

Working Group on Euro Risk Free Rates
Statement on Preparedness for the Cessation of EUR, GBP, CHF and
JPY LIBORs and EONIA, and ceasing use of USD LIBOR in new
contracts, at the end of 2021

With less than 2 weeks until the end of the year, the Working group on euro risk-free rates (“WGRFR”) reminds market participants to cease entering into new contracts that use EONIA and EUR, GBP, CHF, JPY and USD LIBORs as soon as practicable and in general terms by 31 December 2021. This follows the announcements by the UK Financial Conduct Authority’s (FCA) and ICE Benchmark Administrator’s (IBA) in March 2021 on:

- i) the cessation of EUR and CHF LIBOR settings, the Overnight/Spot Next, 1w, 2m, 12 m GBP and JPY LIBOR settings and 1w and 2m USD LIBOR settings after 31 December 2021;
- ii) the temporary publication of 1m, 3m and 6m LIBOR GBP and JPY settings (the “6 LIBOR settings”) under a changed “synthetic” methodology; and
- iii) the remainder of USD LIBOR settings after 30 June 2023.

On 24 June 2021, the European Commission, EBA, the ECB Banking Supervision and ESMA published a [joint statement](#) strongly encouraging market participants to stop using the all LIBOR settings, including USD LIBOR, as a reference rate in new contracts as soon as practicable and in any event by 31 December 2021. Guidance from the US authorities on ceasing new use of USD LIBOR after 2021 has also been clear on transition away from USD LIBOR. Market participants should use these final days to finalise proactive transition of existing contracts where viable, and if not, ensure that robust fallbacks are in place to ensure a smooth transition to risk-free rates by the end of 2021. Proactive transition is key to maintaining financial stability, continuity of contracts, and market integrity.

The WGRFR had recommended the adoption of the Euro Short-Term Rate (€STR) plus 8.5 basis points as the alternative to EONIA in legacy contracts. On 22 October 2021, the European Commission confirmed €STR +8.5bps as the statutory replacement for EONIA. This replacement rate will apply to all contracts and financial instruments under the EU Benchmarks Regulation from 3 January 2022 that have not been transitioned to an alternative rate or updated to robust RFR fallbacks.

For EUR, GBP, CHF, and JPY LIBORs, the WGRFR recommends the adoption of the selected alternative risk-free rates identified by the relevant national working groups in new and legacy contracts. In addition:

- For CHF LIBOR, the European Commission has confirmed on 22 October 2021 the designation of Swiss Average Rate Overnight (SARON) compounded in advance as the statutory replacement rate for CHF LIBOR. This replacement rate will apply to all contracts and financial instruments under the EU Benchmarks Regulation from 1 January 2022 that have not been proactively transitioned or been updated with robust RFR fallbacks;

- For the 6 GBP and JPY LIBOR settings, the FCA has compelled IBA to publish them under a changed “synthetic” methodology for a limited period. According to the FCA, for the determination of that methodology, *“the Authority has taken into account market support that has already been established on a fair way of calculating a replacement value for LIBOR, ie relevant RFRs plus the relevant ISDA spread adjustment¹”*.
- For USD LIBOR, the WGRFR supports guidance published by the US regulatory authorities to cease use of USD LIBOR in new contracts as of the end of 2021 (except for [limited use cases](#)). For EUR LIBOR, the WGRFR reminds market participants that there is no statutory replacement rate available. Market participants should proactively transition to an alternative benchmark rate or update to robust RFR fallbacks as soon as practicable.

The Chairman of the EUR WGRFR has sent a letter to the European Commission formally requesting the designation of a statutory replacement rate for GBP and JPY LIBORs under the EU Benchmarks Regulation. Outcomes remain pending at this time.

In addition, the WGRFR references its 9 December 2021 [recommendations](#) on the cross currency swap conventions. The statement recommends alignment with the CFTC Market Risk Advisory Committee’s part II of the RFR First initiative in EU interdealer cross currency swap markets and the adoption of €STR for the EUR leg of EUR vs USD cross currency swaps in the EU interdealer market from 13 December 2021.

The WGRFR recognises that firms may be at different stages in their transition plans but reminds all market participants to be ready for the year-end deadline.

¹ <https://www.fca.org.uk/publication/libor-notices/article-23d-benchmarks-regulation-draft-requirements-notice.pdf>