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Financial Risk Managers Report Mixed Confidence in Firms' Preparedness for LIBOR Transition

Only 10% of FRMs believe their firm is "completely" ready for a post-LIBOR world, finds GARP survey

JERSEY CITY, NJ, December 9, 2021 – A new report from the Global Association of Risk Professionals (GARP) reveals that fewer than 50% of Financial Risk Managers (FRM®) believe the financial services industry overall is "completely" or "mostly" ready for the transition to a post-London Interbank Offered Rate (LIBOR) benchmark.

Although more positive overall about the readiness of their own firms, only around 10% of FRMs believe their firm is "completely" ready for a post-LIBOR benchmark. Regarding whether their firm was "mostly" or "completely" ready, respondents from government/regulators (75%) and consulting firms (71%) were most sanguine, while respondents from insurance (58%) and accounting/auditing firms (50%) were least optimistic.

The survey, part of the GARP Benchmarking Initiative's (GBI) Risk Snapshots series, was administered to coincide with the cessation of LIBOR for most currencies at the end 2021. More than 600 FRMs across the globe participated.

Since as early as the 2008 financial crisis, during which interbank rates soared and market shocks were amplified, and again in the 2010s when evidence of manipulation of LIBOR emerged, financial regulators have looked to replace LIBOR as a financial markets benchmark with alternative risk-free rates (RFRs). However, many FRMs report a late start in preparing for a post-LIBOR world at their firms, with 25% of respondents reporting their company did not begin until this year or had not begun at all.

"The potential impact of LIBOR cessation is broad," said GBI Managing Director Christopher Donohue. "LIBOR and other benchmark rates are used extensively for a wide range of financial products, including mortgages, corporate bonds, and interest rate and currency swaps, and factor into many risk management models."

While most FRMs expressed confidence that adjusting preexisting contracts to account for the transition to new RFRs could be done successfully, almost 33% thought it would present a "significant challenge." In addition, around a third of respondents identified the lack of a robust term structure as the most significant shortcoming of the new RFRs, while nearly 60% found the lack of historical data to be its most pressing issue.

"The transition from LIBOR to the alternative RFRs has required, and will continue to require, significant effort for financial firms," said GARP President and CEO Richard Apostolik. "Our findings clearly show that many firms see it as a key risk in the weeks and months to come."

To access the full study, visit the GBI section of the GARP website.

About the Global Association of Risk Professionals

The Global Association of Risk Professionals is a non-partisan, not-for-profit membership organization focused on elevating the practice of risk management. GARP offers the leading global certification for risk managers in the Financial Risk Manager (FRM®), as well as the Sustainability and Climate Risk (SCR®) Certificate and ongoing educational opportunities through Continuing Professional Development. Through the GARP Benchmarking Initiative and GARP Risk Institute, GARP sponsors research in risk management and promotes collaboration among practitioners, academics, and regulators.

Founded in 1996, governed by a Board of Trustees, GARP is headquartered in Jersey City, N.J., with offices in London, Beijing, and Hong Kong. Find more information on garp.org or follow GARP on LinkedIn, Facebook, and Twitter.

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