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Central Bank of Ireland

Eurosystem

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Re: Funds preparation with regard to interest rate benchmark reforms

Dear Sir/Madam,

As you will be aware, there are a number of ongoing global benchmark reforms mandated by the Financial Stability Board (FSB). These include the transition that occurred from the euro overnight index average (EONIA) to the new euro short-term rate (€STR), the developments regarding the euro interbank offered rate (EURIBOR) and the London interbank offered rate (LIBOR) and other changes introduced for any relevant benchmark rates, in any currency, for contracts or holdings that an investment fund may have.

The purpose of this letter is to remind those responsible for the management of investment funds of their obligations to adequately prepare for the implementation of these global benchmark reforms and any associated risks. It is important that investment funds are taking appropriate action now to ensure a smooth transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021¹ specified in the revised EU Benchmark Regulation (BMR)².

Given the widespread use of benchmark rates by investment funds, for example in financial contracts, as performance measures and reference rates in valuation and risk models, such rates are embedded in current business practices, which underlines the significance of benchmark reform and related changes to the current environment for benchmark rates. The fact that different benchmark rates will take different transition routes adds to the complexity of addressing the impact of these changes on investment funds and their investors.

The Board of each Fund Management Company³ is responsible for ensuring that appropriate preparations for the impact of the benchmark reforms are in place for each fund it manages.

¹ Please note that the current wording of the BMR specifies 1 January 2020 as the end of the transitional period, but political agreement was reached to extend this period by two years for all critical benchmarks and third country benchmarks, to 31 December 2021. This amendment, once formally adopted by the European Parliament and the Council, should be effective before the end of this year.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1011&from=EN>

³ "Fund Management Company" refers an entity regulated as an Alternative Investment Fund Manager (AIFM) or a UCITS management company including any self-managed / internally managed investment company which is itself regulated as an AIFM or UCITS management company.



This should include analysis of the extent to which these changes will affect fund investors, day-to-day fund operations such as fee calculations, system changes and delivery of investment strategies. Based on the analysis the Board should develop plans to address any potential risks, documentation or prospectus changes or engagement with investors where appropriate.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Patricia Dunne".

Patricia Dunne
Head of Division - Securities & Markets Supervision