2021 South African IBOR Transition Readiness Survey: Where South African entities are and the next steps

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Survey background

(1) EY has surveyed a range of banks and non-banks operating in South Africa as part of our inaugural South African IBOR transition readiness survey.

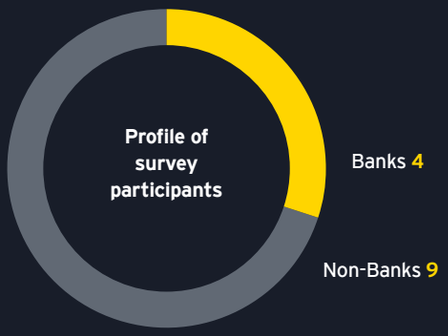
(2) This survey builds on a survey for European banks which was conducted in early 2021.*

* IBOR transition readiness: how banks can make their next moves (ey.com)

(3) This survey seeks to understand, from a South African perspective, what steps accountable executives and programme leads have taken to manage the transition from IBORs to ARRs.*

*Alternative reference rates.

(4) Interest rate benchmarks for which no transition timeline has been communicated by the regulators, such as Jibar, are not in scope for this survey.



Costs for the IBOR transition

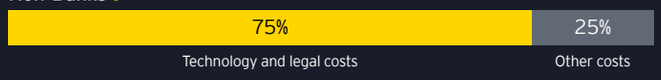
- Banks plan to spend R10m – R100m each on the transition, spread out over 2021 and 2022, with the majority of the spend coming in 2021.
- Non-banks plan to spend significantly less in 2021, as they delay the IT implementation to 2022 and beyond while applying manual workarounds.

Cost allocation

- Banks plan to spend 55% of their budget on technology, operations and legal costs, while the share for non-banks is 75%.
- Some participants see the USD LIBOR cessation delay as a reason to delay expenses until after 2021.

Banks 4

Non-Banks 9



Technology risks

- Technology is a key theme in the transition, with the widespread impact of the transition on product systems, risk models and client maintenance systems being a particular challenge for entities to manage.

Risk category	Perceived as high or very high risk
Executing migration events	46%
Extent and scale of front-to-back testing required	31%
Dependencies on third party platform providers	31%
Time elaboration of business requirements	31%

- Entities identified the execution of migration events as the biggest risk in the technology execution journey, while the extent of front-to-back testing is also considered a higher risk.
- In general, South African organisations identify technology risk as being lower than European banks, given the lesser scale of the transition in South Africa.

Focus on USD Libor transition

- While the Sterling Libor transition is on track, there is less momentum for USD Libor, in part due to the limited timeline extension provided by the ICE Benchmark Administration (IBA) for the back book.

27%

Percentage of entities who expect to have transitioned more than 75% of their USD Libor back book by the end of 2021

100%

Percentage of entities who expect to meet the GBP RFR adoption milestones regarding conversion of legacy GBP Libor and cessation of non-linear derivatives.

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