

Libor Transition: Modeling Challenges

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A summary of the modeling challenges

- Model the new risk-free rates (RFRs)
- Model the Libor-SOFR basis spread
- Build SOFR curves (also historical)
- Build SOFR vol cubes
- Value the impact of CCP discounting switch (swaptions)
- Value the impact of adhering to the new ISDA fallback language
- Extend pricing models to accommodate:
 - The bank account and in-arrears rates
 - New RFR-based payoffs
 - Calibration to new and old vol cubes and other data
 - Multiple curves
 - New sensitivities
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