P.R.I.M.E. Finance
Panel of Recognized International Market Experts in Finance
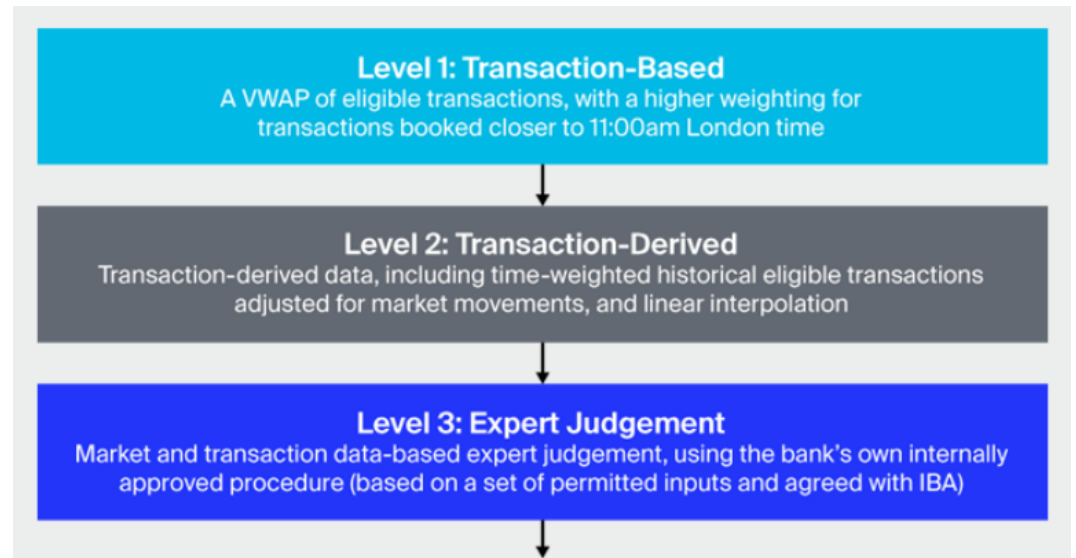
IBOR TRANSITION –GBP & EUR

Joanna Perkins
P.R.I.M.E. Finance Annual Conference 2019
4 & 5 February, Peace Palace, The Hague

ICE LIBOR

- *"A wholesale funding rate anchored in LIBOR panel banks' unsecured wholesale transactions to the greatest extent possible, with a waterfall to enable a rate to be published in all market circumstances".*

  (quote and graphic from the ICE LIBOR website.)

Level 1: Transaction-Based
A VWAP of eligible transactions, with a higher weighting for transactions booked closer to 11:00am London time

Level 2: Transaction-Derived
Transaction-derived data, including time-weighted historical eligible transactions adjusted for market movements, and linear interpolation

Level 3: Expert Judgement
Market and transaction data-based expert judgement, using the bank's own internally approved procedure (based on a set of permitted inputs and agreed with IBA)

Traditionally:

- *"At what rate could you borrow funds, were you to do so by asking for and then accepting interbank offers in a reasonable market size just prior to 11 am?"*

P.R.I.M.E. FINANCE
Panel of Recognised International Market Experts in Finance

SONIA (GBP)

The definition of SONIA has two elements:

- (i) Statement of underlying interest

  SONIA is a measure of the rate at which interest is paid on <u>sterling short-term wholesale funds</u> in circumstances where credit, liquidity and other risks are minimal.

- (ii) Statement of methodology

  On each London business day, SONIA is measured as the trimmed mean, rounded to four decimal places, of interest rates paid on eligible sterling denominated deposit transactions.

Eligible transactions are:

- reported to the Bank's Sterling Money Market daily data collection, in accordance with the effective version of the 'Reporting Instructions for Form SMMD';

- <u>unsecured and of one business day maturity</u>;

- executed between 00:00 hours and 18:00 hours UK time and settled that same-day; and

- <u>greater than or equal to £25 million in value</u>.

Euro Rates

- EURIBOR is the rate at which <u>Euro interbank term deposits are offered</u> by one prime bank to another prime bank within the EMU zone, and is calculated at 11:00 a.m. (CET) for spot value (T+2).

- EONIA is a rate which represents the rates at which banks of sound financial standing in the European Union and European Free Trade Area (EFTA) <u>*lend* funds in the overnight, interbank money markets in Euro</u>.

- ESTER is a rate which reflects the <u>wholesale euro unsecured overnight *borrowing* costs of euro area banks</u>. The rate is published for each TARGET2 business day based on transactions conducted and settled on the previous day (reporting date T) with a maturity date of T+1 and which are deemed to be executed at arm's length .