

Informal translation

24th of April 2019

Dear CEO,

This joint letter from the Authority for the Financial Markets (AFM) and the Dutch Central Bank (DNB) is addressed to the chief executive officers of large financial institutions in the Netherlands. The subject of this letter is the ongoing worldwide interest rate benchmarks reforms, and in particular the transition from critical interest rate benchmarks towards alternative risk-free rates (RFRs). The AFM and DNB encourage market participants to prepare for this transition in a timely manner. Furthermore, this letter contains a request for information from you about your preparations for the transition.

Necessary transition

EURIBOR, LIBOR and EONIA are not sustainable in their current form¹. Given the current economic climate these interest rate benchmarks do not give an accurate picture of the interbank market that they aim to measure. Financial authorities worldwide, including supervisors such as the AFM and DNB, support this conclusion.² Interest rate benchmarks are based on interbank markets which, in recent years, have experienced a downward trend in volume traded. There are therefore insufficient contributors who can and are willing to adequately contribute data to the benchmarks.

Certain critical benchmarks such as those listed above, possibly do not meet the requirements set out in the EU Benchmark Regulation, which will fully apply per 2022. The future of these benchmarks is not guaranteed, and will also not be guaranteed after the implementation of the reforms. Therefore these benchmarks should not be used in long-term existing contracts. They are also not appropriate for use in new contracts starting from 1 January 2022. Furthermore, for existing contracts, an alternative benchmark should be identified ahead of time. It is important for financial stability and market integrity that users of these benchmarks move towards alternative benchmarks.

Timely and sufficient preparation

Market participants are encouraged to transition to appropriate alternative benchmarks as soon as they are available. The AFM and DNB encourage market participants to analyze risks related to the transition, such as operational risks, legal risks, valuation risks and hedging risks, and to take the appropriate action in order to be prepared for the transition to alternative benchmarks.³

Certain critical benchmarks are used in a wide range of financial products and contracts. The degree to which these benchmarks are fundamental to current business practices means that the transition to an alternative benchmarks will be complex and will take time. A timely and sufficient degree of preparation will ensure that you are able to choose and implement a replacement benchmark quickly and with ease. This will prevent possible damage to your company and to your clients.

¹ See the report by the Financial Stability Board <http://www.fsb.org/wp-content/uploads/P101017.pdf>.

² See the 'Dear CEO' letter from the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), <https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-firms-transition-from-libor-insurers.pdf>.

³ See the speech by the FCA that a transition should be made before the end of 2021.

<https://www.fca.org.uk/news/speeches/interest-rate-benchmark-reform-transition-world-without-libor>.

Development of alternative RFRs

Along with the reform of existing interest rate benchmarks, several working groups are working on the development of alternative RFRs. The active participation of market participants in these working groups is essential to their success, and the AFM and DNB appreciate the time and effort that has been put into these groups by market participants. The AFM and DNB encourage participation in these groups for all market participants where relevant.

Request for Information and next steps

In order to assess the progress made by financial institutions in the Netherlands in the transition to RFRs, we request that you answer the following questions.

- 1a. Which interest rate benchmarks do you use and for which financial products? Please break down by maturity, if relevant.
- 1b. Which alternative benchmarks have you identified thus far for each of the interest rate benchmarks per financial product?
- 1c. What are the most important risks relating to the transition to RFRs? Please distinguish between risks at consolidated level and entity level, if relevant.
- 1d. What operational risks have you identified?
- 1e. What legal risks have you identified?
- 1f. What financial risks (such as valuation and hedging risks) have you identified?
- 2a. What action will you undertake, or have you undertaken, to address the identified risks? Please distinguish between risks at consolidated level and entity level, if relevant.
- 2b. Which scenarios have been used to determine how to address identified risks?
- 2c. Are you experiencing impediments in your preparations for the transition, and if so, which?
- 2d. Have you imbedded the identified actions within your organization?
- 2e. How many people are working on the transition preparations?
- 2f. Is there a separate program or project team?
- 2g. Do you have external (legal) advisors for the transition?
- 2i. Are you in discussions with other parties? If yes, with whom (for example, benchmark providers, industry associations)?
- 2j. Are clients being informed at the moment about possible changes to interest rate benchmarks? If yes, how?
- 3. What is the contact information of the person in your organization who is responsible for (i) the answer to this letter and (ii) the implementation of the transition plans.

Following ensure the information is sent to the AFM and DNB by **June 17th 2019** at the latest. Please send it to benchmarks@afm.nl.

After analysis of the information, AFM and DNB will publish general conclusions at an anonymized and aggregated level. This publication will also give information on the reforms. Furthermore it is possible that we will contact you for further discussions on this topic.

If you have any questions relating to this letter, please contact the AFM and DNB at benchmarks@afm.nl.

Kind regards,

Authority for the Financial Markets

Dutch Central Bank

mr. drs. G.J. Everts RA

Board member

mr. F. Elderson

Director

drs. J.R. Heuvelman MSc

Board member