



**99** ADVISORY  
A clever transformation

## IBOR Transition

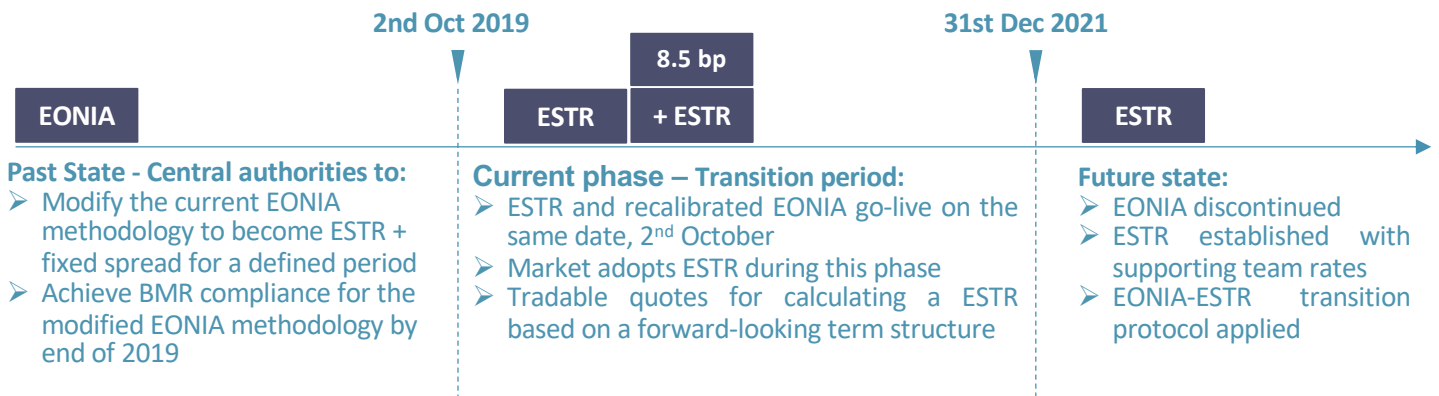
October 2019

What are the key impacts and potential solutions related to the EONIA-ESTR switch ?

## • Introduction and impacts analysis

The ECB has launched the ESTR on 2<sup>nd</sup> of October 2019. The ESTR is calculated using overnight unsecured fixed rate **deposit transactions** over € 1 million. It is published in the morning of the day following the day it references (T+1), rather than in the evening of the same day (T). EONIA is calculated as the ESTR **plus 8.5 bp**. As announced by its administrator, the European Money Markets Institute (EMMI), EONIA will be discontinued on the 3<sup>rd</sup> of January 2022.

### Recalibrated EONIA



All business lines of banks are impacted: Global Markets, Commercial banking, Wealth management, including **client interest computation** and **documentation review**. The key impacts of EONIA-ESTR transition will be on Global Markets (GM) activities of banks. 99 Advisory identifies 5 major departments which will be impacted from a CIB perspective:



The criteria used for identifying these impacts include trade-related transaction volumes, client management, operations and documentation updating.

### Most impacted CIB departments

	Front Office	Traded Risk	Operations	Product Control	Legal
Systems	High impact	Medium impact	High impact	High impact	Medium impact
Models	Low impact	High impact	Low impact	Medium impact	Low impact
Comms	High impact	Low impact	Medium impact	Low impact	High impact

Legend: ■ Low impact ■ Medium impact ■ High impact

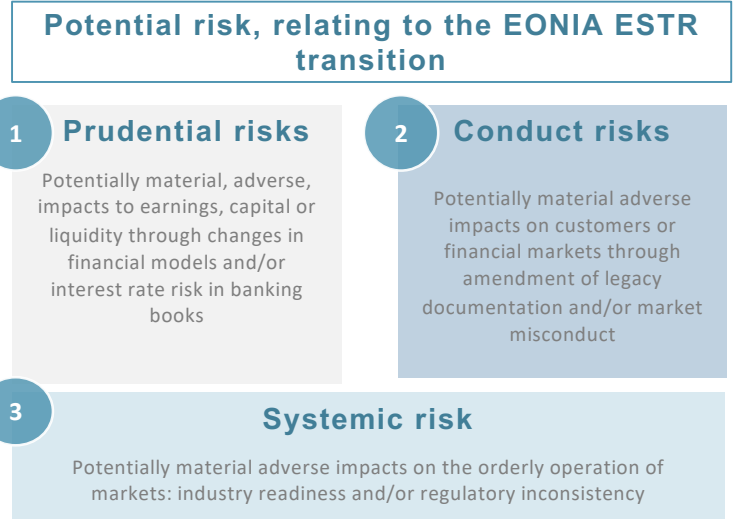
#### Note on EURIBOR and LIBOR

On the 2<sup>nd</sup> of July, the FSMA has authorised the EMMI as the administrator of EURIBOR under the Benchmark Regulation (BMR), following positive advice of the EURIBOR College of Supervisors. EURIBOR, under its new calculation methodology, is now considered BMR-compliant and was added to the ESMA benchmark register. The LIBOR remains non-compliant. The policy makers has agreed a two-years extension period for index administrator to comply with BMR. The 31<sup>st</sup> December 2021 is now the new deadline.






## Potential risk and 99 Advisory supports

As it is known, EONIA is widely used in derivative products with maturity dates that can go beyond 30 years, and to a lesser extent also in cash products and cash instruments. Besides EONIA’s usage as an index for overnight index swaps (OIS), it is also used for the valuation of EONIA derivatives for margin and collateral calculations, for risk management purposes, and for financial accounting and hedge accounting purposes. Replacing EONIA with ESTR will therefore not only require changes to outstanding and new contracts, it will also have consequences for the valuation of derivatives and will require operational changes within the user community.

99 Advisory highlights 3 key risks that will potentially impact banks.



## 99 Advisory supports you in your projects

Examples of possible support for Global Markets departments	
 <b>Front Office</b>	<p><b>Better readiness during transition period:</b></p> <ul style="list-style-type: none"> <li>Review and update of Fund Transfer Price</li> <li>Internal procedure updates, including a launch of New Products Development Process</li> <li>Floating-rate repos impact shall be taken into account: new documentation, prospective and retrospective testing using a proxy</li> </ul>
 <b>Traded risk</b>	<p><b>Review of Market risk and Traded Credit risk computation and reporting:</b></p> <ul style="list-style-type: none"> <li>Detailed requirements regarding changes in risk systems</li> <li>Development and tests phase completion; new product roll-outs / Front to Back transition / migration of existing contracts</li> <li>Internal procedure updates</li> </ul>
 <b>Operations</b>	<p><b>Business Process review:</b></p> <ul style="list-style-type: none"> <li>New ESTR curb creation and EONIA curb cancellation</li> <li>Upgrade of internal systems, permitting to decrease number and/or financial impacts of operational failures</li> <li>Internal procedure updates</li> </ul>
 <b>Product Control</b>	<p><b>Organisation efficiency improvement:</b></p> <ul style="list-style-type: none"> <li>Engagement with Front Office and Risks regarding review of new loans pilots</li> <li>Scenario analysis on hedge accounting to continue to identify the optimum mix of assets and hedges for mixed pools</li> <li>Valuation controls review in order to respect BMR</li> <li>Internal procedure updates</li> </ul>
 <b>Legal</b>	<p><b>Full readiness during Transition period:</b></p> <ul style="list-style-type: none"> <li>Development of a strategy regarding client communication</li> <li>Review and update of related documentation linked to the issuance of ESTR-based instruments: confirmation template and/or issuance requirements</li> <li>Repapering of GM clients: proposed methodology and follow-up</li> </ul>



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## FRANCE

10, Av. de la Grande Armée  
75017 Paris

+33 (0)1 42 66 45 15



## LUXEMBOURG

48, rue de Bragance  
L-1255 Luxembourg

+352 208 80 21 23



## UNITED KINGDOM

63 St Mary Axe  
London, EC3A 8AA

+44 20 3879 6437

**Bertrand Sansen**  
Partner

[Bertrand.sansen@99-advisory.com](mailto:Bertrand.sansen@99-advisory.com)

<https://www.linkedin.com/in/bertrand-sansen-061266/>

**Anne-Laure Banach**  
Directeur

[Anne-laure.banach@99-advisory.com](mailto:Anne-laure.banach@99-advisory.com)

<https://www.linkedin.com/in/anne-laure-banach-0a116745/>

**Yulia Sazonova**  
Senior Consultant

[yulia.sazonova@99-advisory.com](mailto:yulia.sazonova@99-advisory.com)

<https://www.linkedin.com/in/yulia-sazonova-a522ba8a/>

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