

The transition to alternative benchmark rates

Feedback report on the interest-rate benchmarks exposures of
Dutch financial institutions

2021 edition (based on H1 data)
23-dec-2021



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Executive summary

As part of the effort to monitor the worldwide transition to alternative interest-rate benchmarks, De Nederlandsche Bank (DNB) and the Autoriteit Financiële Markten (AFM) have collected information from a selection of Dutch banks, pension funds, insurers, and asset managers. By the transition deadline of 1 January 2022, institutions need to amend all IBOR-based contracts to an alternative rate contract or provide fallback language to these contracts. When using fallback language, a benchmark cessation event automatically triggers the conversion to the alternative benchmark or sets out a procedure for choosing an appropriate replacement. The need for fallback provisions also applies to EURIBOR- and SARON-based contracts. Institutions surveyed as well as other financial institutions are invited to take account of this feedback report.

The main findings in this report are the following:

- Contracts are increasingly being provided with fallback language, though not yet all contracts contain updated language. The adherence and uptake of international standards has been an important step in aiding the transition. Institutions which have not yet adhered to relevant standards, should analyse whether this is helpful and do so in short notice.
- Institutions that rely on fallback language should make sure that fallback language is robust and that internal systems are operationally ready to process the conversion of contracts in terms of valuation, risk management and remuneration.
- An essential aspect of amending existing contracts is the communication with clients. Not all institutions have taken adequate action in informing clients as of the reporting date.

Other findings set out in this report are:

- Interest-rate benchmarks are widely used throughout the entire product chain of financial institutions. Its use relates to customer products (e.g. mortgages and loans), investments (e.g. bonds), as well as balance sheet management (e.g. derivatives).
- For EUR contracts, the use of Euribor as a benchmark rate remains predominant. The use of €STR has picked up, representing around 52% of all EUR overnight transactions.
- For non-EUR contracts, the vast majority of contracts still reference IBOR based benchmarks. Alternative rate contracts represent around 4% of all non-EUR transactions.
- Around 64% of contracts in need of a fallback has been provided with fallback language as per Q2 2021, which is slightly higher than the share of 53% as per Q4 2020. The most progress has been made for derivative instruments, where the median institution has a fallback in place for all derivative contracts.
- Operational risk remains the most commonly stated risk, as well as legal and financial risk.
- Institutions report that few contracts or instruments cannot realistically be amended due to legal or operational constraints, so called "tough legacy" contracts. Furthermore, legal impediments to the transition have been steadily decreasing. This should mean that institutions can progress with the process of amending existing contracts and instruments.



The following interest-rate benchmarks have been considered in the analysis. Benchmarks are classified as either 'IBOR' or 'alternative'. All alternative benchmarks are considered risk-free. Euribor has been classified as an alternative benchmark due to its administrator, the European Money Markets Institute, being authorised under the Benchmark Regulation.

Jurisdiction	IBOR (fallback required)	Alternative benchmark
EU	EONIA	€STR EURIBOR (fallback required)
US	USD LIBOR	SOFR
UK	GBP LIBOR	SONIA
Japan	JPY LIBOR	TONAR
Switzerland	CHF LIBOR	SARON (fallback required)

The most important developments for these benchmarks which have taken place over the course of this year are the following:

- GBP and JPY Libor will cease to exist in their current form at the end of 2021. However, the UK FCA has indicated that they will compel the publication of a synthetic Libor based on RFRs for at least one year (which for GBP can be extended, but not for JPY), which can be used for legacy products that cannot be transitioned.
- The legal replacement of EONIA and CHF Libor by €STR and SARON respectively, will come into force at the beginning of January 2022.
- USD Libor will continue to be published until at least 30 June 2023. Use in new products is not permitted after 1 January 2021.



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Introduction

Throughout the world, a transition is currently taking place from interbank offered rates (IBORs) to alternative benchmarks. The IBOR transition was initiated as a policy response to two developments. First, a number of traditional interest-rate benchmarks, notably LIBOR, were affected by market manipulations that severely undermined their integrity. Second, the underlying market for unsecured interbank funding experienced a marked decrease in transactions and continues to do so, eroding the degree to which IBORs represent the funding costs of financial institutions.

In the European Union, the transition to alternative interest-rate benchmarks is governed by the Benchmarks Regulation (BMR).¹ This regulation, applicable to a range of benchmarks including interest-rate benchmarks, sets out requirements for administrators and users of benchmarks as well as their contributors such as panel banks. Pursuant to the BMR, IBOR-based contracts need to be amended to reference alternative rates or provided with a fallback option by 1 January 2022 at the latest. The need for fallback provisions also applies to EURIBOR- and SARON-based contracts. The BMR aims to enhance the reliability and robustness of benchmarks. It came into effect on 1 January 2018, with a transition regime for critical benchmarks in place until 31 December 2021 and for third-country benchmarks applying until 31 December 2023.

Background on the information request

As part of their efforts to monitor the benchmark transition, De Nederlandsche Bank and the Autoriteit Financiële Markten have collected information from a selection of Dutch banks, pension funds, insurers and investment firms. This information request sought detailed data on the status of the transition at Dutch financial institutions and will be repeated on a semi-annual basis until the end of 2021. The results of these surveys will enable DNB and the AFM to monitor and influence the progress of the transition over time.

About this report

This report presents a snapshot of the transition status of Dutch financial institutions as per Q2 2021 and sets out recent developments on the transition. Part 1 presents the main quantitative findings of the data request, consisting of an overview of the use of benchmarks by sector and transition metrics on the progress of the IBOR reform. Part 2 summarises the responses to the survey's qualitative questions. Part 3 provides a summary of recent developments related to the transition. An overview of the total amount of benchmark linked exposures and a glossary with the terms used are provided in the Annex.

¹ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.



01

Analysis – quantitative information

This section provides a snapshot on the degree to which Dutch financial institutions are advancing in their transition to alternative benchmarks as per Q2 2021. Our data sample consists of 83 Dutch financial institutions, of which 21 banks², 55 pension funds, 5 insurers, and 1 asset manager³. To monitor institutions' progress in transitioning to alternative benchmark rates, we use two types of transition metrics:

1. The share of alternative rate contracts to the total number of contracts.
2. The share of contracts with a fallback rate to the total number of contracts.

The information is depicted as a heatmap on a sector level, as well as a boxplot on an individual level.

For the heatmaps, every institution is counted as one observation, whereupon for each sector the average share between 0-1 is depicted. The red colour indicates a low degree of progress, and the green colour a high degree of progress. A white colour means there is no exposure for the respective sector. In the boxplot, every institution is ranked on a line. The centreline of the boxplot represents the *median* institution, and the box ends the 25th (Q1) and 75th (Q3) percentile of the ranking. The end of the lines shown the normalized⁴ minimum and maximum value, and the dots represent outlier institutions. All figures are broken down by product type as well as by benchmark type. Both metrics are applied to contracts expiring *after* the transition deadline (31 December 2021), as contracts expiring before the transition need no immediate action.

The transition progress of each product type and benchmarks within the sectors should be read in conjunction with the importance of that category. An overview of the size of exposures, both in the number of contracts and the underlying notional value is provided in the Annex.

1.1 Share of alternative rate contracts by product type

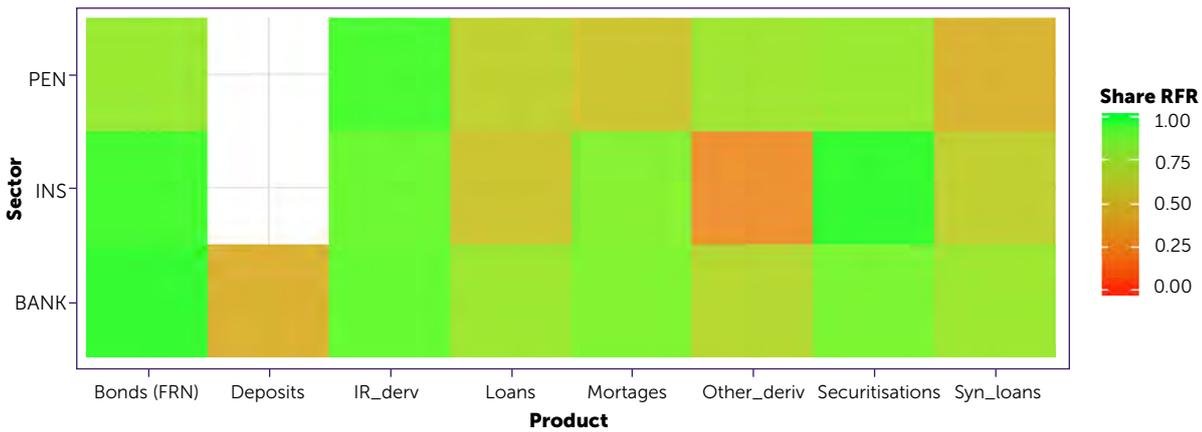
From figure 1 it appears that all sectors are well underway in transitioning to alternative-rate contracts as indicated by the green landscape across product types. The large share of Euribor based contracts, 48% of all contracts, explains much of this effect, as Euribor has been classified as an alternative benchmark on the basis of its administrator, the European Money Markets Institute, having been authorised as BMR-compliant in the EU. Figure 2 shows an upward trend for most product types when comparing the share of alternative-rate contracts over time. Therefore, institutions are gradually adopting more alternative-rate contracts.

2) This only concerns so-called less significant institutions marked as 'credit institution' in the Netherlands, save for credit institutions exempt from an IRRBB reporting requirement to DNB. For the full list of less significant institutions marked as 'credit institution' in the Netherlands (i.e., the population from which our sample is drawn), please refer to pages 53-54 of the following document: <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.listofsupervisedentities202010.en.pdf>.

3) Many other asset managers have been addressed indirectly in their capacity as asset managers for pension funds, and are thus included in the latter category.

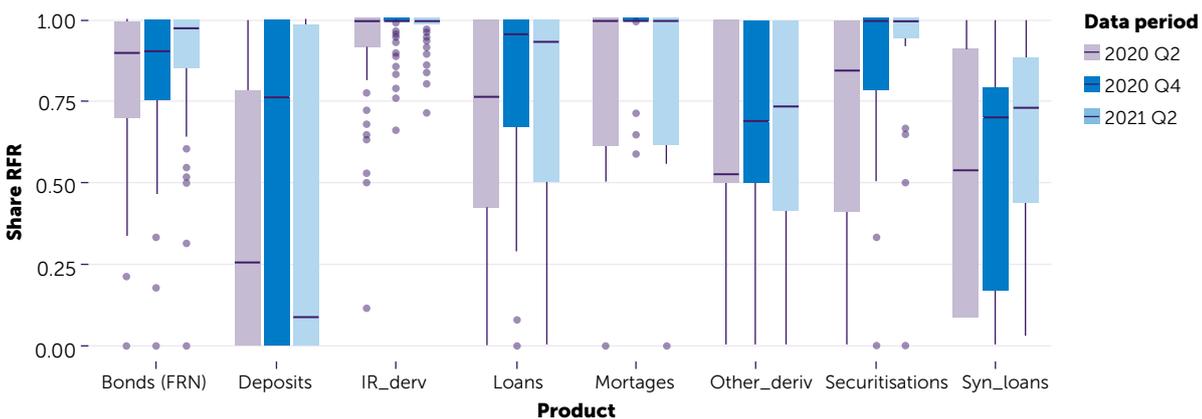
4) Minimum = Q1 - 1.5 * box size, maximum = Q3 + 1.5 * box size

Figure 1: alternative-rate contracts, including Euribor, by product type



Reading guide: This figure displays the share of alternative rate contracts in the total number of contracts, aggregated by sector and broken down by product type. Red colouring is used to indicate more IBOR-based contracts, while green colouring denotes more use of alternative rate-based contracts.

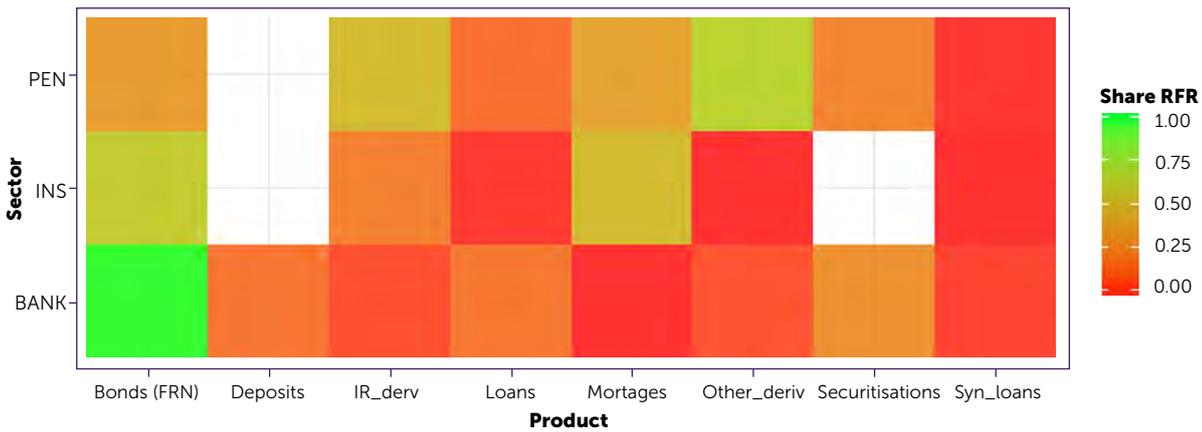
Figure 2: alternative-rate contracts, including Euribor, by product type



Reading guide: This figure displays the share of alternative rate contracts in the total number of contracts, broken down by product type, shown over time. The centreline of the boxplot represents the median institution, and the box ends the 25th (Q1) and 75th (Q3) percentile of the ranking. The end of the lines shown the normalized minimum and maximum value, and the dots represent outlier institutions.

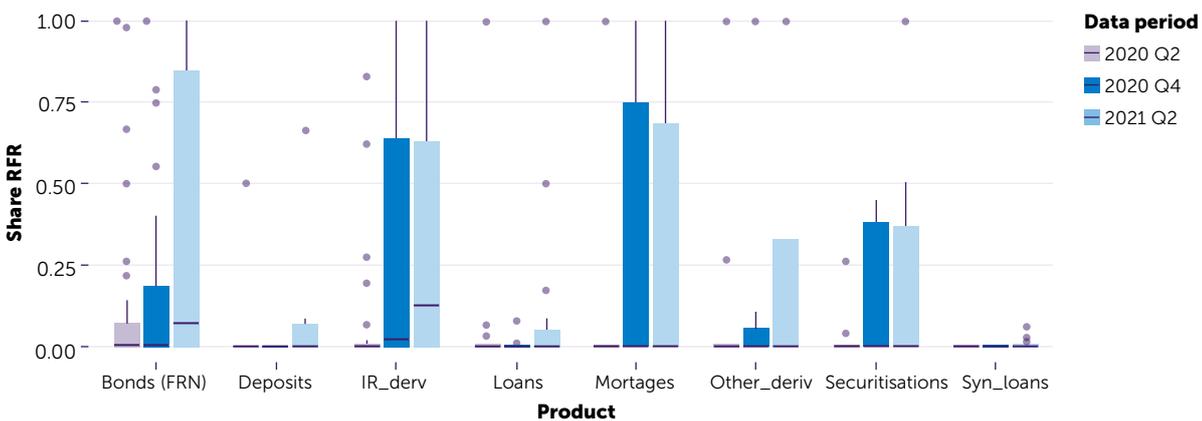
When excluding Euribor based contracts from the data, the majority of contracts still remain IBOR-based, see figure 3. For deposits, loans and syndicated loans the large majority of contracts is still linked to IBORs, whereas for bonds, interest rate derivatives and securitisations there is some movement towards alternative rates. For mortgage contracts, pension funds and insurers seem to be switching to alternative rate contracts, while this is not yet the case for banks. Over time, more institutions are transitioning to alternative rates, though the median institution remains IBOR based across all product types as per Q2 2021, see figure 4.

Figure 3: alternative-rate contracts, excluding Euribor, by product type



Reading guide: This figure displays the share of alternative rate contracts in the total number of contracts, aggregated by sector and broken down by product type. EURIBOR contracts are excluded.

Figure 4: alternative-rate contracts, excluding Euribor, by product type



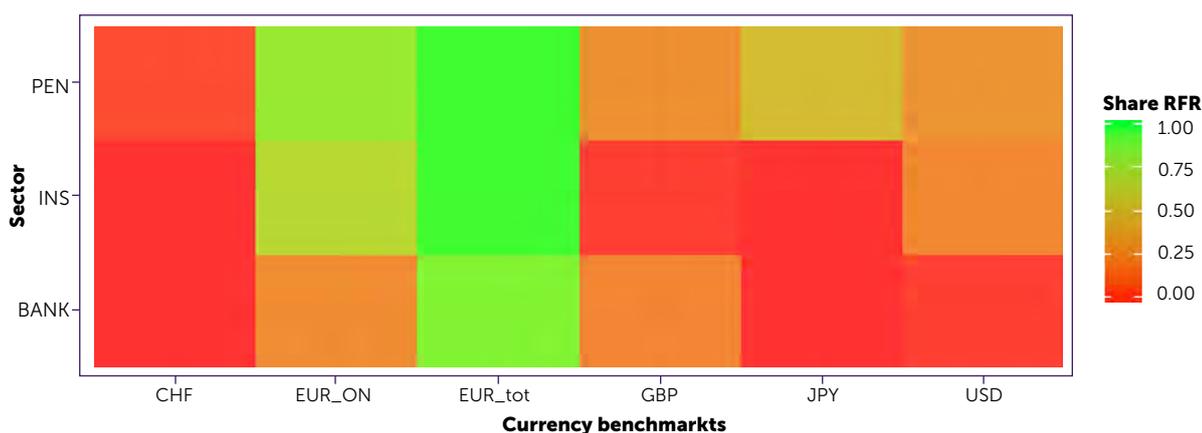
Reading guide: This figure displays the share of alternative rate contracts in the total number of contracts, broken down by product type, shown over time. EURIBOR contracts are excluded.

1.2 Share of alternative-rate contracts by currency

Breaking down the share of alternative-rate contracts by currency clearly illustrates the impact of Euribor as an alternative rate, see figure 5. The column where Euribor is included, “EUR_tot”, is coloured in green across all sectors, whereas the column excluding Euribor, “EUR-ON”, is more mixed. For currencies other than EUR, the vast majority of contracts is still IBOR-based. EUR-based contracts cover around 60% of all contracts in the sample. Of the non-EUR currencies, GBP seems to be making most progress, see figure 6. The transition from EONIA to €STR appears to have progressed faster than the transition of Libor benchmarks, as EONIA and €STR have been published in parallel since October 2019 with a fixed spread of 8.5bps. For benchmarks with a term rate, i.e. Libor rates, it is more cumbersome to agree on a spread adjustment and a discount convention when amending to an alternative benchmark rate.

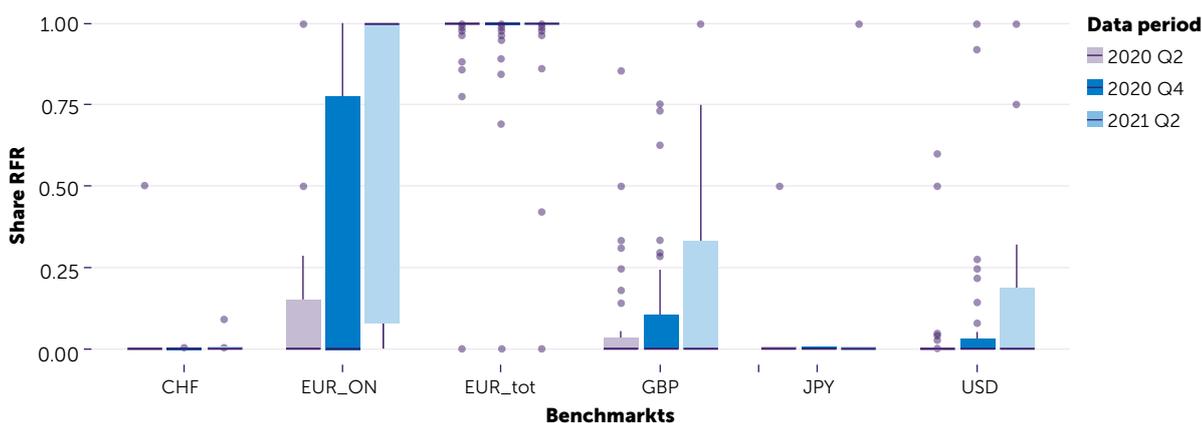


Figure 5: alternative-rate contracts by currency – sector level



Reading guide: This figure displays the share of alternative rate contracts in the total number of contracts, aggregated by sector and broken down by currency. 'EUR_ON' only includes overnight EUR benchmarks (i.e., EONIA and €STR), whereas 'EUR_tot' comprises overnight and term EUR benchmarks (i.e., EONIA, €STR and EURIBOR).

Figure 6: alternative-rate contracts by currency – institution level



Reading guide: This figure displays the share of alternative rate contracts in the total number of contracts, broken down by currency. 'EUR_ON' only includes overnight EUR benchmarks (i.e., EONIA and €STR), whereas 'EUR_tot' comprises overnight and term EUR benchmarks (i.e., EONIA, €STR and EURIBOR).

1.3 Share of contracts with fallback provision by product type

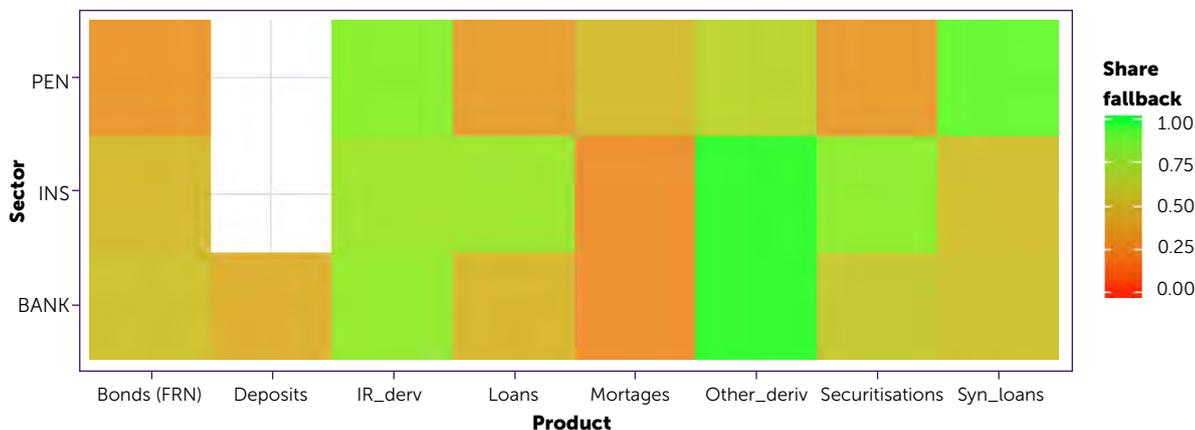
Contracts are increasingly being provided with fallback language, though much work remains to be done.

In particular for bonds, loans and mortgages the adoption of fallbacks remains low, see figures 7 and 8. For lending markets, the industry is still awaiting market consensus on how alternative rates should be compounded in order to reflect a term rate. For derivative instruments, most institutions have provided a fallback provision for all contracts. The good progress in these markets are largely attributable to the work done by International Swaps and Derivatives Association (ISDA) on fallback protocols and active bilateral negotiations between institutions to amend credit support annexes. Very few institutions have not yet signed the ISDA fallback protocol.



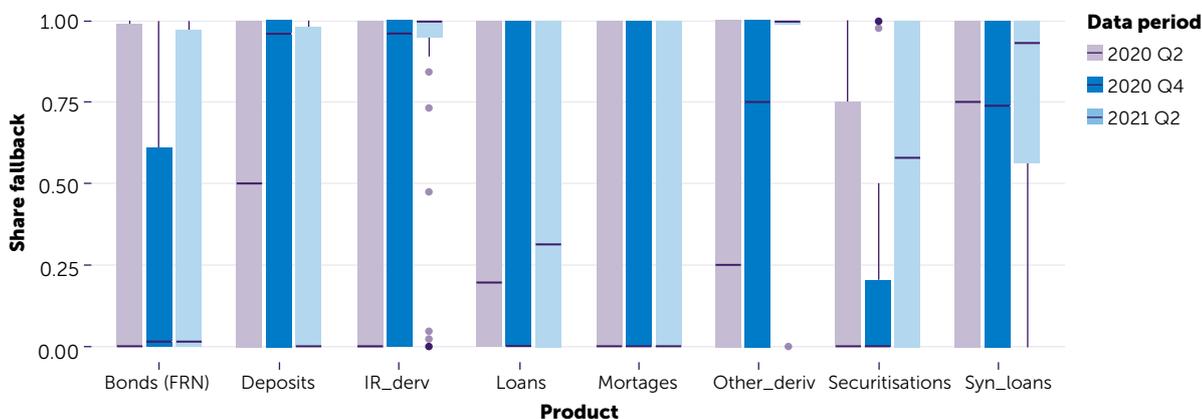
A disclaimer to the data is that institutions have differing interpretations when it comes to the robustness and effectiveness of fallback language. For some institutions, the option of selecting a new benchmark rate at the time of discontinuation of current benchmark – so called “amendment approach” - qualifies as a fallback provision, while for others the fallback needs to be built into the credit agreement – “hardwired approach” and be in effect at the date of reporting in order to qualify as a fallback provision.

Figure 7: contracts with fallback language by product type – sector level



Reading guide: This figure displays the share of contracts containing a fallback benchmark, aggregated by sector level and broken down by product type. Only contracts that expire after 2022 or without a maturity date, and only contracts that are subject to the BMR (all IBOR benchmarks and alternative rates not administrated by a central bank) are considered, as only these are strictly in need of a fallback.

Figure 8: contracts with fallback language by product type – institution level



Reading guide: This figure displays the share of contracts containing a fallback benchmark, broken down by product type. Only contracts that expire after 2022 or without a maturity date, and only contracts that are subject to the BMR (all IBOR benchmarks and alternative rates not administrated by a central bank) are considered.

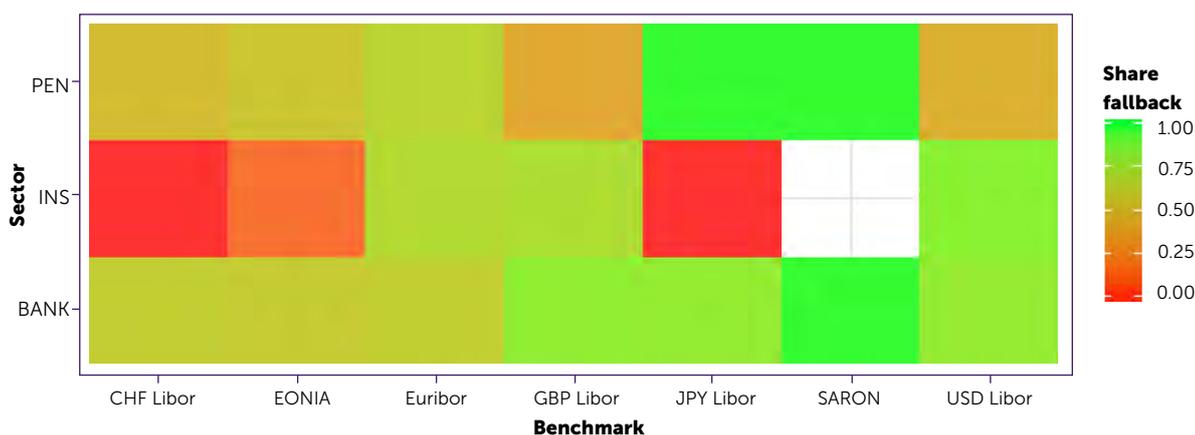


1.4 Share of contracts with fallback provision by benchmark

When considering the fallback inclusion by benchmark type, it appears that significant progress has been made for all benchmark rates. Figure 10 shows a clear upward movement for the median institutions in the first half of 2021 for all jurisdictions. For all benchmarks, the median institution reports a fallback coverage of over 50%. Still the lower bound of the boxplot indicates that not all institutions are making as much progress. Meanwhile, transition progress for CHF Libor, EONIA and JPY Libor seems to be lower for insurers, as shown in figure 10.

The transition data give the impression that institutions are aiming for a “big bang” approach for all IBOR benchmarks at the end of the transition deadline. Figure 3 and 5 indicate that the vast majority of contracts remain IBOR based, and figure 7 and 9 show that these contracts are increasingly provided with fallback language. For those contracts that have a fallback provision which appoints a replacement alternative benchmark, a cessation of the current benchmark would automatically trigger the conversion towards the alternative benchmark. When using such an approach, institutions should make sure that fallback language is robust and that internal systems are operationally ready to process the conversion of contracts in terms of valuation, risk management and remuneration.

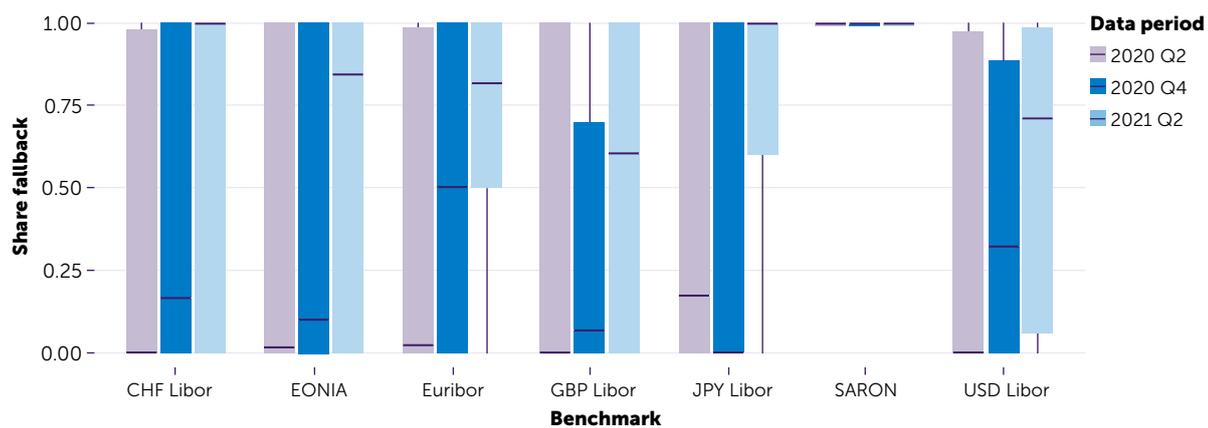
Figure 9: contracts with fallback language by benchmark type – sector level



Reading guide: This figure displays the share of contracts containing a fallback benchmark, aggregated by sector level and broken down by benchmarks. Only contracts that expire after 2022 or without a maturity date, and only contracts that are subject to the BMR (all IBOR benchmarks and alternative rates not administrated by a central bank) have been considered.



Figure 10: contracts with fallback language by benchmark– institution level



Reading guide: This figure displays the share of contracts containing a fallback benchmark, broken down by benchmarks. Only contracts that expire after 2022 or without a maturity date, and only contracts that are subject to the BMR (all IBOR benchmarks and alternative rates not administrated by a central bank) have been considered.

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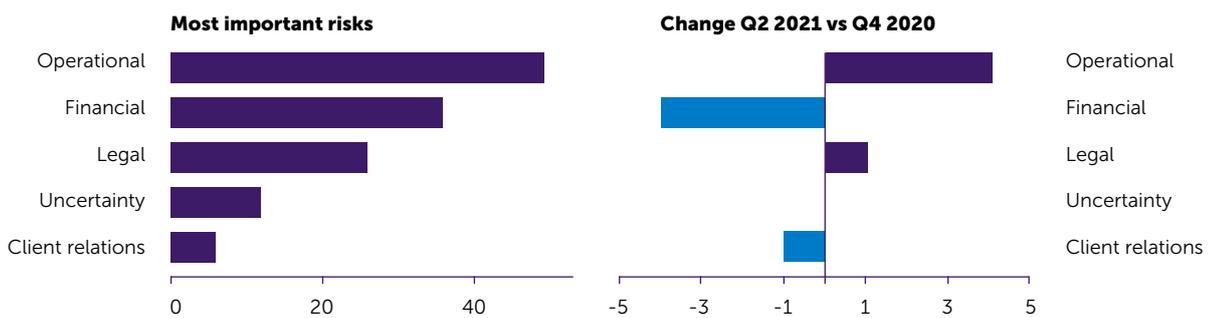
Analysis - qualitative information

This section gives an overview of the responses to the qualitative questions. The qualitative questions provided institutions with the opportunity to give additional information, highlight risks, and mention specific challenges being encountered. While by its nature qualitative information is more difficult to analyse and draw definite conclusions from, certain common themes have been identified which are useful to highlight. Readers should note that the best practices formulated in the 2019 feedback report remain relevant.⁵

2.1 Risk identification

Among the five primary risk categories identified by the AFM and DNB, respondents pointed to operational and financial risk as the most important categories, where operational risk has grown in importance, see figure 11. Examples of operational risk include the capability of IT systems to switch from the existing to the new benchmark at the transition date, or the risk that not all IT systems are readily integrated and aligned in anticipation of the transition. Financial risk is, amongst others, the risk of having to pay a compensation when a change of benchmark is made. Legal risk can include disagreements over fallback options and the need to renegotiate contractual terms under substantial time pressure, amongst others. As in the previous survey, risk relating to uncertainty and client relations were considered less prominent, as shown in part of figure 11. Another risk that was mentioned is conduct risk, which is the risk that the behaviour of an institution adversely affects clients or market integrity, resulting in repercussions such as fines and reputational damage. The AFM published recommendations for addressing conduct risks relating to the IBOR transition on 30 June 2021.⁶ Taking these recommendations into consideration should help market participants in reducing conduct risk.

Figure 11: most important risk areas and change over time



Reading guide: This figure displays on the left side the number of times that a risk category was mentioned by respondents as most important risk (respondents could select two risk categories at most). On the right side, it shows the number of times a risk category was mentioned as having increased or decreased where the numbers reported correspond to the net count (number of times risk is perceived as increased – number of times risk is perceived as decreased).

5) De Nederlandsche Bank and Autoriteit Financiële Markten, Transition to alternative benchmark rates: Feedback report on the survey, 25 September 2019, available on <https://www.afm.nl/~/-/profmedia/files/rapporten/engels/benchmark-rates-transition-response-feedback.pdf?la=nl-NL>

6) [Benchmarks Regulation | Topics AFM | AFM Professionals](#)

2.2 Risk mitigation

In terms of risk mitigation, the most important measure remains the setting up of a dedicated transition program or project team. This step is commonly implemented and is an important part of establishing a governance structure which should ensure that the necessary steps are taken within the organisation. As figure 12 shows, other important mitigation measures include adhering to the ISDA Protocols or other standards on fallback language, informing clients or counterparties about the changes following the transition and requesting legal advice from external parties. Surveyed institutions are increasingly taking these steps.

Figure 12: most important measures to mitigate risks



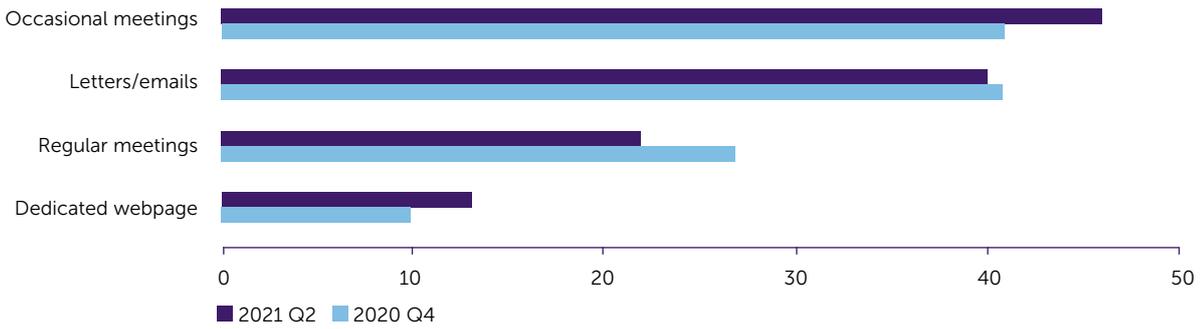
Reading guide: This figure displays the number of times a respondent selected a measure as being an important measure to mitigate transition risks. Multiple answers could be selected.

2.3 Client communication

Not all institutions started client communications as of Q2 2021. Figure 13 shows that those who have commenced their communication provide information proactively on dedicated webpages or via letters and emails. Regular individual meetings with clients were also reported. Well-prepared parties have a communication plan in place and are proactively informing their clients. The communication with clients who make use of IBOR-based products constitutes an important aspect of the transition. Good communication can help to reduce several risks, including conduct risk and legal risk. Providers of such products need to inform their customers in a timely manner about the transition and the expected impact on the product.



Figure 13: communication with clients

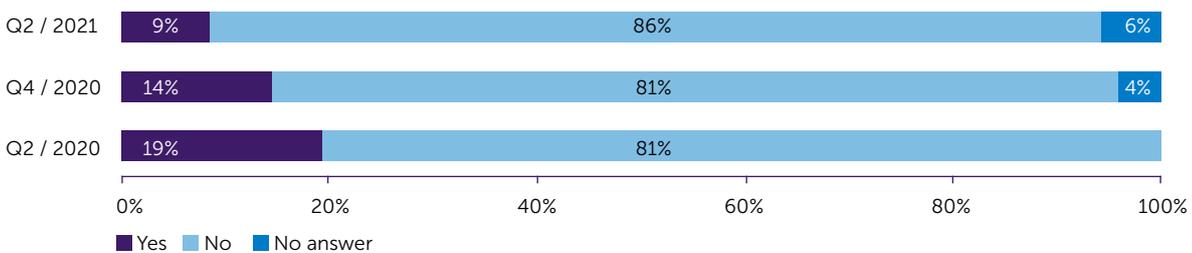


Reading guide: This figure shows how institutions have been informing clients about the transition, where the figure displays the number of institutions that selected an answer. Multiple answers were possible.

2.4 Contractual amendments

Legal impediments to the IBOR transition are continuing to decline, as shown in figure 14. This, when taken together with the low number of contracts which have been identified as being tough legacy contracts (see figure 15), indicates that major legal or contractual issues in amending contracts have not been identified, meaning that generally, almost all contracts can be repapered.⁷ However, some respondents identify the following problems in that process. There is (1) a lack of cooperation of counterparties, (2) an absence of market-wide standards or conventions for OTC derivatives and (3) complexity of the legal process. Except for the first problem, which is of a more diffuse nature, the other issues are being or have been addressed as much as possible via the development of standardisation and protocols. Market participants should work on implementing these solutions as soon as possible, as these can help mitigate these issues to a large extent.

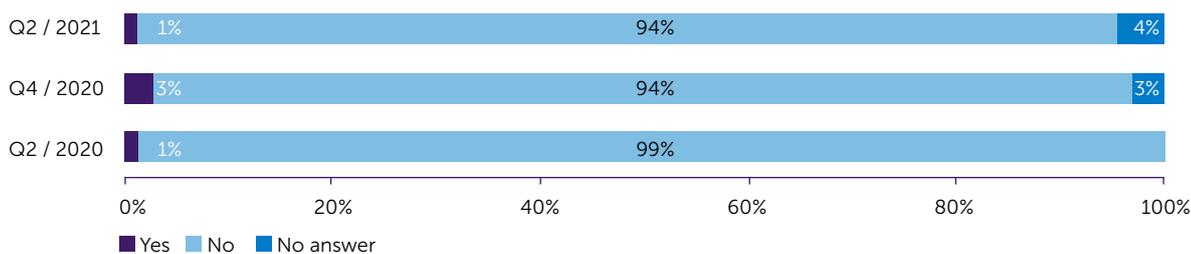
Figure 14: legal impediments when amending contracts or when providing fallback language



Reading guide: This figure shows whether institutions encountered legal impediments in transforming contracts to alternative rates or when adding fallback language.

7) 'Tough legacy' means that the contract or instrument cannot realistically be amended due to legal or operational constraints.

Figure 15: identified contracts that cannot be transformed or adjusted (tough legacy)

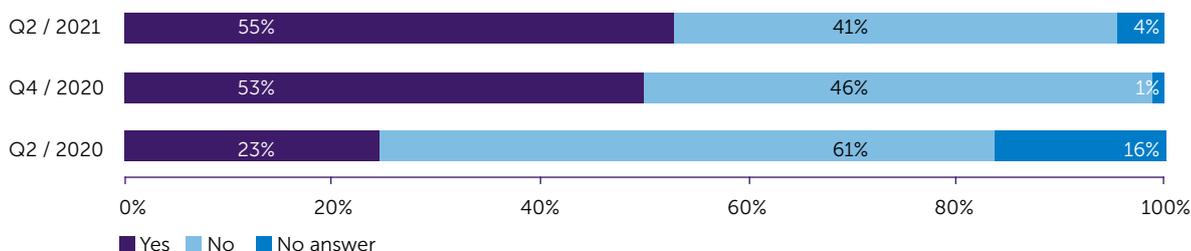


Reading guide: This figure shows whether institutions have identified contracts that cannot be transformed or adjusted ('tough legacy').

2.5 Fallback language

A large proportion of new contracts do not contain appropriate fallback language, as shown in figure 16. Given the availability of appropriate standard language for many products, institutions should seek to implement this language as soon as possible. The inclusion of fallback language in contract- and instrument documentation is one of the most important ways to mitigate the risks associated with the IBOR transition. Furthermore, it is a requirement when using a benchmark as defined in the Benchmarks Regulation to have robust written plans in place which address the eventuality of a benchmark no longer being provided, or materially changing.⁸ While it is permissible to solely have a documented process for selecting a benchmark, there are advantages to identifying a replacement benchmark and a spread adjustment upfront (i.e., having a "hard-wired" fallback).

Figure 16: do all new contracts contain appropriate fallback language?



Reading guide: This figure shows whether institutions provide fallback language in all new contracts.

8) Article 28(2) of Regulation (EU) 2016/1011



2.6 Use of EONIA or IBORs in new products

Figures 17 and 18 show that the use of EONIA and IBORs in new products has declined, although a significant portion of the respondents have not yet switched to alternative rates. In particular, the use of IBOR-based benchmarks in products for consumers should be avoided. Institutions that keep using IBOR-based benchmarks should make sure that robust fallback language is embedded in these instruments, and that internal systems are operationally ready to process the abrupt conversion of contracts to the alternative benchmark rate.

Market participants should be aware that the use of USD Libor in new instruments is not permitted after 31 December 2021, although use in existing products is permitted until 30 June 2023. Regulators in other jurisdictions published transition roadmaps setting out transition milestones. DNB and the AFM support these roadmaps and have published a Joint Statement reminding institutions of the steps that need to be taken to complete the transition.⁹ For certain Libor settings a synthetic rate will become available after the transition deadline, intended to protect consumers and market integrity by reducing market disruptions. The use of this synthetic rate for GBP and JPY Libor contracts should be limited to those contracts and instruments which cannot be transitioned. The synthetic Libor rates are not meant for continued use in new products after 2021. EONIA and CHF Libor will cease to be published post-2021 and should be actively replaced by €STR and SARON respectively, although the statutory replacement rates will come into force in time.

Figure 17: do you still issue new instruments referring EONIA or IBORs?

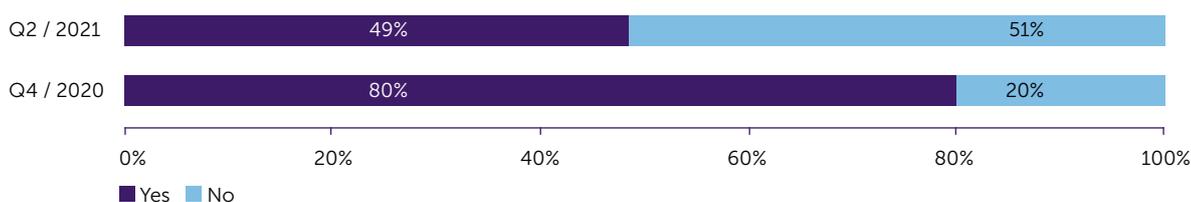
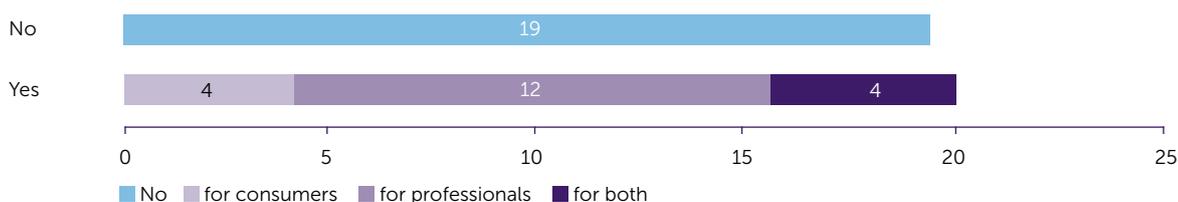


Figure 18: do you still issue new instruments to EONIA or IBORs? To whom?



Reading guide: These figures displays whether institutions still issue new instruments referring EONIA or IBORs. This question was not posed to all respondents, explaining the low number of responses.

9) [Benchmarks Regulation | Topics AFM | AFM Professionals](#)



03

Overview of transition developments for major benchmarks

This section provides an overview of important developments which have taken place over the course of this year. It seeks to highlight steps taken in the most essential areas and reflect developments in the market, while also providing resources for further information by referencing original sources as much as possible.

3.1 Rate replacement updates

In the Eurozone, Euribor has remained the most used interest rate benchmark and continues to enjoy the support of both market participants and regulators.

On 11 May 2021 the Working Group on Euro Risk-free Rates published its recommendations on Euribor fallback trigger events and €STR-based Euribor fallback rates.¹⁰ The publication of these recommendations provides the market with tools to prevent legal uncertainty and reduce risks relating to the continued use of Euribor. Market participants using Euribor should take these recommendations into account as much as possible.

On 26 July 2021, the Working Group issued two recommendations for the interdealer market.¹¹

Firstly, it recommended that interdealer brokers change risk-free rates (RFR) swap trading conventions from EONIA to €STR starting 18th October 2021, together with the CCP transition from EONIA to €STR. This is in line with the recommendations made for other rates, such as the "SOFR First" initiative. Secondly, the Working group supported the initiative to use RFRs first in cross-currency swaps for USD, GBP, JPY and CHF. For the EUR zone, continued monitoring will be performed.

The clearing switch from EONIA to €STR on 18 October 2021 has been successful. CCPs re-hitched nearly EUR 14 trillion notional of cleared EONIA swaps to €STR. As from this date, CCPs have stopped clearing EONIA Overnight Index Swaps. The coordinated switch comes more than a year after CCPs began using €STR as a discounting curve for EUR denominated cashflows.

Certain supervisory changes have taken place or are imminent. The supervision of Euribor as a critical benchmark in the EU will be transferred from the Belgian Financial Services and Markets Authority to the European Securities and Markets Authority (ESMA) per 1 January 2022. ESMA has also taken over the secretariat of the Working Group from the European Central Bank from May 2021.

10) [Recommendations by the working group on euro risk-free rates on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates \(europa.eu\)](#)

11) [Call for expressions of interest to join the Working Group on Euro Risk-Free Rates and related substructures \(europa.eu\)](#)



The transition from EONIA to €STR is nearing completion, although problems in transitioning have been encountered. In some cases, parties have been unable to amend contracts which have an end date after the end of 2021. To address this issue, the European Commission (EC) has used its powers to implement a statutory replacement for EONIA. EONIA is a critical benchmark and therefore is in scope of article 23b of the BMR. By making use of its powers, the EC replaces EONIA by €STR plus a spread of 8.5 bps, which is consistent with how EONIA has been calculated since 1 October 2019. The Delegated Regulation has been published on 22 October 2021 and will come into effect on 3 January 2022.¹² Importantly, this only applies in the case of contracts and instruments not containing fall-back provisions at all, or not containing suitable fall-back provisions. Therefore, contracts which do have adequate fallback provisions and/or have been successfully renegotiated are not affected.

Many of the Libor settings are also approaching their end date, which is set for 31 December 2021.

The progress in the transition from the LIBOR rates varies per currency and jurisdiction. Generally, market participants should strive to stop entering into new Libor contracts as soon as possible in all currencies and tenors.

Due to the relatively slow uptake of SOFR and other difficulties in transition specific to the US market, USD Libor will continue to be published in most settings until 30 June 2023. However, this extension is only for contracts and instruments issued before 1 January 2022; the use of USD Libor in new contracts and instruments is no longer permitted.

The 'SOFR first' initiative launched by The Commodity Futures Trading Commission's Market Risk Advisory Committee has been effective in increasing the use of SOFR. This initiative consists of four phases, with different products expected to be switched during the different phases.¹³ Phase 1 consists of a switch of linear swaps using USD Libor to those using SOFR on the interdealer market. This phase started on July 26 2021. All phases should be completed by end 2021.

In the UK market, SONIA continues to show strong growth in new use. Given the deadline for the end of GBP Libor at the end of 2021, it is essential that all parties still using GBP Libor, switch to SONIA as soon as possible.

The FCA has announced that it will compel the publication of a synthetic Libor in GBP and JPY for the duration of 2022. It will be calculated on the basis of the forward-looking term version of RFR, plus a spread.¹⁴ It is important to note that these Libor settings are considered non-representative by the FCA and the contracts which can make use of the synthetic Libor are only those contracts which cannot be amended, i.e. tough legacy contracts. New issuances based on the synthetic Libor are not permitted.

Regarding CHF Libor, the Commission has also made use of its powers under article 23b of the BMR to change the benchmark rate in affected contracts and instruments from CHF Libor to SARON with a spread adjustment.¹⁵ It states that the cessation of CHF Libor would significantly disrupt the functioning of financial markets in the Union or pose a systemic risk to the financial system in the Union, thereby fulfilling the requirements of article 23b(1)(c) BMR. The change will be made at the date that CHF Libor ceases to be published, which is 1 January 2022. Like the EONIA replacement, this replacement only applies to contracts

12) [EUR-Lex - 32021R1848 - EN - EUR-Lex \(europa.eu\)](#)

13) [MRAC_SOFRFirstSubcommitteeRecommendation071321.pdf](#)

14) [Further arrangements for the orderly wind-down of LIBOR at end-2021 | FCA](#)

15) [EUR-Lex - 32021R1847 - EN - EUR-Lex \(europa.eu\)](#)



and instruments not containing fall-back provisions or not containing suitable fall-back provisions. Contracts which do have adequate fallback provisions and/or have been successfully renegotiated are not affected. The clearing conversion of four Libor rates will be done in December this year. On December 3, clearing houses will switch all Libor swaps in EUR, JPY and CHF to their respective alternative rates. GBP Libor swaps will be following suit on December 17. Libor swaps are converted with a fixed spread adjustment, reflecting the five year median difference between the current Libor setting and the alternative rate.

3.2 Other developments

Given that the use of various interest rate benchmarks is shifting, regulators have considered it necessary to review the trading and clearing obligations in place in different jurisdictions. In the EU, ESMA determines the derivatives trading and clearing obligations under European Market Infrastructure Regulation and consulted the market this summer about the scope.¹⁶ This is to be finalised by the end of 2021. Similarly, in the United Kingdom, the Financial Conduct Authority and the Bank of England have taken action on this issue as well. The trading obligation¹⁷ and the clearing obligation¹⁸ have both been amended pursuant to developments in liquidity. In the United States, the transition towards SOFR appears to be gathering pace and other authorities are following this closely.

The International Organisation of Securities Commissions (IOSCO) issued a statement warning users about the risks relating to the growth in the use of credit sensitive benchmarks.¹⁹

There are several “credit sensitive benchmarks” which have been developing and gaining traction in the market. These are benchmarks that seek to measure the credit risk component of unsecured borrowing in certain markets. Examples of credit sensitive benchmarks are Ameribor, published by American Financial Exchange, Bloomberg’s Short Term Bank Yield Index and ICE’s Bank Yield Index. There is a recognised need for these benchmarks and their use can be appropriate in certain circumstances. However, administrators of these benchmarks should be mindful of the IOSCO principles, in particular the relative size of the underlying market in relation to the use of the benchmark, as well as that the benchmarks must sufficiently reflect the underlying market in most circumstances.

The development of term rates has also been the focus of attention from both market participants and regulators. While the market should transition as much as possible to using the overnight rates which have been designated as the replacement risk-free in each jurisdiction, for certain purposes a term rate can be necessary. Use of term rates should be limited to situations where an overnight rate is challenging. Term rates for the various RFRs are in differing stages of development. The Financial Stability Board has published a report which contains useful background information on forward-looking term rates.²⁰

The ECB has been publishing compounded €STR average rates and a compounded index based on €STR since 15 April 2021. A forward-looking term rate is currently not being published as the market is not sufficiently liquid.

16) [ESMA consults on derivatives clearing and trading obligations in view of the benchmarks transition \(europa.eu\)](https://www.esma.europa.eu/press-news/esma-news/esma-consults-on-derivatives-clearing-and-trading-obligations-in-view-of-the-benchmarks-transition)

17) [PS21/13: LIBOR transition and the derivatives trading obligation | FCA](https://www.fca.org.uk/consult/condocs/ps21/13/ps2113-libor-transition-and-the-derivatives-trading-obligation)

18) [Derivatives clearing obligation – modifications to reflect interest rate benchmark reform: Amendments to BTS 2015/2205 | Bank of England](https://www.bankofengland.co.uk/derivatives-clearing-obligation-modifications-to-reflect-interest-rate-benchmark-reform-amendments-to-bts-2015/2205)

19) [Statement on Credit Sensitive Rates \(iosco.org\)](https://www.iosco.org/secretariat/publications/Pages/Statement-on-Credit-Sensitive-Rates.aspx)

20) [Interest rate benchmark reform: Overnight risk-free rates and term rates \(fsb.org\)](https://www.fsb.org/2020/08/interest-rate-benchmark-reform-overnight-risk-free-rates-and-term-rates/)



For the USD market, the Alternative Reference Rate Committee (ARRC) has formally recommended for use CME Group’s forward-looking Secured Overnight Financing Rate (SOFR) term rates.²¹ The ARRC recommends that SOFR Term Rates can be used for business loan activity, where using SOFR could present challenges. It states, however, that it does not support the use of SOFR Term Rates for derivatives markets, except for end users to hedge cash products using the SOFR Term Rates; and emphasizes that it continues to recommend using forms of overnight and averages of SOFR where possible.²² For GBP, two term SONIA reference rates have been developed, by ICE Benchmark Administrator and by Refinitiv.²³ The term rate for the Yen currency is Tokyo Term Risk Free Rate (TORF), which has been published since 26 April 2021. In Switzerland, SARON Compound Rates and indices are published by SIX, as the benchmark administrator of SARON.²⁴

Several international standard-setters have finalised documentation regarding the IBOR transaction over the past year. The Loan Market Association published its documentation guide on 6 June 2021, addressing many of the legal documentation issues encountered in the primary market.²⁵ Given the lag in transitioning syndicated loans, this is an important milestone and will hopefully help members of syndicates amend loan agreements. ISDA has played a pivotal role in furthering the IBOR transition in derivatives markets, with many resources available on its website.²⁶

21) [ARRC_Press_Release_Term_SOFR.pdf \(newyorkfed.org\)](#)

22) [ARRC_Infographic_Term_SOFR.pdf \(newyorkfed.org\)](#)

23) [Term SONIA reference rate publication summary \(bankofengland.co.uk\)](#)

24) [SARON Compound Rates | SIX \(six-group.com\)](#)

25) [Documents \(lma.eu.com\)](#)

26) [Benchmark Reform and Transition from LIBOR InfoHub – International Swaps and Derivatives Association \(isda.org\)](#)



04 Annex

4.1 Overview of total exposures Dutch financial institutions in data sample

Interest-rate benchmarks are widely used throughout the entire product chain of financial institutions (figure 19). All sectors exhibit substantial use of interest-rate benchmarks in their balance-sheet risk management, as indicated by the large number of interest-rate derivative contracts. For banks, a sizeable number of contracts also relates to customer products, such as mortgages, loans, and deposits, whereas pension funds' exposure to interest rate benchmarks is, apart from interest rate derivatives, concentrated in syndicated loans and bond holdings.

Expressing interest rate benchmark products in terms of notional amounts shows a clear skew towards interest rate derivatives (figure 20). Interest rate derivatives are often applied as hedging instruments for both sides of the balance sheet. Secondly, institutions adjust these positions with regular frequency to align risk positions with their appetite or risk limits, by adding either long or short positions, thereby increasing the gross notional value of derivatives.

Figure 19: number of contracts by sector, broken down by product type

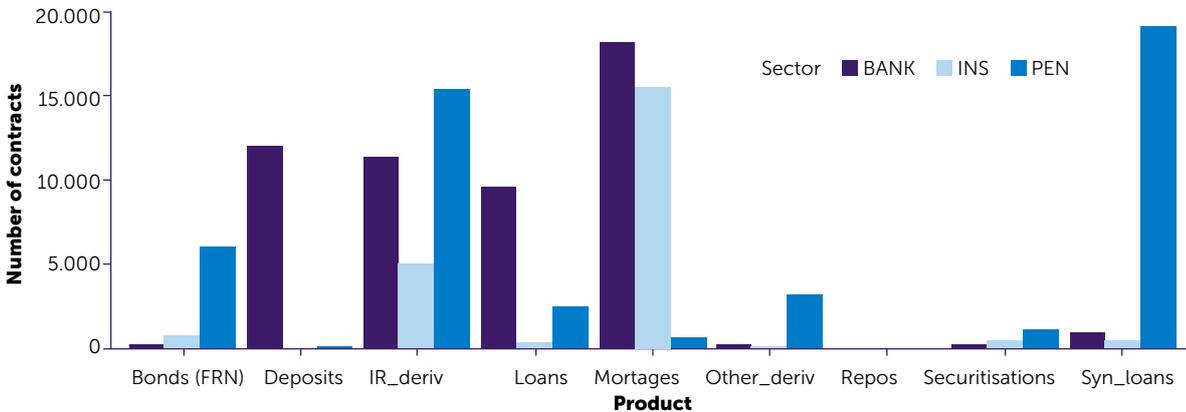
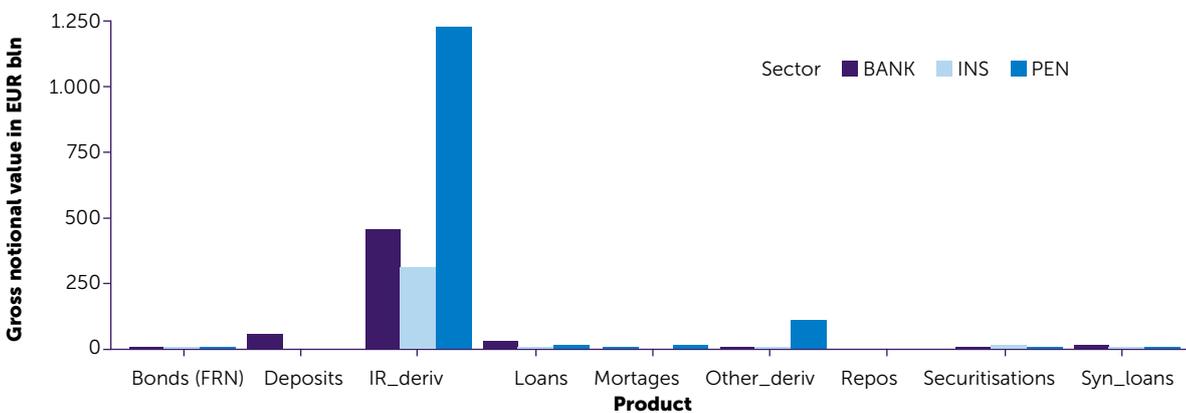


Figure 20: gross notional value by sector, broken down by product type





Breaking down the number of contracts by the respective currency benchmarks, we find a wide use of Euribor contracts (figure 21). Readers should note that the volume of USD Libor contracts largely relates to a subset of institutions within the sample with a specific business model.

Expressed in terms of notional amounts, the benchmark exposure largely takes the form of interest-rate derivatives, with Euribor, €STR and GBP Libor being the most frequently used benchmarks (figure 22).

The use of risk-free benchmarks (€STR, SOFR and SONIA) has been growing, but remains smaller than the respective IBOR contracts in that currency.

Figure 21: number of contracts by sector, broken down by benchmarks

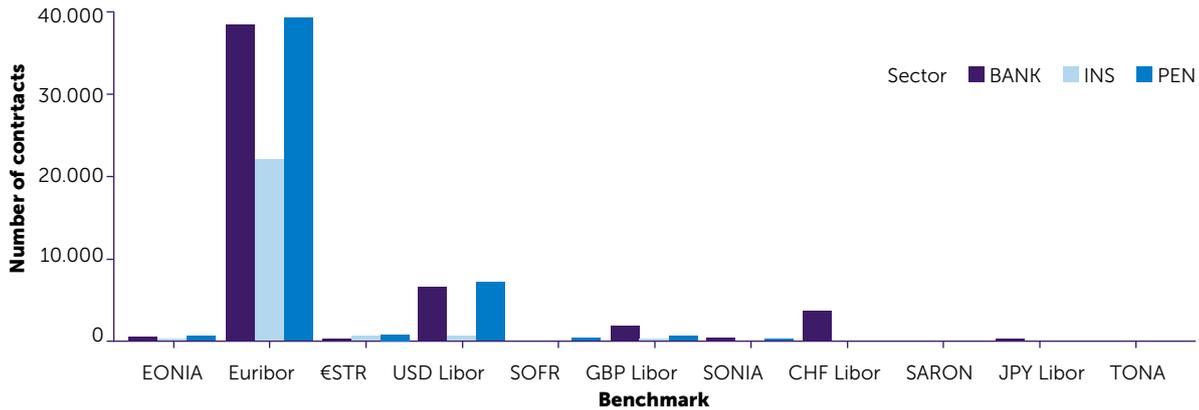
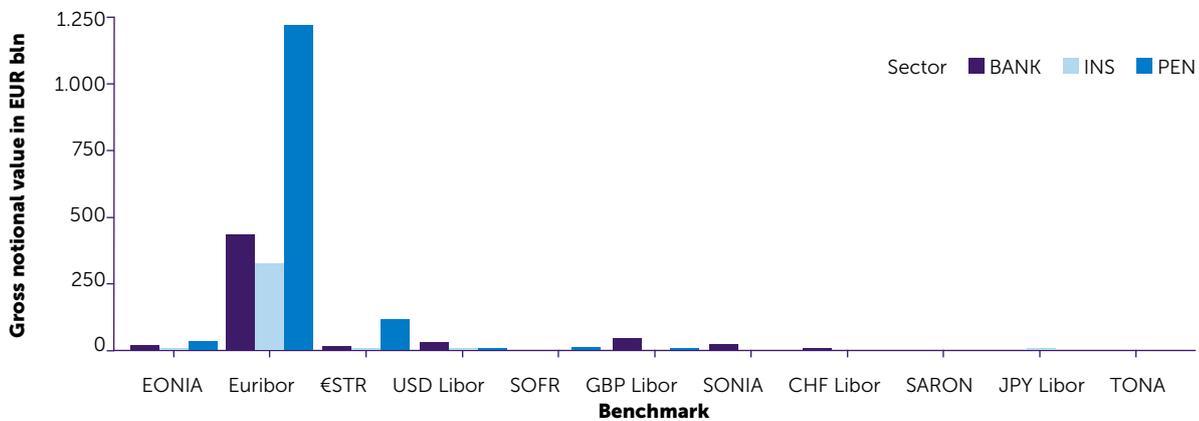


Figure 22: gross notional value by sector, broken down by benchmarks





4.2 Glossary of terms used

Bonds (FRN)	On- and off balance sheet floating rate notes
INS	Insurance companies
IR_deriv	Interest-rate derivatives, over-the-counter and exchange traded, whose principal underlyings are interest rates
Loans	On- and off-balance sheet loans and advances
Mortgages	Retail as well as commercial mortgages
Other_deriv	FX derivatives, over-the-counter and exchange traded, whose principal underlyings are interest rates, and over-the-counter and exchange traded derivatives whose principal underlyings are not interest rates
PEN	Pension funds
Repos instruments	(Reverse) repurchase agreements and other secured lending instruments
Securitisations	On- and off balance sheet securitisations
Syn_loans	Syndicated loans



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