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MARKETS

Companies Slow to Move Away From Libor

Fewer than half of 177 companies surveyed are confident they will be prepared for switch-over in two years

By Daniel Kruger

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The world is moving toward a new short-term lending benchmark to replace the troubled London interbank offered rate. Companies don't seem to be in a rush to keep pace.

Less than half of 177 companies surveyed by consulting firm Accenture are confident they will be prepared for Libor's demise, scheduled for the end of 2021.

Libor, which is linked to trillions of dollars of financial contracts, is used to determine rates for everything from some variable-rate mortgages to corporate loans. However, a manipulation scandal revealed grave flaws in the way the rate is calculated.

That set off a scramble to find a replacement, no easy task. But it is a vital one: Properly setting the rates on business and consumer loans can determine whether such loans are affordable for borrowers and profitable for lenders.

In 2017, a group of banks and regulators settled on a replacement created by the Federal Reserve known as the secured overnight financing rate, or SOFR.

Preparation for the switch-over is moving somewhat slowly. Since July 2018, companies have sold about $240 billion of floating-rate debt linked to SOFR. Yet that is a fraction of similar debt linked to Libor during that period.

In a recent preferred-stock offering, JPMorgan Chase & Co. used language in financial documents explaining how it would handle the possibility that Libor ceases to function. However such fallback language has yet to be broadly adopted, analysts said.

For companies, there is a lack of bookkeeping and trading software that can support SOFR, confusion about how much work the transition will entail and an absence of longer-term benchmarks that mirror those available from Libor, according to Samantha Regan, who leads the regulatory and compliance group within Accenture's finance and risk unit.

JPMorgan Chase CEO James Dimon speaking in New York in June; In recent offerings of preferred stock, JPMorgan Chase has stated in financial documents how it would handle the possibility that Libor ceases to function. PHOTO: ADAM HUNGER/ASSOCIATED PRESS

Companies are expected to spend about $155 billion on things including technology, staffing and client outreach as part of the transition process, according to Accenture. The firm is one of several consulting outfits vying to help companies prepare.

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While 84% of the companies surveyed by Accenture have begun preparing for a replacement for Libor, just 47% said they expect those efforts to be completed in time for its end. So far, 15% of respondents said their legal departments were prepared to address the changes to contracts the transition will require, while 14% said their risk-management teams understood how the changeover could affect their businesses.

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