



## Transition from EONIA, LIBOR & EURIBOR to alternative risk-free rates

The universe of risk-free rates is facing a major evolution. Deadlines are approaching, from 2019 onwards and this will affect any interest rate product or position linked to EONIA, LIBOR & EURIBOR.

### Global Context

**Banks, management companies, asset managers and any other users of risk-free indices are facing a serious challenge, as most of the existing indices will stop reporting over the months to come.**

Regulators globally have signaled that firms should transition away from existing risk-free rates to alternative overnight risk-free rates. In this context, LIBOR could no longer be assured by the end of 2021. In Europe, Regulation (EU) 2016/1011 of the European

parliament led to the creation of a new risk-free rate in the Eurozone called ESTER (European Short Term Rate).

**ESTER will become live by October 2019, and should be utilized by banks, asset managers, funds and any other players from 1 January 2020 onwards.**

### How did we get there

Benchmark transition has been on the global agenda since 2014, when the Financial Stability Board published its report of reforming

major interest rates benchmark following LIBOR and EURIBOR manipulations and false reporting.

The underlying change across all benchmarks is that they should be based on an objective criterion: market transactions prices.

## Impact & change

Any entity exposed directly or indirectly to non-compliant rates is at risk and exposed. Current rates will have to migrate to the new standards. The impact will be threefold:

- From 1 January 2020, non-compliant rates cannot be used anymore for new products.
- For existing products, the existing historical reference rate can be used but there is a liquidity risk as liquidity has been decreasing on several of these rates since the announcement.
- Repapering and rewiring for the new rates in all areas: from loans to derivatives to treasury strategy or issuance of rate instruments.

## Our services

Actors exposed to these indices need to be ready to manage large data that can be complex, anticipate financial changes and to do so within a short timeframe. To this extent, Deloitte can support you in several ways:

- Identify all financial instruments concerned in your product catalogue.
- Determine the financial impact, direct and indirect.
- Develop a coherent strategy for all products and clients concerned.
- Assess and determine the impact on any strategy (ie. hedging).
- Structure the work to be done: update legal documents, advise client and/or renegotiate terms, update IT tools, detect potential accounting impacts.



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