LIBOR transition is coming: Will you be ready and how will you do it?

"Seize the opportunity to capture spread, lower costs, exit or enhance booked deals."

LIBOR is imbedded in interbank deals, securities contracts and retail products. Changes to ARR will affect returns from existing positions, product pricing and client or street relations.

- Where are you in the deal lifecycle and modifying the underlying agreement terms?
- What is the cost or gain from each potential change? Fallbacks?
- Should you be leaving deals?
- How and what must be communicated? Priorities and process for transition?

The answers are imbedded in millions of trade artifacts and legal documents amongst market participants. Accessing, cataloging and using the right facts will allow you to best prepare.

High-level steps for addressing reference rate transition

1. Catalog agreements, deals and products
2. Extract terms and analyze implications
3. Design new products and target terms
4. Use analytics to negotiate and transition

How to get started?

Consider the down-and-dirty approach - start with the largest relationships, but you could leave opportunities in the drawers. Understand where you stand with all relationships so you can use the transition most effectively. If done right, it will be worth the effort going forward.

Common approaches include:

- Assembling documentation
- Identifying keywords upon which to search
- Asking a team of analysts to compile facts
- Use available OCR and some rules-based method for choosing what to catalog from the documents

These common approaches don't provide all that's needed . . .

- For instance, how do you tie MSAs to sub-agreements, to amendments, not only physically, but when the terms change from paper to paper?
- How do you know that you are capturing all the necessary knowledge from each document and making proper judgement from a regulatory and economic sense?
- How do you automate information extraction from the variety of contracts formed over the years, diverse formats including scanned images? How about amendments, referenced clauses, jurisdictional language nuances, references across documents?

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How will you catalog and extract information in a usable format without a lot of investment in technology and manual effort?

Mistake #1 in LIBOR transition is planning to use OCR and RPA

You may jump to a combination of Optical Character Recognition (OCR) and Robotic Process Automation (RPA). It seems obvious, as every document management, ETL and workflow management tool provides some level of OCR capability.

Yes, these tools can be augmented by feeding keyword lists to help identify clauses, but these rules-based solutions are minimally effective, and still need a lot of manual work to cleanse, enrich and prepare the data for downstream consumption and analytics.

Using a true AI, ML, NLP solution is the optimal way to automate

A well-implemented AI/ML/NLP solution is the best way to automate data ingestion, extraction and preparation of attributes in an analytics consumption-ready format. **You should be able to automate at an accuracy of over 90% with minimal human intervention and avoid the dreaded 4-eyes process**.

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← AI, ML, NLP → ← Customer & Portfolio Analytics →

Mistake #2: We already use an AI/ML/NLP Platform. No really, we do!

Many vendor or home-grown solutions are being touted as AI/ML/NLP. However, the reality is that most of them are rules-based, with a few open source components built-in, and the resulting business outcome is not much better than using a basic OCR and RPA approach.

4 tests to find true AI, ML, NLP platforms, and why it matters . . .

A true AI/ML/NLP platform learns like a human, by training and reinforcement learning, so

- Continues to work when input formats change, or data appears on different pages or places
- No need to define pre-built templates to read inbound documents or other data formats
- Reads and processes footnotes (even when the footnotes appear in different places)
- Performs data ingestion including digitization, extraction, ontology-driven and second-source validation, auto-tagging of data and metadata, and use of knowledge graphs for storing information and relationships

Most solutions being considered for Libor Transition today will fail the tests above, resulting in a very expensive, manually-intensive and error-prone process, reducing your ability to re-negotiate from a position of strength with access to all customer and portfolio analytics.

Your next step: Competent due diligence to choose the right approach or contact us to learn how you can do this transition the right way.

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