (e.g., ARRC, Working Group on Sterling Risk-Free Reference Rates, ECB Working Group on Euro Risk-Free Rates) and regularly engaged with global regulators to ensure that all known needs related to the LIBOR transition would be appropriately addressed.

It was indicated that assistance from the SARB to raise greater awareness with industry participants would be welcomed. Furthermore, consideration may be given to the SARB’s existing channels of communication, including press releases, monetary policy review meetings, etc. as these included a wide variety of participants, including FIs, academics and industry bodies.

# 3. Quantification of LIBOR exposures

FIs were requested to provide data on their LIBOR-linked exposures[11]. The survey requested all respondents to report both gross exposures to LIBOR and RFRs across over the counter (OTC) and exchange-traded derivatives, bonds and securitisations, a number of loan types, as well as different categories of liabilities. The data was provided on a "best efforts" basis and attempted to cover each institution at an aggregated group level.

## 3.1 Total domestic LIBOR exposures

Figure 6 represents the aggregated domestic exposures to LIBOR across derivatives, assets, and liabilities per LIBOR currency. Comparatively, FIs are predominantly exposed to USD LIBOR across derivatives, assets, and liabilities, totalling approximately USD 120 bn, USD 60 bn, and USD 10 bn respectively. GBP LIBOR exposures were reported to be relatively low, being a function of the liquidity observed in the GBP alternative RFRs, which allowed the market to leverage alternative RFRs for new contracts.

[11] All figures represented in the graphical illustrations in this section are in LIBOR currency (X): X 1000' millions. Therefore, a figure of USD 100,000 on the graphical illustration would be USD 100,000* 1,000,000 = USD 100,000,000,000 = USD 100 billion.

## Total domestic LIBOR exposure grouped by derivatives, assets, and liabilities

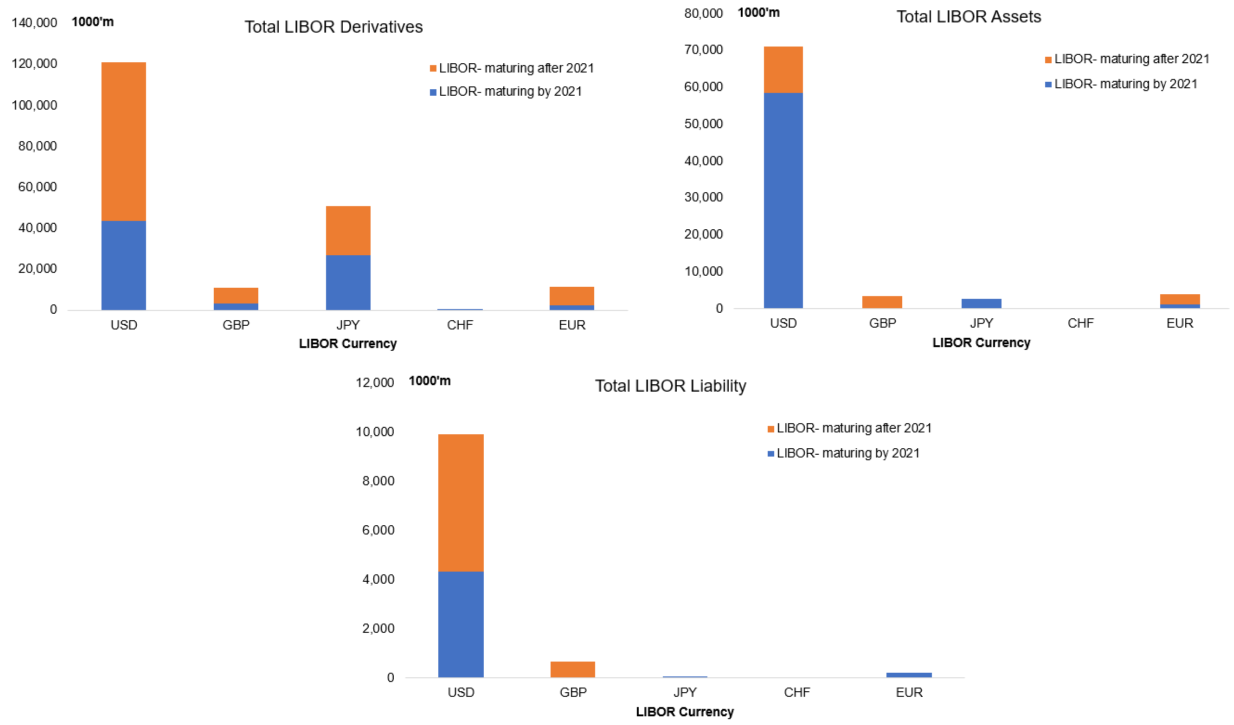



**Figure 6: Domestic LIBOR exposures**[12]

The aggregated domestic LIBOR exposures on derivatives, assets and liabilities reported to mature after 2021 are presented in Table 1. It was observed that a considerable portion of exposures, mainly on the derivatives and liabilities sides, were reported to mature after 2021. However, the exposure profile reported on the asset side was largely observed to mature by the LIBOR cessation date in 2021. The observation from the domestic LIBOR exposures is consistent with the FSB-BCBS report[13] estimates. Empirically, a substantial portion of LIBOR exposures in SA will mature after 2021; this stresses the significance of incorporating appropriate fallback language into existing contracts and developing products referencing RFRs, in an effort towards limiting any risks from the transition to the SA financial system.

The reported data on contracts with fallback language indicated that, at a national level, a large amount of LIBOR exposures had no fallback language in their contracts. Table 1 illustrates the proportion of LIBOR-linked exposures maturing after 2021 to the LIBOR exposures with no fallback language. These numbers coincide with the observation

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[12] The exposures highlighted in Figure 6 were aggregated without adjusting for possible double counting, especially on derivatives contracts. As such, the numbers reflected on the above graphs should be read as estimates.

[13] https://www.fsb.org/2020/07/supervisory-issues-associated-with-benchmark-transition-report-to-the-g20/

previously deduced, in which a considerable amount of LIBOR exposures were reported to have no fallback language.

USD LIBOR derivative exposures, maturing after 2021, remain the largest (disregarding possible double counting) in SA, with 78% of the approximate USD 78 bn notional sitting with no fallback language. However, the finalisation of the ISDA protocol and adherence to this by SA financial institutions is expected to hedge a significant portion of the risk that may emanate from transitioning LIBOR-linked derivative contracts.

**Table 1: Total domestic LIBOR exposures reported to mature after 2021 and proportion of contracts with no fallback language grouped by derivatives, assets, and liabilities**

| Derivatives | Libor Currency | | | | |
|---|---|---|---|---|---|
| | USD | GBP | JPY | CHF | EUR |
| LIBOR- maturing after 2021 | 77,647 | 7,730 | 24,104 | 0 | 2,614 |
| % of contract with no fallback language | 78% | 54% | 17% | 0 | 84% |

| Assets | Libor Currency | | | | |
|---|---|---|---|---|---|
| | USD | GBP | JPY | CHF | EUR |
| LIBOR- maturing after 2021 | 12,431 | 3,239 | 0 | 0 | 2,744 |
| % of contract with no fallback language | 77% | 97% | 0 | 0 | 84% |

| Liabilities | Libor Currency | | | | |
|---|---|---|---|---|---|
| | USD | GBP | JPY | CHF | EUR |
| LIBOR- maturing after 2021 | 5,568 | 681 | 0 | 0 | 0 |
| % of contract with no fallback language | 42% | 100% | 0 | 0 | 0 |

There were relatively less long-term (post-2021) exposures to LIBOR on the asset and liability sides. However, the reported exposures with no fallback language displayed a similar pattern observed on the derivative exposures. Nevertheless, FIs were still required to undertake all necessary operational changes to adequately transition these exposures to alternative RFRs. Generally, institutions indicated that they were still awaiting guidance on the appropriate standard fallback languages from international bodies, as previously indicated. The latter would have a significant impact on the progression of incorporating fallback languages for some of the products on the asset and liability sides.

Peer group 1 banks were found to be further ahead with respect to the overall awareness and preparedness for the LIBOR transition as shown in finding 1 above. The data herein revealed that peer group 1 banks held the majority of LIBOR exposures when compared to the rest of the respondents as depicted in Figure 7 (reported with constant currency, USD). It was observed that 99.4% of the total LIBOR derivative exposures, 99.8% of the total LIBOR liability exposures and 88.4% of the total LIBOR asset exposures were reported by peer group 1 banks.

## Institution type contributions to the total domestic LIBOR exposures grouped by derivatives, assets and liabilities in South Africa

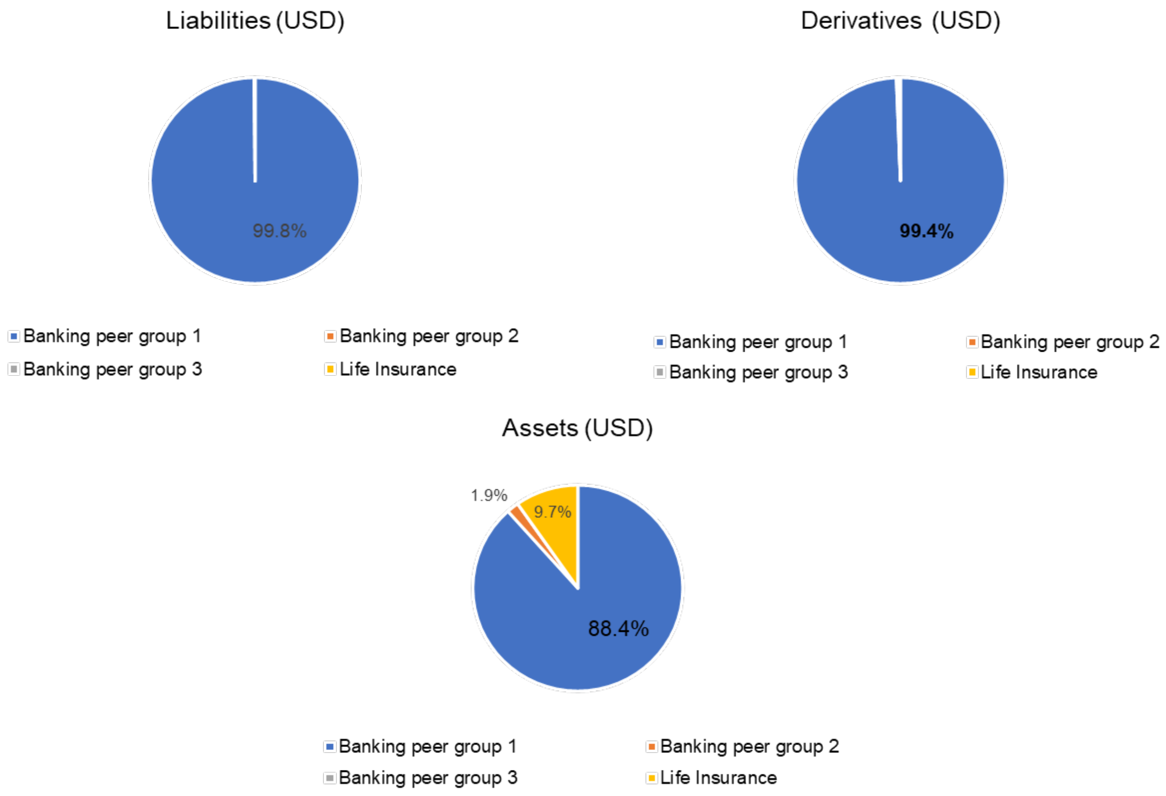


**Figure 7: Total LIBOR exposures**[14]

[14] The data presented in Figure 7 was converted to constant currency (USD) with an objective of comparing level of LIBOR-linked exposures per institution type. The above charts should be read as estimates since the exchange rate effect may introduce marginal differentials on the reflected numbers.

# 4. Conclusion

The survey results have demonstrated the transition status of LIBOR-linked exposures and the fallback adoption for FI's falling within the PA's supervisory scope. It was observed that a considerable portion of FIs' contracts with LIBOR-linked exposures had yet to include fallback language considering the impending cessation of LIBOR. In addition, banks were observed to demonstrate advanced transition programmes when compared to their buy-side counterparts, signalling an urgent need for non-bank industry segments to devote significant attention towards transition activities.