



AFI – School of Finance Conference on "The Reform of Financial Benchmarks: IBOR rates and risk-free rates".

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Good morning everyone.

I would like to thank AFI for inviting me to attend this conference on the reform of interest rate benchmarks. Also the people who, in representation of entities and associations, are participating as speakers, thereby contributing to the dissemination among entities and participants of the financial markets of this important reform. And all of you for attending this conference today.

The reduction in activity in the money markets since the financial crisis, together with the cases of manipulation of interbank interest rate indices, led the G20 and the FSB to promote reforms to evolve towards improved indices, less susceptible to manipulation and more representative of the economic reality they are trying to measure, as well as towards alternative, risk-free financial benchmarks that reduce the excessive concentration in the current interbank indices, known as IBORs.

Interest rate benchmarks are a key element in the functioning of the economy and the financial system, since they are used as a reference in the pricing of numerous financial instruments, both cash (such as bonds and debentures) and derivatives, and in a wide variety of contracts, both lending and other services. They are also used for accounting purposes, in the valuation of balance sheet items and for risk management.

Reference interest rates are also important for central banks, as monetary policy is transmitted through the financial markets. These rates play a key role in the implementation and monitoring of the transmission of the European Central Bank's monetary policy insofar as it relates to the eurozone.

It is therefore necessary to strengthen its soundness and ensure its sustainability in order to preserve financial stability.

In Europe, these reforms have led to the adoption of Regulation (EU) 2016/1011, on financial benchmarks (known as BMR) which obliges existing indices to adapt their governance and calculation methodology. A working group, driven by the ECB, the European Commission, ESMA and the Belgian FSMA, and involving industry members, has also been set up to identify risk-free rates that can be used as an alternative to current indices, to define paths for an orderly transition and to strengthen the robustness of current and future contracts.

In the eurozone, the changes, which will be discussed in more detail today, are materialised through:

- 1) the provision of a new short-term rate to be published by the European Central Bank from 2 October 2019, the €STR (Euro Short Term Rate),
- 2) the reformulation of the EONIA – such as the €STR plus a spread – from the same date until its disappearance at the end of 2021 and its replacement by the €STR,
- 3) the methodological adaptation of Euribor, which is expected to be completed by the end of 2019, and
- 4) the provision of a term structure determined from the new €STR – currently being worked on – which can be used as an alternative in certain contracts requiring a term component.

Similar changes are taking place in other jurisdictions. In the sterling pound and the US dollar zone, it seems that the Libor will be replaced by the SONIA (Sterling Overnight Index Average), an index calculated and published by the Bank of England; and in the dollar zone by the SOFR (Secured Overnight Financing Rate), calculated by the Federal Reserve Bank of New York.

All these changes have a relevant impact, both for financial institutions and non-financial companies. Although the end of the process may seem distant, the magnitude of the transition and its potential impact on financial markets cannot be underestimated. In addition, there are certain milestones that will be achieved in the short term and whose impact must be adequately addressed by the entities.

The CNMV, as the competent authority in Spain for the implementation of the regulation on financial benchmarks and as the authority responsible for coordination and exchange of information with the European authorities on this matter, is committed to monitoring the reforms and promoting knowledge and preparation of them by the entities.

In this regard, the CNMV's Activity Plan for 2019 includes the implementation, in coordination with other national and European authorities, of measures aimed at raising awareness on the new developments in this area. Among them, in the second half of this year it is planned to organise a specific conference on the preparation and adaptation of the Spanish market to the reform of reference interest rates.

In addition, in order for this transition to be orderly and for entities to be able to adapt efficiently to it, the CNMV also wishes to recommend the adoption of measures by them, which are proportionate to the use and level of exposure of each entity to the reference indices concerned.

The relevance of the indices and the implications of their reform will be analysed in detail during today's session. You will be able to ascertain the status of the reforms, what has been done so far and the steps pending in a presentation by the person responsible for this function in the CNMV, and you will have the opportunity to hear from experts from various sectors about the impacts that may occur and their experience in how to deal with them.

I would like to stress once again the CNMV's commitment to monitoring this reform and raising awareness among industry members, as well as the role that the CNMV has been playing in the timely dissemination of information on the most important advances and milestones and in channelling the industry's doubts and concerns on the matter.

Thank you very much once again for your attention.