

IBOR transition: €STR discounting delays due to coronavirus

The coronavirus pandemic is throwing a spanner in the works in the transition away from IBOR rates. Even though the end-2021 deadline has been confirmed, there are increasing signs of disruptions. The fact that clearing houses will now switch to €STR discounting on 27 July instead of 22 June is just another example. We take a look at the implications



Source: Shutterstock

Lack of consensus for €STR discounting delay

It will not come as a surprise to anyone that the coronavirus epidemic is proving to be a headache for the regulator and market participants working to transition away from IBOR benchmarks to new risk-free rates (RFR). Clearing houses (CCP) announced last week they were going to delay the switch from Eonia interest rate benchmark to the euro short-term rate or €STR benchmark and price alignment interest (PAI) by five weeks to 27 July.

According to the [minutes of a teleconference](#) of the Working Group of euro RFR, an informal survey among members yielded no consensus for a three-month delay.

However, a postponing was deemed necessary by a majority of members to allow market

participants to be ready, and to reduce operational risks. In the same meeting, the working group was presented with a result of a members survey suggesting a delay in the consultation on Euribor fallbacks.

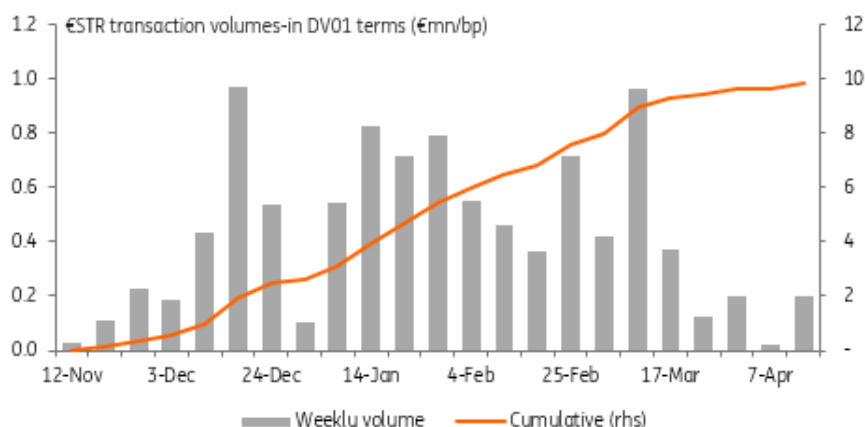
According to the minutes, this would postpone the publication of the results from mid-December 2020 to January 2021.

Potential clash with other deadlines

Opponents to the delay noted that the proximity of the EUR (initially planned for 19 - 22nd June) and USD RFR discount and PAI switches (still due to go ahead on 16-17 October) would make the change a struggle. It is therefore likely that the new date decided by the CCP represents a middle ground between the initial extension and no delay at all.

The industry had pinned its hopes on the discounting and PAI change 'big bang' to be a catalyst for €STR swap volumes to pick-up and eventually overtake Eonia swaps. The build-up in €STRS swaps has been slow and we expect that the fall in cleared volumes since mid-march is a reflection of temporary migration towards more liquid products in times of market stress.

Slow build-up in €STR swap volumes



Source: Bloomberg, ING

Possible delays in other jurisdictions

As a reminder, the eurozone is not the only jurisdiction where there have been signs of delay in the IBOR transition.

In the UK, [the FCA acknowledged](#) that the timeframe of the transition in some market segments, such as loans, was at risk. In the US, the [ARRC also said](#) it will keep the impact of the epidemic in mind when setting up its 2020 objective and best practices.

Author

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com