Treasury Managers Avoiding Blockchain "Like the Plague"

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JOHN BYRNE
CEO and founder

John Byrne established Salmon Software in 1985. One of the few remaining independent TMS providers, the company specialises in delivering affordable, world-class Treasury Management System software.

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It will take four to five years for the treasury management sector to embrace blockchain technology in assisting with calculations of reference rates, according to John Byrne, owner of Salmon Software.

"If you ask any corporate treasurer would they use blockchain as an alternative, you would fit their response on the back of a stamp – they'll avoid it like the plague. It has no resonance at the moment in the treasury sector where they are taking out big loans, they are going to go with something that they are at least going to be able to wrap their minds around," says Byrne.

"If they can get their heads around the Libor, they can get their head around the Sonia, throwing in the complexity of blockchain - I don't see that being a substitute for at least four or five years," he says.

Firms are currently preparing for the transition away from the Libor reference interest rate that has been used for several decades, and which is currently used in tens of millions of contracts globally, to the recommended alternatives.

For Paul Dobbs, managing consultant at Catalyst, problems around the increasing number of trades that continue to reference Libor is of concern.

"You would think with new trades being created to date that people would start to reduce the trades that they do referencing Libor and start to reference the new risk-free rates. The reality is that people still trade in Libor more now, which means there are going to be outstanding trades which will mature before 2021, which is great but there will be a whole load of trades that are past that which will need to be changed over as a result," says Dobbs.

The FCA said in February that there were currently £60bn in bond issuance that reference Libor, that will mature post-2021.

Regarding the current standard of technology software that is looking to assist with the transition from Libor, Byrne says that the treasury management sector has yet to embrace it.

"In our sector it appears that they haven't embraced it yet, or they haven't facilitated it. We've come a long way on it because we don't want to find ourselves in 2021 struggling to put something into place that requires a lot of attention and testing of the calculations," says Byrne.

"We've been through a lot of that pain, and we have a number of clients who have Sonia loans in place or are about to put them in place, or about to migrate from Libor to Sonia. They have been asking us for the last year, or year and half, 'when can we have it,'" he says.

by Rebekah Tunstead, BobsGuide, Part of Contentive Group Ltd.

Such is the concern about navigating the transition away from Libor that since mid-February of this year, the Alternative Rates Committee (ARRC) has held weekly conference calls where market participants can ask questions on key transition issues.

In a report based on a survey of 150 banks, end users, infrastructures and law firms published on June 25, 2018 by several industry bodies including the Association for Financial Markets in Europe (AFME), noted that there was "a gap between high levels of awareness of benchmark reform and concrete steps being taken to transition from the Ibors to alternative RFRs."

Artificial intelligence may be needed by banks to create the central register needed across the various departments in order to prepare for the transition, according to Davide Barzilai partner at Norton Rose Fulbright.

"Because of the volume of documentation, and because you have to be certain as to what you've got, and the way that banks have developed their systems particularly the very large ones, all the different departments they have not have a central register for all of this information. So, they have to start building that register, and building the systems and processes for that. That's where artificial intelligence can help speed up processes and take up some of the slack of doing the due diligence for all of this. The technology available seems to be ready and available for application.

For Byrne, technology solutions which aim to assist with the Libor transition must keep in mind the regulation difference between Sonia being significantly more complex than Libor.

"We are pretty agile in terms of our development cycles, legacy systems aren't. I know how difficult the job is, and I suspect that they are not ready, and I suspect that the push is coming from them to say, 'look there is a lot of work involved here, can we continue to use Libor for another little bit until we get ready,'" says Byrne.

In the loan market additional problems may be arising concerning whether banks and law firms are adopting the loan market association's (LMA) documentation to bring about a standardized move away from Libor, according to Davide Barzilai partner at Norton Rose Fulbright.

"Looking to the practical and legal sort of things you've got millions of financial contracts out there, they might be bi-lateral loans just between two parties, or they might be much broader in a syndicated loan concept where you would have multiple lenders, and multiple borrowers and multiple parties, everyone has to come together and agree what they are going to do," says Barzilai.

"While we have loan market association documentation, so there is some level of standardization it is nowhere near the level of Isda and the derivatives market because bi-lateral loans and banks will have their own forms of loans, loan agreements plus even in the loan market whilst it can be adapted, there can be regional variations and so there is no real all-encompassing standard.

"The latest LMA drafting for this situation where there is a replacement rate, is to makes things a little easier to put forward the amendments, and that is so you wouldn't need to get full consensus with all the lenders. With some complex lending that might be more difficult, so that is the wording that has been provided in the last six months by the LMA, but the question remains are banks and law firms using that wording regularly, and it is not clear whether it is being fully adopted yet."

However, the primary concern remains whether differences between the Libor rate and the new alternatives will result in value differential, and ultimately someone losing out, according to Barzilai.

"For existing loans, and there are millions of these existing financial contracts out there where institutions relied on LIBOR plus a margin and made their value regiments based on Libor reflecting their cost of funds, versus the new rate which may be lower than that figure and then there is that value loss in the differential."

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