



## INFORMATION FOR THE SECTOR ABOUT THE PROCESS OF ADAPTATION OF INTEREST RATE BENCHMARKS TO THE NEW EUROPEAN REGULATION ON BENCHMARKS

29 July 2019

The CNMV, the competent authority in Spain for the application of the regulation on benchmarks (Regulation (EU) 2016/1011), is following the process of implementation and promoting the knowledge and adaptation of financial institutions and other companies that use interest rate benchmarks in their financial and capital market transactions, through the dissemination of information<sup>1</sup> and the clarification of doubts<sup>2</sup>.

In line with this, this communication aims to describe, in general, the developments of the new European regulations and to inform about certain aspects of its application process.

In the euro zone, the new features will mainly consist of:

- A new overnight interest rate to be calculated and published by the European Central Bank from 2 October 2019 onwards, the Euro Short Term Rate (€STR)<sup>3</sup>.
- The reformulation of the EONIA calculation methodology - which will result from the sum of €STR plus a spread that has been determined by the European Central Bank at 8.5 basis points<sup>4</sup> - from the same date on which the €STR begins to be published, until the cessation of the EONIA benchmark scheduled for the end of 2021.
- A term rate structure established on the basis of €STR, on which work is currently ongoing.
- The adaptation of the Euribor benchmark to Regulation (EU) 2016/1011<sup>5</sup>, which is expected to be completed before the end of 2019.

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<sup>1</sup> The information is published in the section [Benchmarks on the CNMV's website](#).

<sup>2</sup> To this end, firms may contact the CNMV at the following email address: [CNMV-Benchmarks@cnmv.es](mailto:CNMV-Benchmarks@cnmv.es).

<sup>3</sup> It can be consulted on the [ECB's website](#).

<sup>4</sup> It can be consulted on the [ECB's website](#).

<sup>5</sup> On 2 July 2019, [the Belgian FSMA authorised EMMI](#) as the administrator of the Euribor benchmark.

In relation to the changes in the EONIA benchmark from next October onwards and its disappearance by the end of 2021, the Euro Risk Free Rate Working Group<sup>6</sup>, in March 2019, recommended market participants to gradually replace EONIA with €STR as the benchmark for all their products and contracts and to make all the necessary contractual and operational adjustments to use €STR as their benchmark. The Working Group has also recommended a legal action plan<sup>7</sup> for both new contracts and existing contracts to ensure a smooth transition from EONIA to €STR, and it also intends to issue recommendations with regard to the operational and valuation implications of the process. It is advisable for entities to be aware of and to consider these recommendations.

On the other hand, supervised entities using benchmarks of any kind shall, pursuant to the provisions of Article 28(2) of Regulation (EU) 2016/1011, produce and maintain plans setting out the actions that they would take in the event that a benchmark materially changes or ceases to be provided. Where feasible and appropriate, such plans shall designate one or several alternative benchmarks that could be used as substitutes. These plans should be reflected in the contractual relationship with clients. The Working Group has published governing principles<sup>8</sup> that entities may bear in mind in order to facilitate compliance with this obligation.

In other jurisdictions - such as the pound sterling and dollar zone of influence - where the most widely-used benchmark is LIBOR (in its different tenors and currencies), the authorities are adopting an approach based on avoiding excessive concentration in the use of LIBOR and greater use of risk-free alternative rates - SONIA in the UK and SOFR in the US - before the end of 2021 (the date on which the UK authorities are expected to refrain from urging the LIBOR panel banks to make contributions). Entities with exposure to these and other markets in which interest rate benchmarks are also being reformed or are being replaced by new alternative benchmarks<sup>9</sup> must take into consideration the different approaches and specific characteristics of the transition in each market.

Considering the number of contracts and financial instruments, as well as the wide range of companies, clients, processes and services affected, it is advisable for entities to pay due attention to the various aspects of the transition.

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<sup>6</sup> [Working Group](#) in which the ECB, the European Commission and ESMA participate, as well as representatives from the financial sector.

<sup>7</sup> In July 2019, the Working Group published its [recommendations on the legal action plan for the transition](#).

<sup>8</sup> It can be consulted on the [ECB's website](#).

<sup>9</sup> This is the case of jurisdictions such as Japan, Switzerland, Australia, Hong Kong, Singapore and South Africa. For further information about these reforms, please consult the latest [FSB progress report](#).

## Recommended actions

The CNMV recommends firms to consider the adoption of measures to adequately manage the transition<sup>10</sup>.

These measures may refer to aspects such as those indicated below and their application should be proportionate to the use and the level of exposure of each entity to the benchmarks concerned, which will foreseeably be greater in larger financial institutions:

- **Follow-up and involvement:** The entities should monitor on an ongoing basis the developments and actions of the working groups led by the industry and the authorities, as well as the major advances in the process of reform<sup>11</sup>.
- **Organisational measures:** If the level of use and exposure of the entity so advise, it is recommended that a member of senior management or a high-level committee be responsible for leading and coordinating the design and implementation of the transition work.
- **Impact analysis:** It is considered equally appropriate for entities to perform a comprehensive assessment of the risks and the potential accounting, legal, operational, prudential and conduct impacts associated with the transition under different scenarios.
- **Action plan:** The entities, upon analysing the exposures, risk assessment and the design of an overall strategy, should plan the relevant implementation actions. The action plan and measures to mitigate the risks identified should be, as mentioned above, proportional to the level of use and the degree of exposure to the benchmarks concerned, and may include, where appropriate, a communication plan for stakeholders.

The CNMV, through the Policy and International Affairs Directorate-General will continue disseminating information and clarifying doubts in this regard<sup>12</sup>.

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<sup>10</sup> The ECB has published a [letter addressed to the significant institutions](#) in which it informs on the ongoing reforms and requests the planned measures from the entities.

<sup>11</sup> The progress of the Working Group on Euro Risk-Free Rates may be consulted on the ECB's website

<sup>12</sup> The information is published on the [Benchmarks section of the CNMV's website](#). Inquiries can be sent through the following email : [CNMV-Benchmarks@cnmv.es](mailto:CNMV-Benchmarks@cnmv.es).