



REFINITIV CASE STUDY

Yield Book collaborates with Refinitiv to deliver a seamless LIBOR transition solution

As the 31 December 2021 deadline for LIBOR transition approaches, financial firms need to act now to ensure they have plans in place to adopt the risk-free rates that will replace the global benchmark.

The challenges of making the change are significant, but there are solutions. These include a collaboration between London Stock Exchange Group (LSEG) companies Yield Book and Refinitiv that combines Yield Book analytical expertise with the market-leading data provider's established terms and conditions, pricing and other key data sets to deliver seamless LIBOR transition.

Challenges of transitioning LIBOR risk analytics

While the FSB's 2014 request for risk-free rates triggered the transition from LIBOR and the FCA's 2021 statement put an end to a benchmark that proved unreliable and unsustainable, the move to a more robust and stable system is one of the largest re-engineering projects financial markets have ever experienced, as LIBOR is embedded in many processes and must be replaced.

In particular, most client risk systems have been based around legacy LIBOR rates, with deeply ingrained logic which often requires major overhauls. Risk systems have required multiple updates from changing their data structures, to sourcing new input data and to adjusting their calculation methodologies to account for the new rates.

Among the key analytical challenges of LIBOR transition to both clients and risk systems providers are:

- Adopting and deploying risk-free rates such as SOFR, SONIA and €STR and sourcing the right data, swap curves and volatility information
- Updating methodologies to calculate cash flows and related analytics to incorporate all nuances of the new risk-free rates, such as in-arrears calculations, lookback/lockout options, observation shifts and compounding choices
- Establishing the risk and exposure in legacy contracts tied to LIBOR by first identifying affected positions, and understanding and implementing the appropriate fallback mechanisms
- Calculating detailed scenario analyses and stress tests based on the new risk-free-rates, as well as incorporating potential divergence with credit-sensitive benchmarks such as LIBOR

A sustainable solution

London Stock Exchange Group companies Yield Book and Refinitiv have collaborated to address the complexities associated with the cessation of LIBOR and the challenges of upgrading risk analytics calculations. This will help their clients to minimise disruption, and ensure an efficient transition to alternative rates.

Yield Book's platform for fixed income analytics enables market makers and institutional investors to perform complex analysis of portfolios, benchmarks, trading decisions, historical performance and risk. Its securities database provides indicative data, daily pricing and analytics, and covers most major fixed income asset classes and currencies. Yield Book is also used as the calculation engine for the FTSE Russell fixed income family of indexes.

As a financial infrastructure provider, it is therefore essential that Yield Book is able to address all of the analytical challenges of the LIBOR transition noted above, and to support the new risk-free rates that will be used to calculate coupons, projection of future cash flows and discounting.

Working alongside its clients, Yield Book and Refinitiv have developed their capabilities over the past 18-plus months to resolve the challenges of transition. By collaborating with Refinitiv, Yield Book has been able to consume and use the market-leading data provider's LIBOR transition and replacement rate solutions. Including established terms and conditions, reference and pricing data; rates; curves; broker-dealer inputs; and other data essentials, allowing it to focus on developing models, changing code where necessary and working with clients, rather than creating additional feeds to support the LIBOR transition.

Developments include:

- Implementing new projection and discounting curves to work with risk-free rates
- Adapting to new calculation conventions and readying for future additions
- Support for RFR rates across the range of affected currencies and asset types including cash bonds and derivatives
- Post-LIBOR support for the most complex fixed income asset classes such as US CMO bonds
- Ensuring Yield Book analytics allow clients to calculate risk correctly and make good investment decisions including price/yield calculations, cash flow analysis, scenario analysis, performance and risk calculations
- Seamless transfer from previous Yield Book capabilities to provide high-quality risk analytics and trusted data

Mikhail Bezroukov, Analytics Product Manager – Rates & Credit Lead at Yield Book, an LSEG business, says: “Our objective is to help all our clients use the renewed capabilities of Yield Book to meet LIBOR transition compliance requirements in a timely, robust and orderly way.”

On its own part, Refinitiv has enhanced several products and services to help clients manage the transition, and is providing financial firms with data needed to create new financial products post transition. It has also gone live with Term SONIA, a benchmark supporting market participants, including lenders and borrowers, as they migrate away from sterling LIBOR.

“Our collaboration with Yield Book is one of many partnerships that will bring together the best of both London Stock Exchange Group companies to enhance product and service offerings for financial markets participants, innovate new solutions, and make sure our clients are always compliant, proactive and business ready.”

Fausto Marseglia

Head of Product Management, FRTB and Regulatory Propositions

Yield Book is available as a hosted service with client interfaces including Web access, an Excel® add-in, overnight batch updates and APIs.

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Refinitiv, an LSEG (London Stock Exchange Group) business, is one of the world’s largest providers of financial markets data and infrastructure. With \$6.25 billion in revenue, over 40,000 customers and 400,000 end users across 190 countries, Refinitiv is powering participants across the global financial marketplace. We provide information, insights and technology that enable customers to execute critical investing, trading and risk decisions with confidence. By combining a unique open platform with best-in-class data and expertise, we connect people to choice and opportunity – driving performance, innovation and growth for our customers and partners.