

SURVEY RESULTS:

NAVIGATING THE TRANSITION FROM EONIA to €STR

Overview

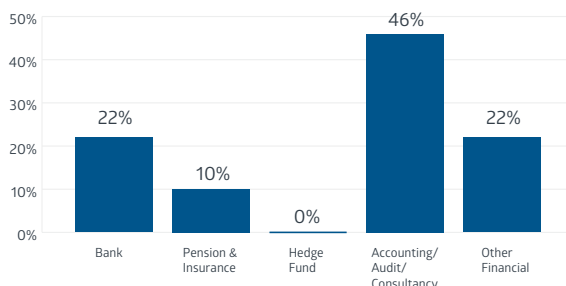
In 2019, FINCAD conducted an End of Libor survey to understand if firms were ready to meet the changes created by the transition to alternative risk-free rates (ARRs). As a follow up, we recently led another survey focused on firms' preparedness to transition from EONIA to €STR specifically. A total of 41 individuals from various financial institutions participated in this latest survey.

PART I: DEMOGRAPHICS

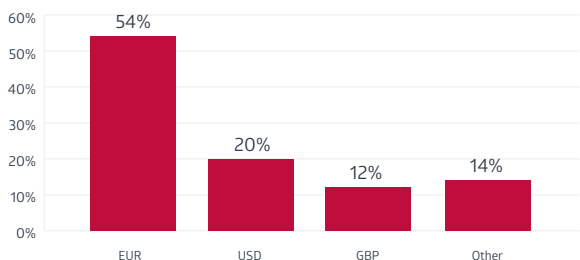
Firm Types

A significant number (46%) of those surveyed worked for auditing or consultancy firms, while remaining respondents were from banks (22%), pension and insurance (10%), and other financial firms (22%).

What best describes your organization?



What is the primary currency your company has exposure to?



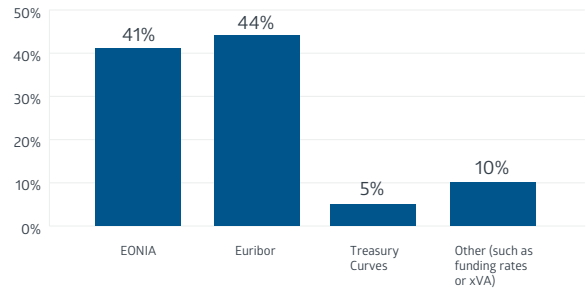
Currency Exposure

Survey participants were asked which currency they had the greatest exposure to from a list of EUR, USD, GBP or other. The majority (at 54%) stated EUR. Every firm surveyed had at least some exposure to the euro.

Discounting

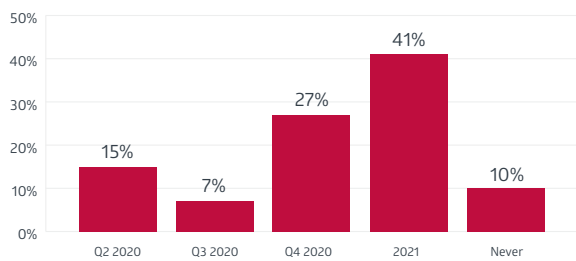
Approximately 41% of those surveyed currently use EONIA for discounting in euro. A similar portion (44%) rely on Euribor, with the remainder using the treasury or other discounting methods, such as funding rates or valuation adjustments.

What do you primarily use for discounting in euro today?



PART II: FINDINGS

By what timeframe do you expect to have fully transitioned from EONIA to €STR (including bilateral activity)?



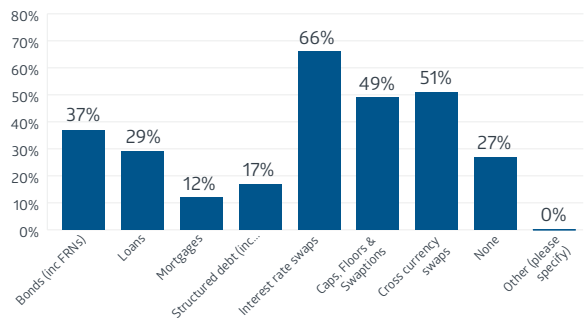
Transition Timelines

Cleared trades are projected to transition from EONIA discounting to €STR discounting during Q2 2020. However, roughly half of survey participants don't expect to have completely eliminated their dependency on EONIA until 2021 or later. Unsurprisingly, the banks surveyed anticipate being slightly ahead of other firm types with the vast majority expecting to have completed their transition to €STR discounting by 2020.

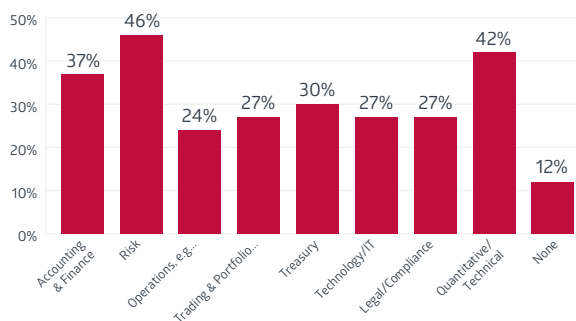
Instruments Affected

The EONIA/ €STR transition may seem minor when compared to other upcoming IBOR changes. However, the transition may have a larger impact than many thought. According to the survey, most firms have significant instrument exposure to EONIA, with the top three being interest rate swaps (66%), cross currency swaps (51%) and caps, floors and swaptions (49%). In particular, banks have a wide universe of instruments that are affected.

What instruments do you hold that will be affected by the transition from EONIA to €STR?



What areas of your business are most impacted by the transition from EONIA to €STR? (please select up to 3)



Business Impact

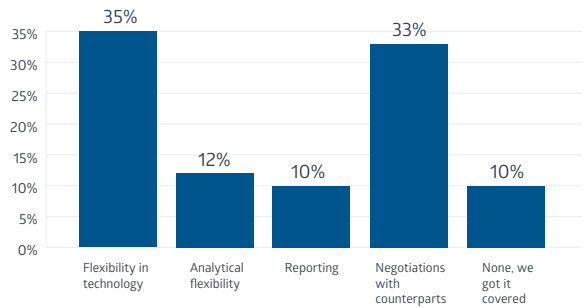
The top three business areas that are expected to be most heavily impacted by the EONIA/€STR transition are risk (46%), quantitative/technical areas (42%), and accounting & finance (37%). However, as the chart illustrates, the impact will be felt across numerous areas of the business.

Top Challenges

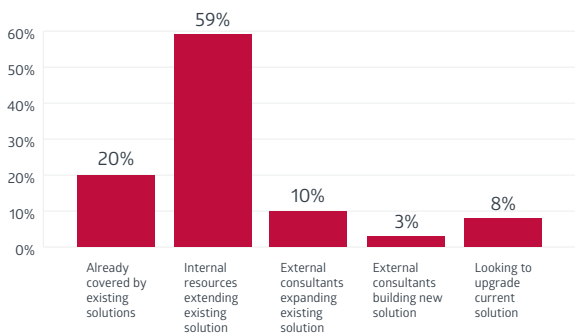
Overall, most respondents consider the lack of flexibility in their technology (35%) and their negotiations with counterparts (33%) to be the most challenging aspects of the transition. When we zero in on banks exclusively, they view negotiations with counterparts as their largest challenge, while auditors and consultancy firms view technology as more challenging and to some extent analytical flexibility as well.

Firms with a different primary currency than the euro also view flexibility in technology as more of a challenge when compared to all firms.

What do you consider to be the most challenging aspect of the EONIA to €STR transition?



What is your approach to the EONIA to €STR transition?



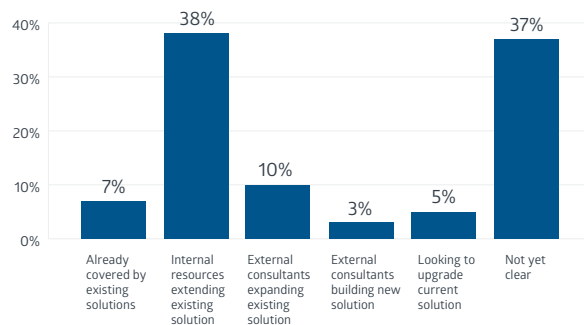
Responding to the EONIA/ €STR Transition

Most firms surveyed (59%) are relying on internal resources to extend their existing solution to cope with the EONIA to €STR transition. About 20% reported they already have the transition covered in their current solution. This trend seems to be relatively consistent, regardless of firm type and primary currency exposure.

Responding to Other IBOR Changes

While most firms report having a handle on their approach for responding to the €STR transition, it is much less clear when it comes to other upcoming IBOR changes. How the transition and liquidity will materialize for IBOR in all currencies is not yet clear, so the result is not unexpected. Interestingly, banking respondents appear to be more certain on this point compared with other survey respondents.

Are you looking to use the same approach for other upcoming IBOR Changes?



PART III: CONCLUSION

Key Takeaways

We are fast approaching the point where clearing houses are set to transition from EONIA to €STR discounting. Affected firms may consider this adjustment to be minor when compared to other upcoming changes to ARR's and IBOR. However, as the survey illustrates, the €STR transition impacts numerous areas of the business and a longer list of instrument types. Different firm types also experience different aspects of the transition to be more challenging.

While the transition from EONIA discounting for cleared trades is expected to take place soon (Q2 2020), many firms do not expect to have completely eliminated their dependency on EONIA until 2021 or later. Then they will move forward with planning for other upcoming IBOR changes, as more information becomes available.

Learn More

At FINCAD, we have helped many clients overcome challenges with IBOR transition. Our future-proof derivative analytics solutions can enable you to effortlessly shift to new benchmark rates like €STR, SOFR, SONIA and any additional rates that crop up in the future. Learn more by visiting <https://fincad.com/libor-transition>



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