

PwC

Nordic battle of the treasuries – Interest Rate Risk Management

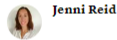
Bryan Yick

March 2023

EUROPE ECONOMY

European Central Bank raises rates by 50 basis points, pledges further hike in March

PUBLISHED THU, FEB 2 2023-8:19 AM EST | UPDATED FRI, FEB 3 2023-7:25 AM EST



Jenni Reid

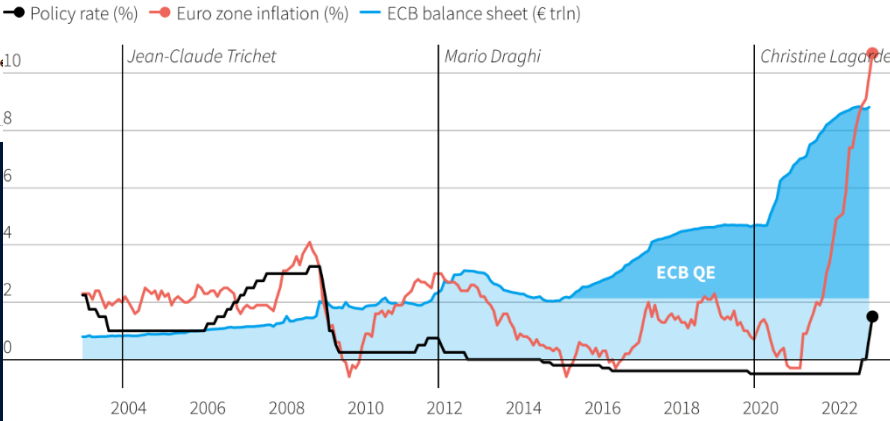
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KEY POINTS

- In a statement, it pledged to "stay the course a steady pace" and, in unusually firm language, 50 basis points in March.
- It follows four hikes in 2022 which brought rates to a 10-year high for the first time since 2014.

ECB hikes policy rate by another 75bps



Source: Refinitiv Datastream | Reuters, Nov. 2, 2022 | Vincent Flasseur

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When To Expect The Fed To Raise Rates Again

Simon Moore Senior Contributor @
I show you how to save and invest.

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Feb 13, 2023, 04:45am EST



Interest rates hiked by Bank of England by 0.5 percentage points in tenth consecutive rise

Rate rise may be the last for a while as the Bank upgraded its economic forecast, including their projections for a recession.



Ed Conway
Economics & data editor @EdConwaySky

Thursday 2 February 2023 19:53, UK

ION Treasury

Interest Rate risk management in a TMS



Interest rate vs funding & debt

- Meeting debt obligations
- Ensuring enough cash flow to service future interest payments
- Covenant monitoring and reporting

IBOR Transition

- Transitioning your loans to ARR
- Capturing lookback, lookouts
- Maintaining correct historical and future valuations

Investments Opportunities

- Increased yield
- Improve bond yield
- Improve returns for fixed deposits and Money market funds

Hedge accounting

- Cashflow hedge & fair value hedge
- Portfolio hedging
- Reduce PnL volatility by designating your hedges against your exposure



Case study with Best of Breed IR risk solution



Client X

Size



\$ 800m in Revenue

Geography



5 Countries

Current TMS Landscape



Excel

Pain points

Lack of centralized visibility on IR Exposures

Valuation of swaps and IR derivatives

Manual calculation of interest cashflows

Recording ARR loans

Manual / inefficient way to produce hedge effectiveness documentations



Solution



Centralized IR Positions



Integrated Market data with industry leading valuation engine



Automated Cash flow calculations



IBOR Transition Dashboard & Support for ARR trades



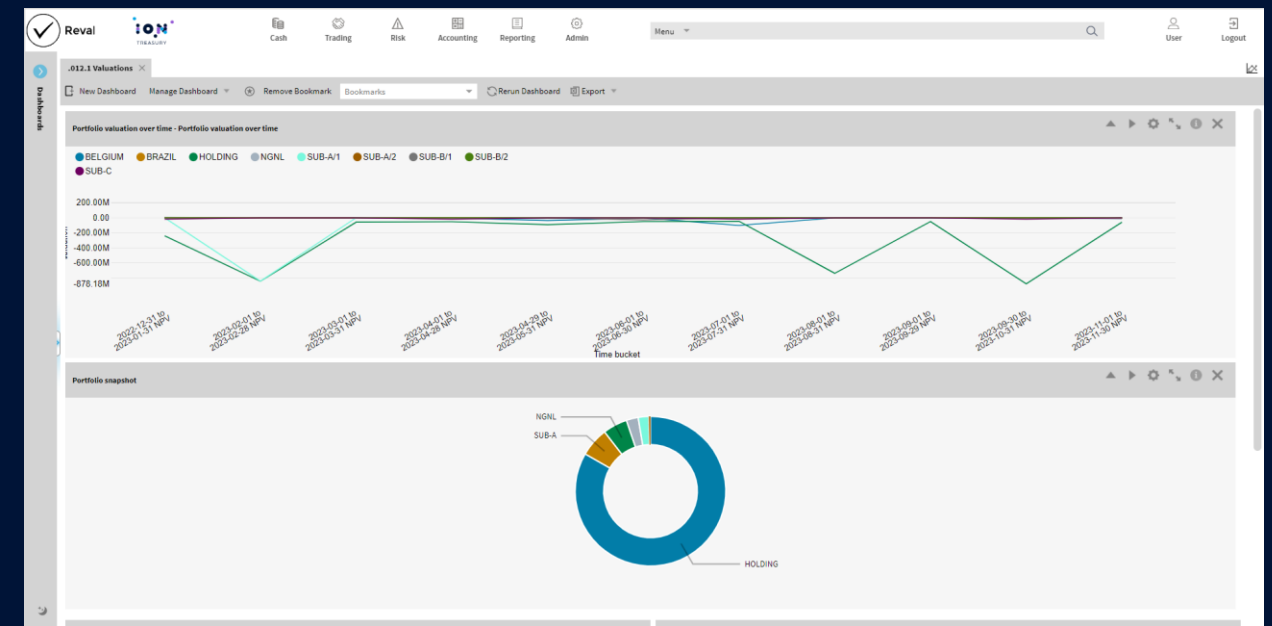
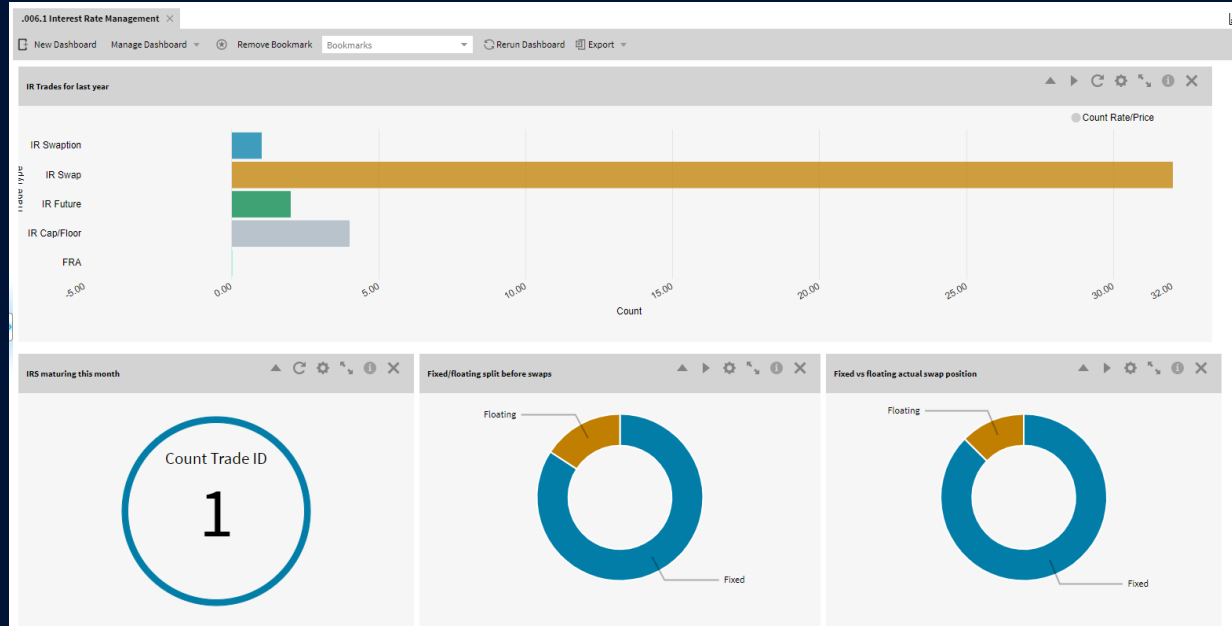
Best of breed hedge accounting tools

ION Treasury

From Operational Treasury.. To Strategic Treasury



Ask the right questions. Be strategic! Be proactive!



Exposure

What IR exposures lies within my portfolio? Is it fixed or floating?

What index are my interest rates exposures in?

How has the recent IR fluctuations affected my ability to invest / borrow? Has that impacted my cashflow?

Valuations

Do I have all the market data required for calculating the NPV of the trades?

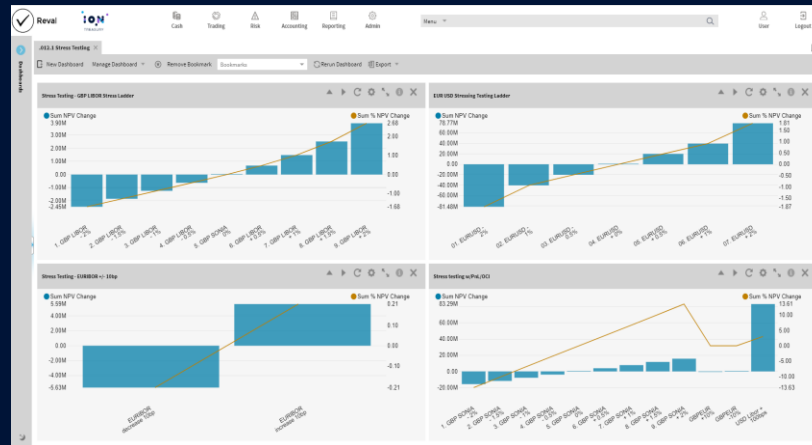
Have I correctly valued all my derivatives?

Can I apply CVA/DVA calculations to my portfolio of trades when performing valuations?

ION Treasury From Operational Treasury.. To Strategic Treasury



Ask the right questions. Be strategic! Be proactive!

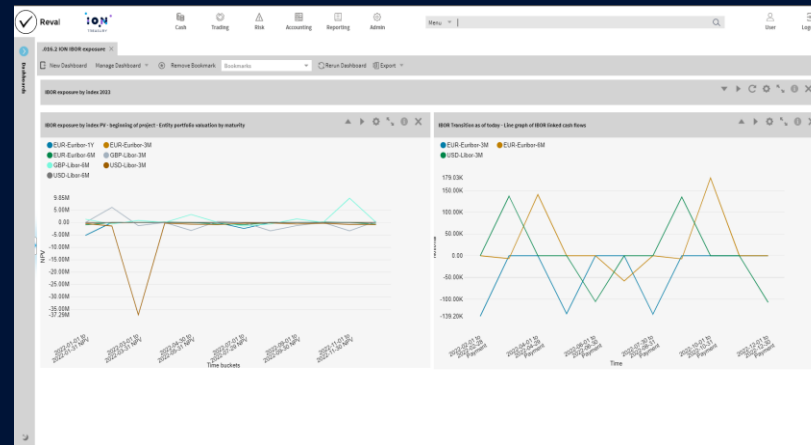


Cash flow forecast & Sensitivity Analysis

What are my future debt / interest obligations?
Do I have enough cash flows to meet those obligations?

What would be the impact on my cash flow if the interest rates were to increase / decrease?

Can I perform parallel shift on my portfolio?

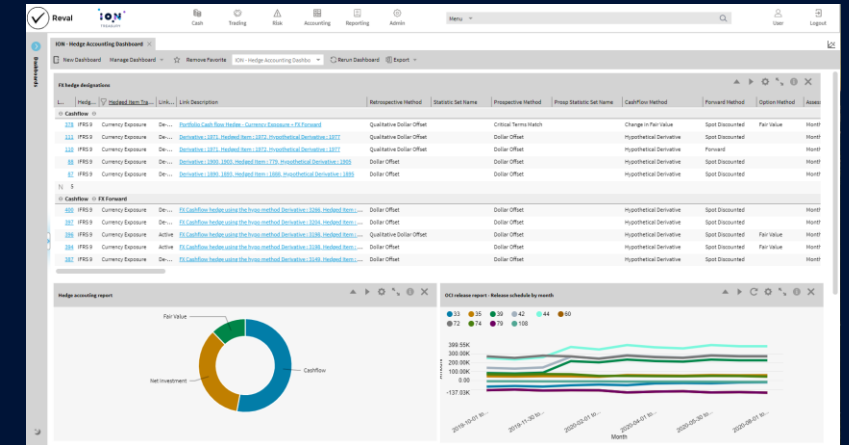


IBOR Transition

Which trades in my portfolio are still subject to IBOR and need to be transitioned to ARR?

What are my IBOR linked cash flows?

How can my TMS correctly calculate the daily interest based on the lookback period and averaging method that I have agreed with the bank?



Hedge accounting

Can I ensure the TMS can cater for different interpretation of the hedge accounting standard?

Can I perform hedge accounting so that I limit the PnL volatility of my portfolio?

How can my TMS automatically generate hedge documentations that are recognized by the auditors?

ION Treasury
Uniquely positioned to transform our industries



Q&A

ION Treasury

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1. What hedging strategies are available?
2. What best practices can be applied?
3. What are the implications of different hedging strategies?
4. What is the impact of IFRS 9/ASC 815?
5. Which hedges qualify under the new standards?
6. How will my current instruments be affected?
7. What are the steps I must take to transition?

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Want to learn more about ION Treasury?

Fact sheet

What will replace IBOR?

By the end of 2021, IBOR linked instruments and discounting will likely cease to exist. Treasurers need to adopt new alternative reference rates (ARRs) long before this to avoid any significant risk. The proposed ARRs for the different currencies are:

Jurisdiction	Working group	Working Group on Sterling Risk-Free Reference Rates	Alternative Reference Rate Committee	The National Working Group of CHF Reference Rates	Study Group on Risk-Free Reference Rates	Working Group on Risk-Free Reference Rates for the Euro Area
United Kingdom						
United States						
Switzerland						
Japan						
European Union						


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IBOR Transition Assessment Service

IBOR (Interbank Offered Rates) reform is coming, and ION can help your treasury team prepare. Our IBOR transition assessment service (ITAS) helps to identify the impact of transitioning to the use of Alternate Reference Rate (ARR) within your business processes and your ION Treasury system.


Our product and services experts will provide recommendations and proposed solutions to assist and support a smooth IBOR transition for your organization.

How ITAS works?




Review

Our experts will review your current landscape and discuss your IBOR exposure profile.




Discover

We will conduct interviews with your team members to understand their processes and day to day activities involved with IBOR, and the related impact.




Document

We will log discussions during the delivery sessions including activities, interactions, and related impacts.



Analyze

After all consultation sessions are complete, our IBOR transition experts will review and analyze our findings.



Propose

Our team will make recommendations for all findings, identified including suggested solutions, timelines, and next steps.

IBOR transition FAQs: All you need to know

Published: May 2020

IBOR reform is a major market event. All IBOR rates will cease to be published by the end of 2021 and will be replaced with alternative reference rates (ARRs). In a recent ION Treasury webinar, only five percent of treasury professionals said they are prepared and have designed an IBOR transition roadmap. In other words, 95 percent of corporates do not fully understand the impact of the IBOR transition, require more training, or have yet to put together their migration plan. To get started with your IBOR project, our experts have collected the most frequently asked questions from our 55,000+ community of users around the world.

What will replace IBOR?

As a result of a widespread scandal in 2008, all IBORs will ultimately be replaced with ARRs. For each jurisdiction, the ARRs are published by independent administrators. This is posing a significant challenge and explains why the different rates are at different stages of development and maturity. They follow different timelines. For example: Instruments rated with EURIBOR or USD-LIBOR have a different transition framework than instruments rated with GBP-LIBOR. As different as they are, they all have one thing in common though: They differ significantly from IBOR.

Overall, there are a few key differences between IBORs and ARRs.

	IBORs	ARRs
Determination	Based on a qualitative opinion	Based on actual transactions
Type	Forward looking; Set in advance at the beginning of the period	Backward looking; Overnight rate compounded up to the end of the period
Term rates	Available; 1 week to 12 months	Not available; Only overnight rate
Credit and liquidity premium	IBOR has premium for credit and liquidity included	Mostly risk-free
Administrator	International Continental Exchange (ICE)	Independent administrators based on currency; different publication time

Table: Comparison IBORs and ARRs

