

Market Rates Replacement

Managing the transition

October 2018

- The **IBOR benchmarks** (including LIBOR, EONIA and EURIBOR) have been harshly criticized in the context of manipulation scandals over the last few years and **a reform is in place** aimed at finding the **replacement or determining revisions** for all existing benchmarks and their quotation method.
- The reform involves **supranational committees** (G20, Financial Supervisory Board), **central banks** (Working Groups for the introduction of alternative benchmarks) and **representatives of the banking sector** to develop an alternative risk-free rate market in conformity with IOSCO principles and the European Benchmark Regulation (BMR). The BMR will enforce that as of the **1st of January 2020** only benchmarks that are compliant with these new regulations may be used by EU firms in new contracts.
- **FCA's statement** that panel banks are **no longer** compelled to submit **LIBOR contributions** after 2021 is a trigger for the LIBOR Reform.
- The **ECB Working group** on euro risk-free rates announced its recommendation on 13 September 2018 that **ESTER be used as the risk-free rate for the euro area**. Careful transition planning by market participants is needed to minimize disruption to markets and consumers and to safeguard the continuity of contracts to the greatest extent possible, including contracts that currently reference a term rate rather than an overnight rate.

SCOPE

- Impacts all market participants, all clients and counterparties, all contracts
- Spans multiple functions and businesses and has a direct impact on strategic planning
- Develop a transition plan to incorporate new risk free rates into products that have historically relied upon IBOR
- Adopt a flexible and agile approach in order to adapt quickly to the changing environment
- Need to consider implications and to reprioritize investments for the next 2/3 years



CONTRACT ADDENDUM MANAGEMENT

- Identification of new and existing impacted contracts may be of a larger scale
- IBOR related cash products may be more difficult to identify than derivatives
- Locating, gathering, and identifying all related documentation and direct/indirect references to IBOR, fallback clauses, etc. is onerous

The time for digitalization has come



INTERNAL AND EXTERNAL COMMUNICATION

- Enhance employee awareness through the design and deployment of communications and trainings
- Develop retail and commercial communication strategies
- Execute call center and relationship manager trainings
- Reach out to clients and counterparties
- Communication to investors

RISK MANAGEMENT

- Change is needed for multiple valuation/risk systems and models
- RFR rates will need term structure and credit spreads applied



MARKET DEVELOPMENT

- Market transition may be occurring more quickly than participants are prepared for
- Identifying and monitoring correct metrics to measure market development and firm participation
- Liquidity need in new reference rate based products
- Business opportunity/threat managing with clients economic condition of the contracts

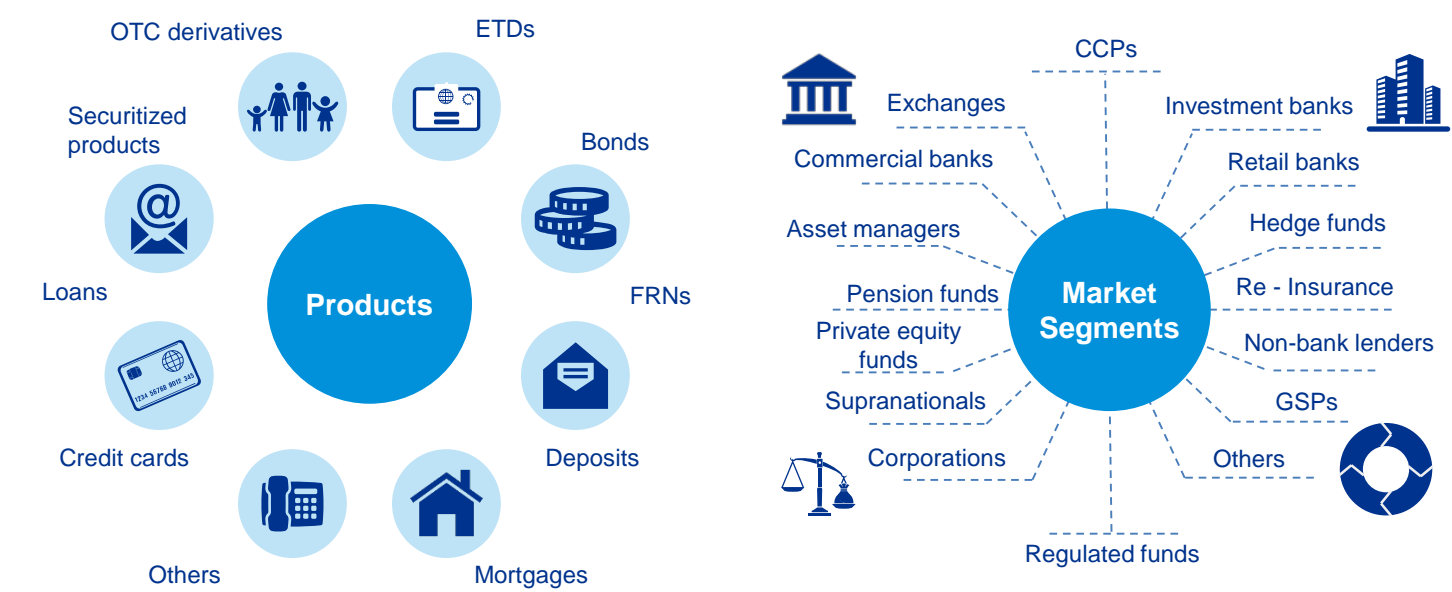
ACCOUNTING, ALM, TAX

- Changes in Day 1 balance sheet, fair value measurement, and leveling
- Accounting standards and hedge effectiveness tests require change
- ALM position change and FTP implication
- Tax acceleration impact

OPERATIONAL RISK

Identification and update of internal and vendor applicable systems, processes, controls, and tools with IBOR references

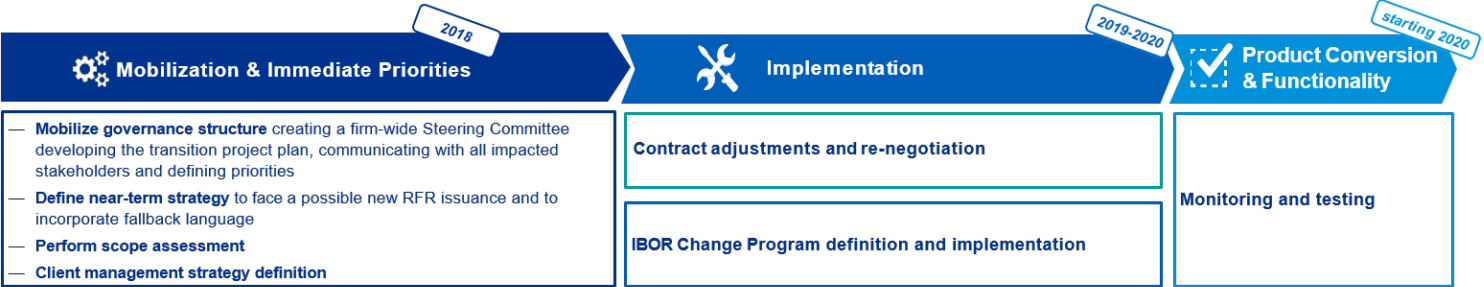
Scope of the transition is across **all products** and **all market segments**.



In addition, as declared by ECB “Market participants must be made aware the upcoming change will significantly **impact a large part of their activities across the full value chain**: commercial product offering, infrastructure, valuation and risk management, tax, contractual/legal and accounting”.



The below **project stages** are the baseline for a successful implementation of the transition.



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