

What are IBORs?

Interbank offered rates (IBORs) such as London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or Euro Overnight Index Average (EONIA) are a measure of the interest rate banks were willing to pay one another to lend or borrow cash.

IBORs are broadly used by market participants in a wide range of product types:

- Lenders and borrowers use IBORs as the benchmark reference for determining interest rates for various cash products such as corporate loans and mortgages.
- Corporations use IBORs as a reference rate for debt capital market transactions, such as the issuance of floating rate notes.
- IBORs are also the standard benchmarks in derivatives markets.

Why are IBORs being reformed?

IBORs are published daily and are calculated from the average rates at which a pool of banks, called “panel banks”, would lend/borrow wholesale unsecured funds, for set periods of time, in particular currencies. The submissions from the “panel banks” are determined based on data from a range of relevant transaction types but these could also utilise qualitative criteria such as the expert judgement of the submitter.

As a consequence of the financial crisis, the number of interbank unsecured borrowing transactions were reduced. This led to an increased reliance on the expert judgment of panel banks when making IBOR submissions.

In 2013, the International Organization of Securities Commissions (IOSCO) issued the ‘*Principles for Financial Benchmarks*’ (IOSCO Principles), which resulted in 2014, Financial Stability Board (FSB) publishing its report ‘*Reforming major interest rate benchmarks*’. These reports sets out a series of recommendations to strengthen existing benchmarks by underpinning them, to the greatest extent possible, with real transaction data and to develop alternative, nearly risk -free rates. Furthermore, new regulations, such as the EU Benchmark Regulation (BMR)¹, have been established following the IOSCO Principles in order to mandatorily enhance the robustness and integrity of benchmark rates.

As a result, some IBORs are transitioning to new or amended benchmarks (e.g. EONIA and LIBOR) or have been reformed to become BMR-compliant (e.g., EURIBOR²).

EONIA and LIBOR transition






International supervisory bodies, financial authorities and market participants are undergoing a process to replace EONIA and LIBOR with nearly risk-free rates.

National working groups with both public and private market participants were created to identify alternative nearly risk free rates that would comply with the principles for financial benchmarks outlined by IOSCO.

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

² EURIBOR is not transitioning to a new rate, but it has been reformed to become a BMR-compliant index. EURIBOR can continue to be used in new and legacy contracts for the foreseeable future.

The proposed alternative nearly risk-free rates for EONIA and LIBOR are the following:

					
IBORs	EUR LIBOR ³ EONIA	GBP LIBOR	USD LIBOR	CHF LIBOR	JPY LIBOR
Working Group	Working Group on Euro Risk-Free Rates	Working Group on Sterling Risk-Free Rates	Alternative Reference Rates Committee	National Working Group on Swiss franc Reference Rate	The Study Group on Risk-Free Reference Rates
Alternative RFR	Euro Short-Term Rate (€STR)	Reformed Sterling Overnight Index Average (SONIA)	Secured Overnight Finance Rate (SOFR)	Swiss Average Rate Overnight (SARON)	Tokyo Overnight Average Rate (TONAR)
RFR Publisher	ECB	Bank of England	Federal Reserve Bank of NY	SIX exchange	Bank of Japan

When will EONIA and LIBOR transition take place?

The calendar for EONIA and LIBOR transition is as follows:

EONIA

On 13 September 2018, the working group recommended adopting the euro short-term rate (€STR) as the risk free rate for the euro area instead of EONIA. Since 2 October 2019, the date on which the €STR became available, EONIA is determined as the €STR plus a spread of 8.5 basis points.

This change in EONIA's methodology is intended to facilitate the market's transition from EONIA to €STR, with the former expected to be discontinued by 3 January 2022.

LIBOR

On 5 March 2021, FCA has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all GBP, EUR, CHF and JPY settings, and the 1-week and 2-month USD settings; and
- immediately after 30 June 2023, in the case of the remaining USD settings (Overnight, 1-, 3-, 6- and 12-months)

What is next?

Authorities and industry groups are working through the implications of these changes, including how best to transition to the nearly risk-free rate benchmarks in relation to EONIA and LIBOR.

³ At the request of the FSB's Official Sector Steering Group, the International Swaps and Derivatives Association, Inc. (ISDA) is considering fallbacks for derivatives referencing EUR LIBOR based on euro short-term rate (€STR) as the risk-free rate identified for the euro area

Santander is working closely with the industry and is committed to ensuring the transition is as smooth as possible while keeping customers informed throughout this transition.