

IBORs Transition

European Union perspective

Ignacio Ollero

Managing Director, BBVA

EONIA & EURIBOR

**Fallback recommendations from the
Euro Risk Free Rates Working Group**

EONIA & EURIBOR – Fallback recommendations

- **EONIA:**

- **Discontinuation date** – 3 January 2021;
- Fallback recommendation: **€STR** + 8,5 basis point.

- **EURIBOR:**

- **NOT expected to be discontinued;**
- Recommendations on trigger events and fallback rates issued on 11 May 2021;
- **Trigger events** (Annex I): misalignment with ISDA in connection with the pre-cessation event.
- **Fallback rates** (Annex II): Term €STR. Depending on the particular product it can be:
 - **Backward** looking methodology – €STR compounded already being published by the ECB.
 - **Forward** looking methodology – No administrator has been recommended yet.

EU STATUTORY FALLBACK

Amendment to the European Benchmark Regulation (BMR)

EU STATUTORY FALLBACK

AMENDMENT TO THE BMR – APPLICABLE SINCE 13 FEBRUARY 2021

Mechanism	The European Commission (EC) may designate replacement benchmark(s) for affected benchmarks
IBORs	All benchmarks with impact in EU financial stability may be subject. Final decision is on the EC.
Trigger events	<ul style="list-style-type: none"> • The benchmark is no longer representative of the underlying interest. • Statements made by regulator or the administrator announcing that benchmark has ceased or will cease to be provided. • Suspension or withdrawal of the authorization + announcement of the wind-down of the benchmark.
Scope - Law	<ul style="list-style-type: none"> • Contracts subject to a EU law. • Contracts between parties established in the EU, where the third country law applicable to the contract does not provide for the orderly wind-down of a benchmark.
Scope - Contracts	<ul style="list-style-type: none"> • Contracts with no fallback provisions or no suitable fallback provisions. What does suitable means? <ul style="list-style-type: none"> • No permanent; • Its application requires consent and has been denied; • Provides a replacement benchmark which no longer reflects or significantly diverges from the underlying market that the benchmark in cessation is intended to measure and its application could have an adverse impact on financial stability (i.e. Fixing last rate or no adjustment spread)

ANNEXES

ANNEX I - EURIBOR fallback trigger events - Recommendations

#	Description of events	Final recommendation
1	A public statement or publication of information by or on behalf of the regulatory supervisor of the administrator of EURIBOR stating that the said administrator has ceased or will cease to provide EURIBOR permanently or indefinitely	✓
2	A public statement or publication of information by or on behalf of the administrator of EURIBOR stating that the said administrator has ceased or will cease to provide EURIBOR permanently or indefinitely	✓
3	A public statement by the supervisor of the EURIBOR administrator that, in its view, EURIBOR is no longer representative, or will no longer be representative	✓
4	The administrator of EURIBOR determines that EURIBOR should be calculated in accordance with its reduced submissions or other contingency or fallback policies	X
5	It has become, for any reason, unlawful under any applicable law and regulation for relevant parties to the agreement to use EURIBOR	TBD
6	EURIBOR is permanently no longer published without a previous official announcement by the competent authority or the administrator	TBD
7	Change of EURIBOR methodology	X

✓ Trigger event recommended by the WG

X Trigger event not recommended

TBD Parties should discuss its potential inclusion, which may depend on the specific product

ANNEX II - EURIBOR fallback rates & structure methodologies - Recommendations

	Corporate lending	Retail mortgage/consumer loans/SME loans	Current accounts	Trade finance		
	<i>(if consistency between hedged loan and hedging derivative is prevailing)</i>	<i>(if knowing the rate at the start of the interest rate period is prevailing)</i>	<i>(if knowing the rate at the start of the interest rate period is prevailing)*</i>	<i>(if consistency between hedged loan and hedging derivative is prevailing)*</i>		
Fallback methodology recommended for the first level of the waterfall	Backward-looking lookback period	Forward-looking	Forward-looking	Forward-looking	Backward-looking payment delay	Forward-looking
Fallback methodology recommended for the second level of the waterfall (if needed)	N/A	Backward-looking lookback period	Backward-looking last reset (up to 3 months)	Backward-looking lookback period	N/A	Backward-looking last reset (up to 3 months)
	Export and emerging markets finance products	Debt securities	Securitisations	Transfer pricing models	Investment funds	
	<i>(if knowing the rate at the start of the interest rate period is prevailing)</i>	<i>(if consistency between hedged loan and hedging derivative is prevailing)</i>				
Fallback methodology recommended for the first level of the waterfall	Forward-looking	Backward-looking lookback period	Backward-looking lookback period	Same as underlying asset**	No recommendation	No recommendation
Fallback methodology recommended for the second level of the waterfall (if needed)	Backward-looking last reset (up to 3 months)	N/A	N/A			

	More than two-thirds of responses to be in favour of any of the proposed solutions to provide a recommendation
	Less than two-thirds of responses to be in favour of any of the proposed solutions to provide a recommendation

* For retail mortgages and consumer/SME loans, these comments specifically refer to the second level of the waterfall (if needed)

** For securitisations, market participants could also consider consistency with other debt securities

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