IBOR TRANSITION (1/2)

A GLOBAL BENCHMARK TRANSITION

The international interbank offering rate markets have been experiencing unprecedented developments during the past two years, and there is yet more to come. As a result of the LIBOR scandal, central banks and benchmark supervisors in the major world currencies began a transition from their overnight benchmarks as early as 2017. The new benchmarks selected should offer more guarantees in terms of robustness, and should be less prone to manipulation by reflecting real transactions.

The new risk-free reference (RFR) rates in each principal jurisdiction

Jurisdiction	Working group	Alternative RFR	Rate administration	Secured vs unsecured	Description
	Working Group on Sterling Risk-Free Reference Rates	Reformed Sterling Overnight Index Average **(SONIA)**	Bank of England	Unsecured	• Fully transaction-based • Encompasses a robust underlying market • Overnight, nearly risk-free reference rate
	Alternative Reference Rates Committee	Secured Overnight Financing Rate **(SOFR)**	Federal Reserve Bank of New York	Secured	• Fully transaction-based • Encompasses a robust underlying market (bilateral and triparty repo)
	Working Group on Risk-Free Reference Rates for the Euro Area	Euro Short-Term Rate **(ESTER)**	TBC	Unsecured	•Daily money market reporting from 52 largest euro area banks
	The National Working Group on CHF Reference Rates	Swiss Average Rate Overnight **(SARON)**	SIX Swiss Exchange	Secured	• Secured rate that reflects interest paid on interbank overnight repo • CHF repo transaction in the interbank market
	Study Group on Risk-Free Reference Rates	Tokyo Overnight Average Rate **(TONAR)**	Bank of Japan	Unsecured	• Fully transaction-based benchmark for the robust uncollateralized overnight call rate market • Calculated and published on a daily basis

If this transition first took place on the overnight refinancing rate benchmarks (O/N), it should be done in a second phase on the term rates benchmarks, which consists in declining the overnight rates in several maturities (forward-looking). This reform of large-scale rate benchmarks underlines the particularly critical dimension of interbank refinancing markets for the international financial system.

IBOR TRANSITION AND EUROPEAN CALENDAR IMPERATIVES

This transition to new benchmarks has been gradual since 2017, with most O/N rates that already came into effect on the world's major jurisdictions. The European Union is an exception, as the transition to the new benchmarks is not yet effective. This transition coupled with the entry into force of the BMR is a double challenge for European banks. Indeed, the current benchmarks on O/N and term rates (EONIA and EURIBOR) will no longer comply in their current form to the BMR as of 1 January 2020, thus putting increased pressure on the European players (regulators and banks) regarding the transition scenario at the end of 2019.

IBOR TRANSITION (2/2)

This pressure is even stronger that the new overnight RFR rate - the ESTER - in compliance with the BMR, will be published by the ECB only from October 2019. Similarly, the reformed term rate (the EURIBOR Hybrid) is still in testing phase and should be compliant with the BMR only mid-2019.

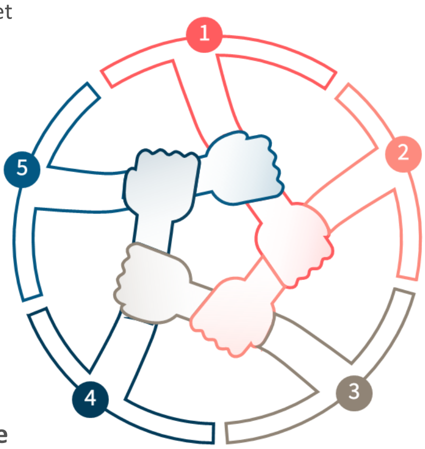
In addition, facing the growing uncertainty regarding the status of the benchmarks adopted on 1 January 2020, several associations (and in particular the ISDA, GFMA, FIA and EMTA) have requested the European regulator a 2-year extension of the transition period for the entry into force of BMR on critical benchmarks. This transition period would be consistent with benchmarks transition in other jurisdictions.

This extension of the transitional period would allow, in the event that some banks are not ready by 1 January 2020, to continue to use EONIA and EURIBOR in their current form and to start a pace transition of their activity towards new benchmarks. These associations also highlight the fact that with the extension of the validity of the current benchmarks, a large number of contracts will expire before the discontinuation of those rates. In addition, this extension will limit the tensions of the interest rate market liquidity at the end of 2019 and will allow more time for banks and regulators to prepare the transition.

IBOR Transition: What are the impacts for European banks

An increased risk management awareness

- Increased operational risks during the transition phase and the need for comprehensive mapping of impacted activities
- Carry out an indispensable hedge against interest rate risks and analyze the impact of spreads between the current and new benchmarks on the balance sheet



Commercial impacts

- Define a relevant client communication strategy to identify the key business impacts of the IBOR transition

An exhaustive review of contracts

- Organize the contract amendments by identifying the costs of the transition and the related operational risks
- All products impacted by the IBOR transition will need to be identified

Operations and Infrastructure

- Anticipate the impacts of the transition on processes and systems such as trade data repositories, data providers, core retail and commercial banking systems

Governance

- Set up a project team that is concerned by market developments as new benchmarks are being validated
- Coordinate internally the team in charge of the transition
- Communicate proactively with counterparties, suppliers and retail & corporates clients

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