

Benchmark Interest Rate Reforms

Benchmarks are currently being reformed or replaced globally with the aim of better guaranteeing the reliability, accuracy and integrity of these interest benchmarks. This means that interest rate benchmarks such as the Euro Interbank Offered Rate (EURIBOR), Euro Overnight Index Average (EONIA) and the London Interbank Offered Rate (LIBOR) are being replaced or adjusted. In light of this, it is important that our customers understand what the transition entails and the actions they should consider taking to prepare their businesses.

Does this affect you?

The reforms may impact you if your financial products such as loans, mortgages, structured products or derivatives refer to interest rate benchmarks such as EURIBOR, EONIA or LIBOR. We will contact you if this is the case and if any actions have to be taken. Below we provide you with general information on the benchmark reforms.

What are interest rate benchmarks?

Benchmark means any index by reference to which the amount payable under a financial instrument or a financial contract or the value of a financial instrument is determined, or an index that is used to measure the performance of an investment fund with the purpose of tracking the return of such index or of defining the asset allocation of a portfolio or of computing the performance fees.

Benchmarks are calculated by a representative set of data or information for the purpose of the invoicing of the financial instruments or contracts and/or for capturing borrowing costs in various markets.

Given the economic importance of reference rates, it is crucial that their reliability is ensured by clear governance structures and transparent methodologies. For these very reasons, European benchmarks such as the LIBOR (London Interbank Offered Rate) and EURIBOR (Euro Interbank Offered Rate) are currently undergoing significant reform.

Why the reforms?

For several years, global regulators and central banks have been driving international efforts to reform key benchmark interest rates to make them more reliable. These reforms are happening in many jurisdictions, such as the United Kingdom, the Euro area, the United States, Switzerland, Canada, Japan, Hong Kong, Singapore and Australia.

A key focus of these reforms is to ensure that widely used benchmarks are credible and robust. Regulators have been clear that this means benchmarks should be based upon transactions to the greatest extent possible.

Benchmark Regulation

On 1 January 2018, European legislation has been introduced in the form of the Benchmark Regulation. This European regulation sets forth criteria that must be met to ensure that benchmarks are determined by robust methodologies and reliable data. If benchmarks do not comply with these criteria they need to be reformed to comply with the standards, or they must be discontinued and replaced by alternative benchmarks that do adhere to these standards.

The Benchmark Regulation also stipulates that banks must have a robust written plan establishing a course of action should a benchmark materially change or cease to be provided. This plan is called a "Fallback Plan". In its Fallback Plan, Eurobank Private Bank Luxembourg sets out its internal procedures that need to be followed and actions that need to be taken in case a benchmark materially changes or ceases to be available. The Fallback Plan ensures that the Bank investigates possible alternative benchmarks, follows market practice as much as possible and performs an impact assessment when designating an alternative benchmark.

How do the reforms affect EURIBOR, EONIA and LIBOR?

Benchmarks such as EURIBOR, EONIA and LIBOR are impacted by the reforms. As a result thereof, the manner in which EURIBOR is determined has been changed. Therefore, EURIBOR complies with the Benchmark Regulation and at this moment, EURIBOR is not scheduled to be discontinued. EONIA ceases to exist and will at the end of 2021 be replaced with the European Short-Term Rate (€STR), an overnight rate calculated and published by the European Central Bank. Also LIBOR is likely to be discontinued at the end of 2021. Below is an overview of the recommended alternatives for commonly used interest rate benchmarks.

Currency	Existing Rate	Alternative Rate	Transaction Type
USD	LIBOR	SOFR , Secured overnight financing rate	Secured
EUR	LIBOR, EURIBOR	€STR , Euro short term rate	Unsecured
GBP	LIBOR	SONIA , Sterling overnight index average	Unsecured
JPY	LIBOR	TONA , Tokyo overnight average	Unsecured
CHF	LIBOR	SARON , Swiss average rate overnight	Secured

Do you have any questions and/or require any further information?

If you have any questions about the contents of this website, please do not hesitate to call or email your contact person within the bank.

Read more:

Please refer to the links below for further information.

European Commission - Benchmark regulation: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1011&from=FR>

ECB - What are benchmark rates, why are they important and why are they being reformed? https://www.ecb.europa.eu/explainers/tell-me-more/html/benchmark_rates_qa.en.html

ISDA - Fallback Consultations: <https://www.isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/>

FSB - Overnight Risk-Free Rates - A User's Guide: <https://www.fsb.org/wp-content/uploads/P040619-1.pdf>

Please note that the above is a non-exhaustive update on what is currently the position in relation to these two indices.