Box 2.3

ELIMINATION OF THE LIBOR/EONIA INTEREST RATE BENCHMARKS

Since the beginning of the year, two of the most globally significant interest rate benchmarks have ceased to be published. These are the EONIA (Euro Overnight Index Average) and the LIBOR (London Interbank Offered Rates) for various currencies (euro, Japanese yen, pound sterling and Swiss franc). The US dollar LIBOR (USD LIBOR) was eliminated for some maturities, while others will continue to be published until 30 June 2023.[1]

Interest rate benchmarks reflect the cost of interbank funding and, therefore, they are used in a wide variety of financial contracts and transactions and they are a key component in the functioning of the economy and the financial system. They are used for multiple purposes, such as the pricing and valuation of financial instruments, and institutions' risk management.

The interest rate benchmark reform was promoted by the G20 and the Financial Stability Board, and it was triggered by manipulation attempts and the decline in liquidity in money markets following the 2008 financial crisis.

The new European benchmark regulation (Regulation (EU) 2016/2011 —BMR—), in force since 1 January 2018, establishes the EONIA and Euribor as critical indices. Both have been reformed, albeit with different approaches. In the case of EONIA, it has been replaced by the Euro Short Term Rate[2] (€STR). The €STR and the recalibrated EONIA (€STR + 8.5 bp) coexisted until 3 January 2022, when the publication of the EONIA ceased. In the case of the Euribor, the methodology has only been improved to adapt it to the BMR, so it will continue to be published.

In addition, in order to ensure legal certainty in contracts, Regulation (EU) 2021/168, which amends the BMR, has introduced a mechanism allowing the European Commission to designate a statutory replacement rate applicable to contracts and financial instruments that do not contain a replacement benchmark and are subject to the law of a European Union Member State.

With regard to banks, the European Central Bank and, in Spain, the National Securities Market Commission and the Banco de España, have been issuing recommendations for banks to carry out an orderly transition, which includes the review of existing contracts, the formalisation of new contracts with the new benchmarks and the consideration of operational, systems, accounting and risk assessment matters and informing customers. In addition, in the second half of 2019, the Single Supervisory Mechanism (SSM) conducted a horizontal analysis of the eurozone banks' degree of preparation to identify good practices[3] and intensify the monitoring of the banks lagging furthest behind. In the last quarter of 2021 it conducted a new survey of the institutions with most exposure to USD LIBOR in the SSM. The Banco de España Institutions' Conduct Department performed a supervisory action on multi-currency mortgage contracts indexed to LIBOR.

In Spain, the main benchmark is the Euribor, which is not being eliminated; however, there are still significant challenges relating to the renegotiation of contracts in other benchmarks maturing after 31 December 2021, and potential legal and conduct risks in the renegotiation of retail contracts.

1 The 1-week and 2-month USD LIBOR is eliminated. The overnight USD LIBOR and the 1-month, 3-month, 6-month and 12-month USD LIBOR will continue to be published.

2 The €STR reflects overnight unsecured deposit transactions and it was first published on 2 October 2019 by the ECB, the benchmark administrator.

3 https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.reportpreparationsbenchmarkratereforms202007~bd86332836.en.pdf.