LIBOR TRANSITION:
KEY CONSIDERATIONS AFTER YEAR-END

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With you today

William Andreoni - *Moderator*
Senior Director,
Technical Accounting Consulting
RSM US LLP
william.andreoni@rsmus.com

Michael Koegler
Managing Principal
Market Alpha Advisors LLC
michael@mktalpha.com

Stacia Kopplin
Chief Risk Officer
NXT Capital
stacia.kopplin@nxtcapital.com

Ritesh Bansal
Senior Director,
Technical Accounting Consulting
RSM US LLP
Ritesh.Bansal@rsmus.com

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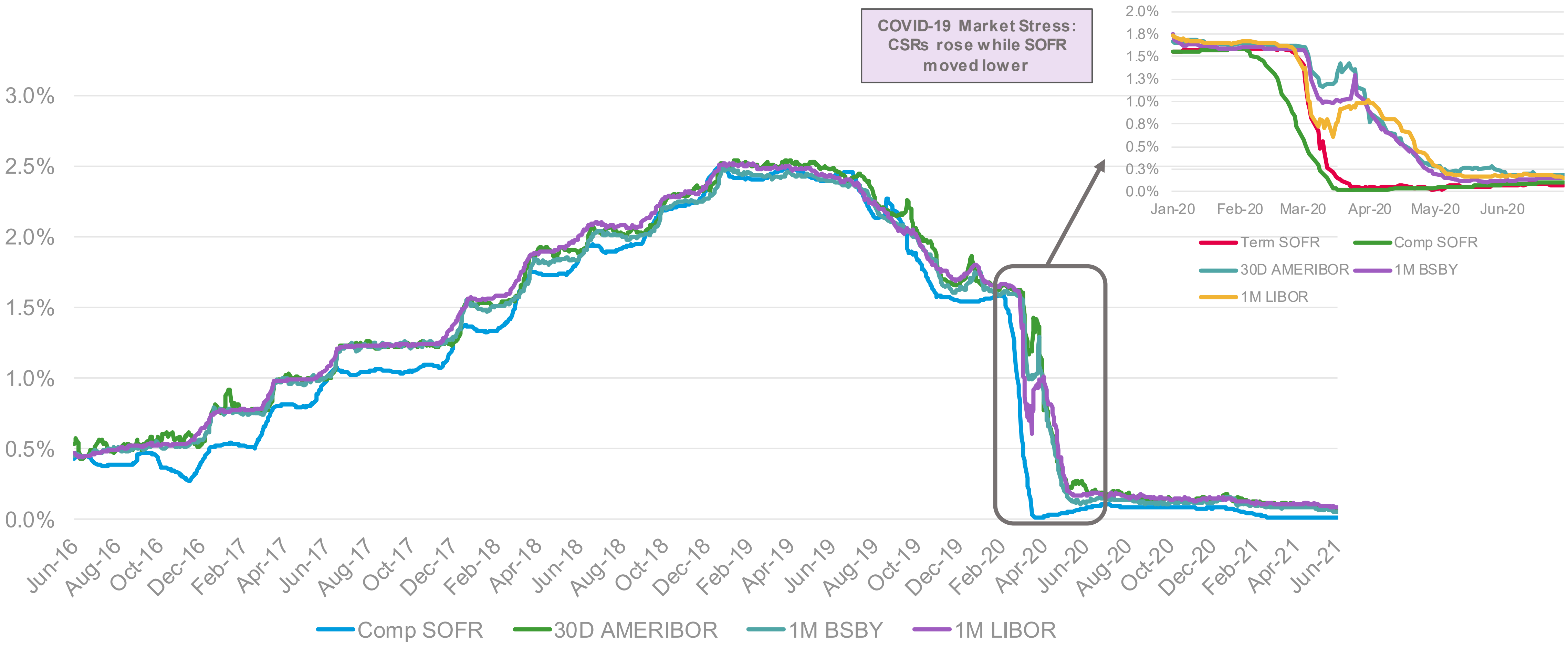
Agenda

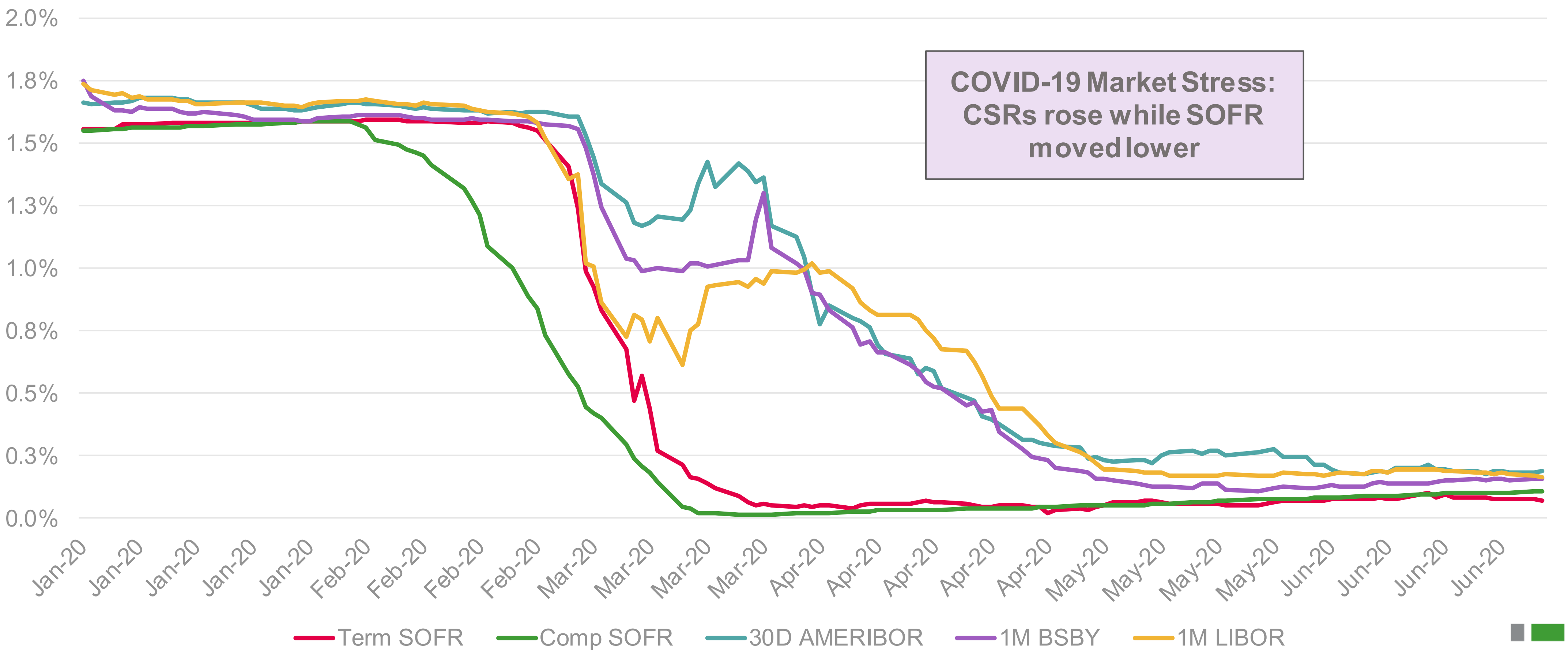
- Overview
  - SOFR variations
  - Market uncertainty
- Q&A panel discussion
  - What now? What to do with 2022 deals without LIBOR
  - Preparing for transition – now and future considerations
  - Biggest concerns and potential options
  - Accounting issues
- Questions from the audience
- Closing

Overview

Alternative reference rate comparison (five-year historical data)



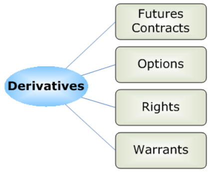
Credit-sensitivity matters in times of stress



SOFR has essentially only traded at two levels since March

What will you do with your 2022 deals now that they cannot be priced using LIBOR?

Is SOFR the right benchmark for everything & everyone?



Money Market Instruments

- Time Deposits
- Money Market Accounts
- Demand Deposits
- Checking Accounts
- CDs
- Commercial Paper
- Medium-term Notes
- Securities Lending

Loan Products

- Commercial Loans
- Syndicated Loans
- Floating Rate Bank Notes
- Leveraged Loan Facilities
- Intercompany Loans
- Agricultural Loans
- Mortgage Loans
- Home Equity Loans
- Student Loans
- Credit Card Loans
- FHLB Advances

Derivative Securities

- Interest Rate Swaps
- Cross-currency Swaps
- Caps and Floors
- Swaptions
- Mortgage Derivatives
- Exotic Derivatives

Structured Products

- Asset-backed Securities (ABS)
- Mortgage-backed Securities (MBS)
- Commercial Mortgage-backed Securities (CMBS)
- Collateralized Mortgage Obligations (CMOs)
- Collateralized Loan Obligations (CLOs)
- Hybrids and Synthetics

New three-stage pricing in certain deal types

All-in Rate = Term SOFR + Applicable Margin + Credit-Spread Adjustment

ISDA Fallback Spread Adjustments vs. Spot Market

Index Tenor	ISDA Spread (bps)	Spot Spread (bps)
1M LIBOR	11.448	4.429
3M LIBOR	26.161	10.510
6M LIBOR	42.826	16.135
12M LIBOR	71.513	22.000

Where should new deals be priced?

Using SOFR may ***INCREASE*** your borrowing costs

By switching from LIBOR to SOFR, lenders will likely require a spread adjustment due to the lack of credit sensitivity with SOFR. Lenders will not be able to dynamically hedge this credit sensitivity so will likely charge more than current spread levels to compensate for the increased risk.

Interest Period	LIBOR	Margin	All-in Rate
1 Month	0.089%	1.000%	1.089%
3 Months	0.155%	1.000%	1.155%
6 Months	0.226%	1.000%	1.226%
12 Months	0.399%	1.000%	1.399%

Interest Period	Term SOFR	Margin	Credit Spread Adjustment	All-in Rate	Increase in Cost vs. LIBOR
1 Month	0.045%	1.000%	0.115%	1.160%	7.1 bps
3 Months	0.050%	1.000%	0.262%	1.312%	15.7 bps
6 Months	0.065%	1.000%	0.428%	1.493%	26.7 bps
12 Months	0.179%	1.000%	0.715%	1.894%	49.5 bps

Note that this assumes a credit spread adjustment consistent with the ISDA fallback spreads calculated on March 5, 2021. Some lenders may require wider spreads depending on factors such as maturity of the loan, credit rating of the borrower and other factors that may not be specified by the lender.

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How did your firm prepare for the transition? And what are key future considerations?

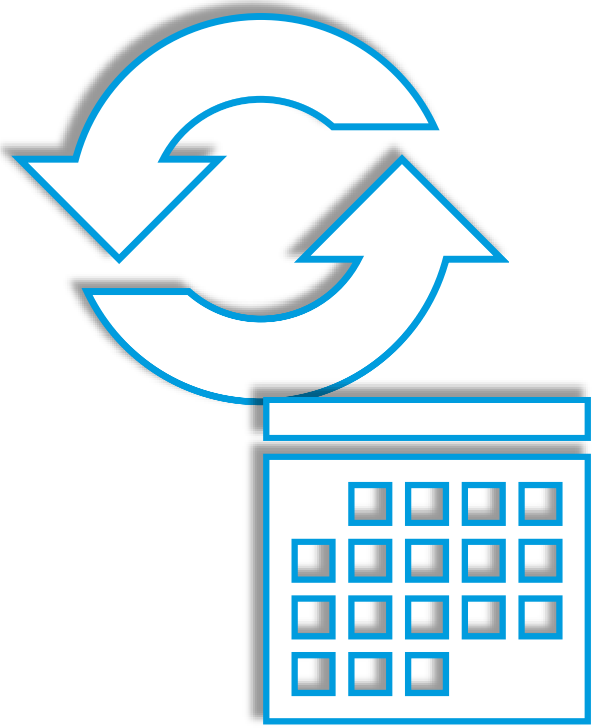
What are you hearing from clients regarding their biggest concerns?

Significant client concerns

- Different risk characteristics between LIBOR and SOFR
- No credit sensitivity in SOFR
- Current spread vs. ISDA historical spread calculation
- How do I price certain deals indexed to SOFR?
- Have I properly evaluated all risks throughout the organization?
- Issues vary depending on the type of institution
- Hedge Accounting Issues

What types of accounting implications/issues are you seeing from clients as they prepare to move into an RFR environment?

Reference rate reform (ASU 2020-04)
Transition from LIBOR and other reference rates



- Relief from modification accounting if **all** criteria met:
  - Contract references a rate that is expected to be discontinued
  - Modified terms directly replace (or have potential to replace) this reference rate
  - Changes to any other terms in the contract must generally be related to the replacement of reference rates
- Contracts that meet criteria would:
  - **Not** require remeasurement at modification date or reassessment of prior accounting determination
  - Apply accounting relief consistently for eligible contracts within ASC topic
- Contracts that don't meet criteria or relief not elected:
  - Would apply appropriate derecognition or modification accounting

Reference rate reform (ASU 2020-04)
Transition from LIBOR and other reference rates

Examples of modification related and unrelated to LIBOR

Related to LIBOR Reform

- Changes to referenced interest rate index
- Modification to spread adjustments
- Changes to reset period, reset dates, day-count or business day conventions, payment dates or frequency or repricing calculation
- Changes to strike price of an existing interest rate option
- Changes to term necessary to comply with laws or regulations

Unrelated to LIBOR Reform

- Changes to Notional amount
- Changes to the maturity date
- Change from a reference rate to a fixed rate
- Changes to the loan structure (e.g., term loan to a revolver loan)
- Changes to the priority or seniority of an obligation in the event of default or liquidation

FASB Optional Expedients for Contract Modifications

Receivable and debt. Modifications within the scope of Topic 310, Receivables, and 470, Debt should be accounted for by prospectively adjusting the effective interest rate.

Leases. Modifications within the scope of Topic 842 Leases, should be accounted for as a continuation of the existing contract with no reassessments of lease classification, discount rates, or lease payments.

Derivatives and Hedging. Modifications within the scope of Topic 815-15, Derivatives and Hedging – Embedded Derivatives, won't require a reassessment of whether or not an embedded derivative should be accounted for as a separate instrument.

Lack of explicit guidance. Modifications for which explicit guidance isn't provided should be accounted for as a continuation of those contracts without having to reassess previous determinations.

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Reference rate reform (ASU 2020-04)
Transition from LIBOR and other reference rates

Overview of Optional Expedients under US GAAP for Hedge Accounting

- **Following changes won't result in de-designation of hedging relationship if they are due to reference rate reform:**
  - **Critical terms**. Certain changes in the critical terms of a designated hedging instrument, a hedged item, or a forecasted transaction in a fair value, cash flow, or net investment hedge.
  - **Adjustments**. A change to rebalance or adjust a fair value or cash flow hedge.
  - **Assessment methods**. A change in the method used to assess hedge effectiveness for a cash flow hedge, when initially applying an optional expedient method and reverting back to current GAAP.
  - **Additional terms**. A change to the terms as a result of the discounting transition.

- **Fair Value Hedges**
  - **Benchmark rates**. Entities may change the designated benchmark rate documented at hedge inception to a different eligible benchmark rate without de-designating the relationship.
  - **Perfect hedge effectiveness methods**. Entities that applied the shortcut method, or another method that assumes perfect hedge effectiveness, can continue to apply it for the remainder of the hedging relationship—including the remainder of hedging relationships that end after December 31, 2022—even though certain requirements to apply this method would no longer be met as a result of reference rate reform.

Reference rate reform (ASU 2020-04)
Transition from LIBOR and other reference rates

Overview of Optional Expedients under US GAAP for Hedge Accounting (Contd.)

- **Cash Flow Hedges**
  - **Designated hedged risk.** Entities may disregard potential changes in the designated hedged risk due to reference rate reform when assessing if of the occurrence of the hedged forecasted transaction continues to be probable.
  - **Interest rate risk changes.** Entities may continue hedge accounting when the hedged interest rate risk changes if the hedge is either highly effective or an optional expedient method is elected.
  - **Shortcut method.** Entities that applied the shortcut method, or another method that assumes perfect hedge effectiveness, can continue to apply that method even though certain requirements to apply this method may no longer be met as a result of reference rate reform.
  - **Disregarding mismatches.** Entities may adjust the methods used to initially and subsequently assess hedge effectiveness to disregard certain mismatches between the designated hedging instrument and the hedged item when either the hedging instrument or hedged forecasted transaction reference a rate that is expected to be affected by reference rate reform.
  - **Qualitative method.** Entities may elect to subsequently assess hedge effectiveness using a qualitative method
  - **Forecasted transaction portfolios.** Entities may disregard the requirement for forecasted transaction portfolios that reference a rate expected to be affected by reference rate reform to share the same risk exposure for which they're designated as being hedged.

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Reference rate reform (ASC 848)

Other reliefs and effective date

- Certain US LIBOR rates will continue to be published until June 30, 2023
  - Alleviates need to modify contracts that will mature before that date
- ASU 2021-01 clarifies that all derivatives affected by the discounting transition are in the scope of ASC 848
- For any security that was classified as held to maturity prior to January 1, 2020 and references a rate that is expected to be discontinued, an entity may make a on-time election to reclass such security out of held to maturity
- Effective date
  - Effective for all entities as of March 12, 2020 through December 31, 2022

QUESTIONS AND ANSWERS

THANK YOU FOR YOUR TIME AND ATTENTION