# Preparing for the transition from Inter-bank Offered Rates (IBORs) to risk-free rates

As many may be aware, LIBOR, the London Interbank Offered Rate, is being retired at the end of 2021. LIBOR is the benchmark interest rate at which major global banks lend money to one another. The rate is set in different currencies and for different time periods. LIBOR is also widely used as a short-term interest rate benchmark for financial products, including investment funds.

Following concerns regarding its accuracy and reliability, LIBOR is being replaced by alternative Risk-free Reference Rates (RFRs). Most other IBORs are also making way for more reliable replacements or are being reformed.

This transition will have impacts across global financial markets, including for asset management firms and some of the investments, mandates or funds we manage on behalf of our clients. Moving to risk-free rates is a priority project for Columbia Threadneedle Investments, and we have dedicated resources in place to manage the transition and ensure minimal impact to our clients.

### What are risk-free rates?

Risk-free rates are overnight deposit rates, based on the observation of real transactions. The new rate chosen will differ by currency. In the U.S., for example, a Secured Overnight Financing Rate (SOFR) will replace the USD LIBOR. SOFR is produced by the Federal Reserve Bank of New York and is based on observable transactions, not estimates or modelled inputs, and is anchored on repo markets and actual transactions. As such, it is difficult to manipulate or influence SOFR based on a deep, well-defined and active market, which has proven historically resilient across a range of market conditions.

### How are Columbia Threadneedle's investments or clients exposed to LIBOR or other IBORs?

Like many other asset managers, Columbia Threadneedle uses IBORs (including LIBOR) to determine interest rate payments in loan, derivative and bond transactions within our funds and mandates. Our overall exposure to IBORs in North America involves the use of LIBOR as a reference rate for many floating rate loans as well as derivates such as fixed-income swaps.

In some instances, we also use IBORs as a performance target or benchmark for funds in order to calculate discount rates and performance ratios or to assess market expectations regarding central bank interest rates and liquidity in the inter-bank lending market. Some of our systems also have an IBOR index which will need remediation. We also use IBORs within funds' risk profiles, objectives or performance fee calculations. We are working through the steps required to transition these to the appropriate alternative benchmarks, following a market standard approach and official recommendations.

Due to the nature and use of IBOR-based instruments within client portfolios, there is no uniform approach to managing exposures. We are in the process of assessing the exposures for each investment vehicle and client portfolio. Our transition plans are informed by external global working groups and specific considerations relevant to each IBOR instrument type. We expect to conclude this analysis in 2021.

In the meantime, our investment teams continue to assess the use of IBORs in their portfolios and monitor the securities' underlying liquidity. Where possible, we will work with issuers and other market participants to proactively transition our existing exposures to more viable reference rates. We will also aim to avoid new exposures to financial instruments that reference IBORs and have maturities beyond 2021.

### What does this mean for you?

You do not need to take any action at this stage. We are committed to ensuring you are appropriately informed and prepared for the upcoming transition. We expect to conclude our internal reviews and transition plans in 2021 and will communicate with affected clients in a timely manner so they can consider all the impacts and options available.

If you have any questions about what these changes mean, please contact your usual Columbia Threadneedle representative.