



IBOR Transition – Impact of BMR regulation

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IBOR Transition - Overview

Quick facts

1. All IBOR rates, that were used in interbank transactions for more than 40 years are being replaced by alternative reference rates (ARR)
2. The nearest risk free rates have been chosen for the five main currencies (USD, GBP, EUR, CHF, JPY)
3. A new reference rate for Eurozone will be the rate ESTER (€STR) that will replace the EONIA rate
4. ESTER will start to be publishing in October 2019. The rate will be available at 9:00 am CET, based on transactions of previous day.
5. ESTER is considered as a alternative risk-free rate and as a replacement for the EONIA
6. Interest rate curve of EONIA is above the ESTER curve

Background

BMR Regulation of the European Parliament came into force last year in response to the manipulation of interest rates in 2012. IBOR rates are the most critical part of regulation and represent the **strictest regulatory requirement**. Thus, IBOR rates will be gradually replaced by **new alternative rates**, that meet all requirement according the regulation. Regulation will affect all financial institutions

Timeline

- 2012** The discussion of the IBOR transition starts in response to scandals with manipulation with interest rates
- 2014** Intent to RFRs replacement
- 2016** BMR regulation preparation and consultation
- 2018** Actual IBOR Transition starts
- 2019** Measures introduction, acceptance of new RFRs
- 2021** Cease of all IBOR rates, transition and fallback plans now in place

Scope



WHO

Regulation has an impact on all financial institutions operating with reference rates, including:

- **Banks**
- **Insurance companies**
- **Credit unions**
- **Funds**
- **Cooperation saving unions**



WHAT

Primarily affected financial instruments are:

- OTC derivatives
- Forwards, futures, options
- Bonds, securities
- Short-term instruments (repo, term deposits)
- Financial asset, investment products

Purpose

This regulation represents a general Framework to ensure the accuracy, integrity and transparency.

Current rates do not comply with the BMR rules, so the Working Group decided to replace them by ESTER

The underlying market IBOR measures is no longer liquid.

Challenges for the financial institutions

Methodology and Implementation:

- **Classification and modification** of financial instruments will be necessary
- **Mapping potential changes and impacts** will be required to avoid unfavorable development
- The transition to the new regulation should be successful **within that time frame** - the readiness of institutions and systems, as well as market reaction to change is a key
- Transformation of new RFRs must be done within the next **8 months**
- **New business processes** can be created to effectively address potential issues

IBOR Transition – Implementation planning

Key questions to address

- What are **key success factors** for an IBOR Transition?
- Is the bank ready to set the mechanism to **secure risks** of disputes with counterparties?
- Are the accounting systems, loan systems, pricing models, risk models and information systems in line with prepared transition?
- Do the indicators provide **sufficient time** for the financial institutions to start with transition?
- How well prepared is the financial institution to **activate and accept ESTER rates**?

Objective

- Analyzing and mapping the impacts on products and processes
- Ensuring smooth transition
- Develop an implementation and communication plan
- Set the process of sharing changes to clients/customers
- Prioritization
- Understanding changes related to transition
- Application of changes
- Ensuring sufficient time for accepting all the criteria

Key elements of an IBOR transition

New regulation will be the opportunity for prepared and the challenge for unprepared

Best Practices:

- Dedicated working group across organization/ group
- Comprehensive summary of IBOR exposures
- Revision of valuation methods
- Considering dependency on Solvency II
- Mitigate possible risk of exposures in foreign currencies against EUR
- Assessing and securing of all existing contracts related to IBOR rates
- Conversion of new contracts in line with market liquidity
- Liquidity planning for the critical period of transition

How can Deloitte help you



Preparing for the IBOR transition by analyzing all the impacts on company policy. Deloitte can help with mapping and analysis of the impact on products that IBOR will affect.



Helping financial institutions to integrate their IBOR transition planning to their product framework, including its integration into a internal policy and educating its employees



Identifying a range of transition options to cover all possible scenarios



Assessing institution's critical functions to ensure operational continuity



Identifying both early warning indicators and trigger points for the activation of IBOR transition.



Updating and reviewing institution's preparation and continuous integration of transition to assess completeness and quality

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