

Market participants

How to prepare for the transition?

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Roundtable on euro risk-free rates How to prepare for the transition?

Charlotte Bellamy, ICMA
9 November 2018



How to prepare for the transition?

- In June 2018, ISDA, AFME, SIFMA, SIFMA AMG and ICMA published an IBOR Global Benchmark Transition Report

- Individual market participants practical implementation checklist:

- *Establish a formal benchmark transition programme*
- *Assess exposure to affected benchmarks*
- *Analyse contracts*
- *Consider communication with external parties*
- *Define a transition roadmap*

- **Benoît Cœuré, ECB, 25 September 2018**

“Financial market participants, on their part, should redouble their efforts to ensure a smooth transition ...

Time is running short”.



Roundtable on euro risk-free rates



**European
Investment
Bank**

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How to prepare for the transition?

Bertrand de Mazières

Frankfurt-am-Main, 9 November 2018

Agenda

- ▶ Sharing some thoughts on our mutual interdependencies in the preparatory phase for the transition
- ▶ Providing an overview of some practical issues and of selected preparatory measures at EIB
- ▶ Sharing lessons learnt on the recent EIB bond issue referencing SONIA, the new risk-free rate in GBP

Mutual interdependencies

- ▶ The level of preparation of each of us is constrained by the level of information, preparation and commitment of the rest of us...
 - ▶ Investors
 - ▶ Borrowers
 - ▶ Market infrastructures
 - ▶ Industry associations and working groups
 - ▶ Regulators and legislators
 - ▶ ...
- ▶ We live in an ecosystem and each of us has a responsibility and a role to play
- ▶ The survey results ICMA has presented suggest we need to do a lot more

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Overview of some practical issues

- ▶ Some unknowns and uncertainties
- ▶ The need for more robust fallback provisions in our contracts
 - ▶ Bond, loan, derivatives documentation
 - ▶ Legacy + new contracts
- ▶ Impacts on valuation and accounting
- ▶ Set up of the new benchmarks in systems and applications
- ▶ Hedging and fund transfer pricing implications
- ▶ The (low) level of awareness and preparation of the market as a whole

Overview of some preparatory measures

- ▶ Dedicated sub-working group of ALCO
 - ▶ Main teams impacted (Finance, Lending, Risk, Accounting, Legal,)
- ▶ Measurement of exposure to IBORs
- ▶ Action plan along 5 workstreams (some more advanced than others)
 - ▶ Monitoring of key developments
 - ▶ Business (Funding, Lending, Treasury, ALM, Mandates)
 - ▶ Risk, valuation, accounting and fund transfer pricing
 - ▶ Legal and documentation
 - ▶ Data and IT applications

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Market's first SONIA floater issued by EIB

- ▶ Two-step approach
 - ▶ Testing (March): real deal but small size (GBP 2 million)
 - ▶ Launch of the benchmark-size deal (June) (GBP 1 billion)
 - ▶ 5Y maturity / quarterly coupon payment equal to the compounded daily SONIA, with 5-day lag
- ▶ Objectives of the testing
 - ▶ Can the Bank's systems handle the trade properly?
 - ▶ Can the paying agent run all the coupon calculations?
 - ▶ Are the investors able to
 - ▶ Book the transaction?
 - ▶ Value the bonds properly?
 - ▶ Can the investors repo the bonds?
 - ▶ Test performed through the lead managers
 - ▶ Is the deal structure appropriate?