

IBOR TRANSITION

Intelligent Delivery





Illustration: Sam Hadley, Facilitating finance

BACKGROUND

The London Interbank Offered Rate (IBOR) is a measure of the average rate at which banks are willing to borrow wholesale unsecured funds and is used as a benchmark rate for the purpose of calculating the interest payable in most credit agreements. It is calculated on submissions from selected panel banks and published in five currencies at a selection of tenors.

In 2012, following widespread allegations of IBOR manipulation, the Wheatley Review was conducted by HM Government to look into the reform of IBOR. Following a further review in 2014, it was questioned whether IBOR remained reliable and capable of achieving its purpose.

During 2017, there were only £187m of 3 month deposits, yet the most popular Sterling IBOR is for a three month tenor. As a result of this, developments to move away from IBOR have gathered pace and it is now almost inevitable that IBOR will not exist at the start of 2022.

TIMETABLE



**Collegiate,
progressive
and diligent**
Chambers UK

The FCA has only been able to secure panel bank support to continue submitting IBOR quotes until the end of 2021. Beyond this time, the FCA will no longer compel banks to submit to IBOR, meaning the future of IBOR is not guaranteed after this time.

This does not mean that IBOR will automatically cease to exist in its entirety as the clock strikes midnight on 31 December 2021, but it does mean that (1) this is a distinct possibility, (2) if IBOR continues to exist in a state where fewer panel banks submit to IBOR it will be even less reliable in representing economic realities and (3) there will be a new alternative which it is expected will be widely used and adopted by the market.

SO WHAT'S THE ISSUE?

IBOR has been a part of lenders' operating models since the 1980s and transitioning to alternative rates will inevitably affect how contracts are priced and risk is managed.

Changes will be required to:

- existing loan agreements due to terminate after 2021
- loan agreements entered into between now and the end of 2021
- loan agreements entered into from 2022 going forward

Lenders need to be aware of the proposed transition and consider the changes that will be needed in order to allow operations to continue with a new benchmark in place no later than 1 January 2022. In the meantime, it is likely that an amendment process will be required in respect of existing credit agreements and a future-proofing mechanism may need to be implemented in new agreements until further clarity is available.

Transition is relevant not only to lenders but all businesses with contracts containing IBOR-linked financial obligations.

HOW CAN WE HELP?

WE CAN ASSIST WITH:

- reviewing documents to determine whether they require amendment to provide for the future replacement of IBOR
- drafting the amendment documentation and
- managing the execution process with customers and other counterparts.

We can also provide strategic advice and risk analysis. In particular, due diligence work on the existing book.

OUR APPROACH TO INTELLIGENT DELIVERY



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Success starts with coordinating the business towards the outcomes of an IBOR transition programme. Our approach to IBOR governance aims to ensure stakeholders work to a common set of governance principles, within a robust framework. The principles clarify the programme and project structure, management processes, reporting and overarching ways of working.

Some of the main principles in the governance framework may include ensuring:

- A clear structure is communicated to all stakeholders, so everyone understands the organisation of the teams, reporting lines and the main responsibility areas;
- Roles and responsibilities have been agreed so it is clear who is responsible for what activities and deliverables;
- It has been agreed how often stakeholder groups meet and communicate, how the reporting process works and what formats are used for reporting and tracking of progress and financials;
- A process for the identification and mitigation of risks and issues is agreed and implemented;

- There is clarity on any other supporting processes such as document management and exchange, or communication protocols;
- It is clear who is responsible for the governance and management of the programme and its various components; including the supporting documentation, communication and any changes to the governance framework.

Mobilisation is key, and the project should hit the ground running through short collaborative workshops with key stakeholders at the start of a project to work through the governance principles. We will fully scope the resourcing needs of the project as well as ensuring all requirements for the project are fully understood and agreed. We have extensive experience with the set-up of governance frameworks for IBOR projects.

This approach is interchangeable and flexible to the size, and complexity, of the organisation and its programme of work. We would implement a bespoke combination of people, process and technology to achieve the objectives of your business cost effectively, efficiently and consistently.



FLEXIBLE RESOURCE

The TST (Transaction Services Team) is one of the wide range of resourcing options we have created in order to give clients greater flexibility and to improve cost efficiency. Made up of more than 160 highly experienced apprentices, paralegals and managers, the TST is a centralised unit which delivers in either a standalone or an integrated way alongside AG's lawyers, and increasingly as part of clients' own internal teams.

At the start of every project, we would fully scope out the exercise with you, assessing where we can use tech and lower cost resource, and where the skills of our experienced practitioners are needed. We would also work with you to plan a detailed proof of concept exercise, to fully test our assumptions.

We have three core TST teams co-located with our fee earners in Edinburgh, Leeds and Manchester and our flexible and adaptable approach enables us to deliver cost efficiency without compromising on quality. The TST offers flexible resource that can be scaled up or down as your business needs, making it possible for us to flex to the specific demands of your project.

Additionally, we have access to our freelance lawyer offering, AG Integrate – a pool of talented lawyers, often specialists in particular areas e.g. ISDA, Project Management etc., whom we deploy to work flexibly and cost effectively for our clients, and to support our own divisions.



PROCESS AND PROJECT MANAGEMENT

By breaking down legal processes, and by using legal tech, we have identified where tasks can be delivered by paralegals rather than qualified lawyers, thereby managing costs. This approach has been successfully deployed on a range of large scale projects, from structural reform to re-papering exercises.

In addition, our Legal Project Management team ensures we deliver projects as efficiently as possible. The LPM team works closely with our Innovation and Legal Technology team and TST, as well as our specialist practitioners, to ensure we use best practices, technology and resourcing options for projects, including:

- project governance – planning, reporting on progress, management of risk and issues, communication to project stakeholders
- project administration and financial control
- acting as an operational point of contact and
- identifying and putting into action improvement opportunities throughout the Project.

LEGAL TECHNOLOGY

TECHNOLOGY IS AN ESSENTIAL COMPONENT IN THE EFFICIENT AND COST EFFECTIVE DELIVERY OF LEGAL SERVICES.

We consider the use of technology in all our projects, and our dedicated ILT team work with our solicitors and paralegals to establish whether technology will add value, and if so what combination of technology will give the best results.

We develop, test, invest in and embrace new technology on a continual basis in order to enable the smart delivery of legal services and creation of clever solutions to clients, both faster and more cost-effectively.

Our approach delivers significant measurable benefits for our clients in terms of speed of delivery and cost efficiencies.

We use a range of tools and techniques to help deliver legal services to our clients, for example HighQ and artificial intelligence (AI) systems Kira and Luminance.

HighQ is a flexible set of tools including document automation, workflow, dynamic spreadsheets, dashboard reporting, document storage and collaboration brought together in a secure, online platform. It enables the more efficient delivery of legal work, extensive real time and visual reporting, better project management and the easy and secure sharing of information.

Its flexibility means we are constantly identifying new ways of using its powerful operating system in the context of new work types. We can create dashboards on HighQ for real-time reporting, giving you information at a glance using our powerful reporting suites and enabling you to see the latest outputs and progress on the project in real time together with email alerts for users, allowing progress to be tracked easily across the Project. We can also build in automated overview reports displaying the progress made, which can be generated at the click of a button and easily circulated to non-HighQ users across your business.

Kira Systems is an AI contract analysis system. Kira Systems enables us to upload and clean documents in bulk, automatically classify them, and to extract information. We most commonly apply it to due diligence reviews and real estate transaction reviews but also use it more broadly. We consider applying it whenever we are extracting information from documents.

Luminance is an AI Platform that uses pattern recognition algorithms, advanced statistical probability and supervised and unsupervised machine learning to analyse documents and provide an immediate global overview of a collection of documents. It can also be used to find significant information and anomalies between any clause or document type. Its algorithms also cluster both documents and clauses, using linguistic standards and deviations.

WHEN ASSISTING ON IBOR PROJECTS, WE MIGHT USE:

- AI to assist with the identification of clauses requiring amendment in the review phase. Our AI tools allow us to group documents based on their similarities and then extract relevant information
- HighQ to host a bespoke questionnaire which our paralegal team would use when reviewing the documents, logging their responses on the portal
- Automation on HighQ to produce amended documents and new templates
- HighQ to help manage the process of review and execution, and to provide real time reporting to our client on progress and any issues requiring escalation.

CASE STUDIES

THERE ARE MANY
EXAMPLES OF
US PROVIDING
INNOVATIVE
SOLUTIONS FOR
OUR CLIENTS.

HERE ARE JUST
A FEW:

1

Assisting a large bank with a reorganisation of its business - This involved reviewing a large number of commercial contracts for over 150 data points including termination rights, assignability, payments due, IP, governing law etc. There were over 1000 contracts to review. A team of 25 paralegals and 6 solicitors worked alongside each other to review the contracts. A senior paralegal in our team worked closely with lawyers in our commercial division by allocating contracts for review, quality checking and giving regular updates to the client as required. The team used a bespoke review platform to complete the reviews which resulted in cost savings and clear, consistent and quality outputs. We worked with another firm to coordinate our advice within the wider project.

2

Acting for a FTSE 100 company on a large due diligence exercise. AI software was used to group similar documents together for the triaging of work and to extract information from each of the contracts. We also used HighQ to allocate contracts for review to our team, and to provide weekly reports to the client which were generated using the platform's data analytics tools. The use of AI software and HighQ delivered cost savings on this project of up to 30%.

3

Acting for a FTSE 100 company on its sale of a global business with a value of circa £1bn with responsibility for all separation activities in order to achieve completion of the sale. A team of approximately 40 paralegals and associates managed and coordinated a database of approximately 2,500 contracts across 10 service streams and implemented a process to effect the novation of contracts, including:

- reviewing all contracts and redacting confidential information;
- preparing and issuing approximately 500 novations and liaising with the relevant counterparties to agree the terms of such novations and implement execution.

4

As part of our appointment to the panel of a major groceries retailer and a FTSE 100 company, we worked in collaboration with another law firm to help the client's in-house legal team develop their use of technology to improve panel firms' customer-focused service and drive greater efficiencies in managing their panel relationships. In the project led by AG collaboratively with CMS and the client's in-house legal team, we created a Legal Portal based on HighQ. The Legal Portal is designed to be used by both the client's internal and external (panel) lawyers to:

- Encourage a collaborative environment.
- Improve their experience of customer service from the client's perspective.
- Create efficiency, better communication and information sharing.
- Engage both the legal panel and the in-house legal team.

This project was recognised and awarded the 'Best Use of Technology' award at the British Legal Awards and was also previously Highly Commended at both the Law Society Excellence Awards for 'Excellence in Client Services' and at the Legal Week Innovation Awards for 'Client Management Innovation'.

5

Assisting a major bank with due diligence on the impact that a change of name would have on the validity and enforceability of its security documents. This involved the review of documents and the coordination with local counsel across over 50 different jurisdictions. The project was driven by our Transaction Services Team which delivered on time and on budget project.

GET IN TOUCH

WE WOULD BE DELIGHTED TO
MEET WITH YOU TO DISCUSS HOW
WE CAN PARTNER WITH YOU TO
DELIVER YOUR BUSINESS NEEDS.



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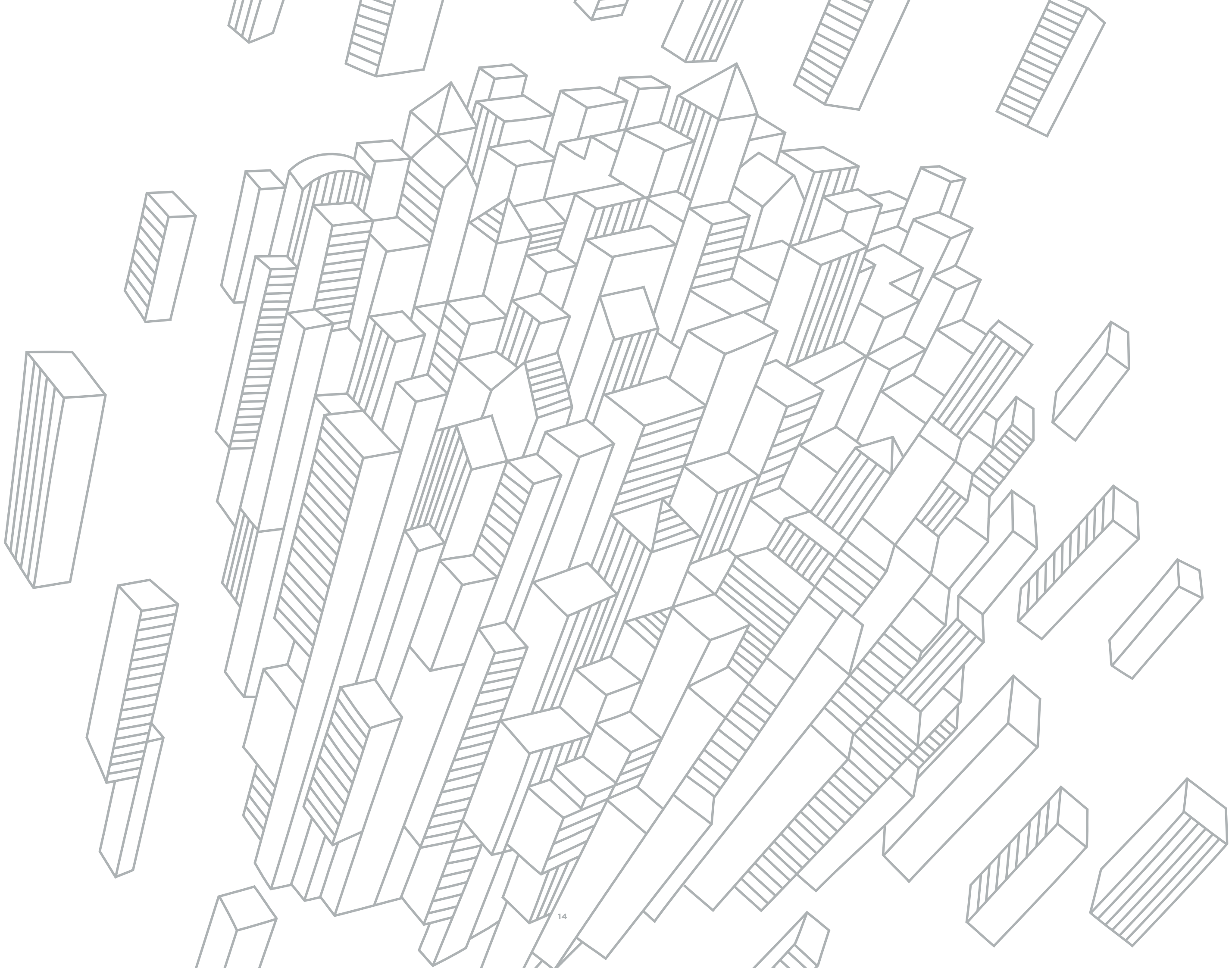
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PROBLEMS. POSSIBILITIES.
COMPLEXITY. CLARITY.
OBSTACLES. OPPORTUNITIES.
THE DIFFERENCE IS IMAGINATION.
THE DIFFERENCE IS **AG.**

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