



Working Group on Euro Risk-Free Rates
Subgroup 6 Objectives and Agenda

May 2019

Component Components of this presentation

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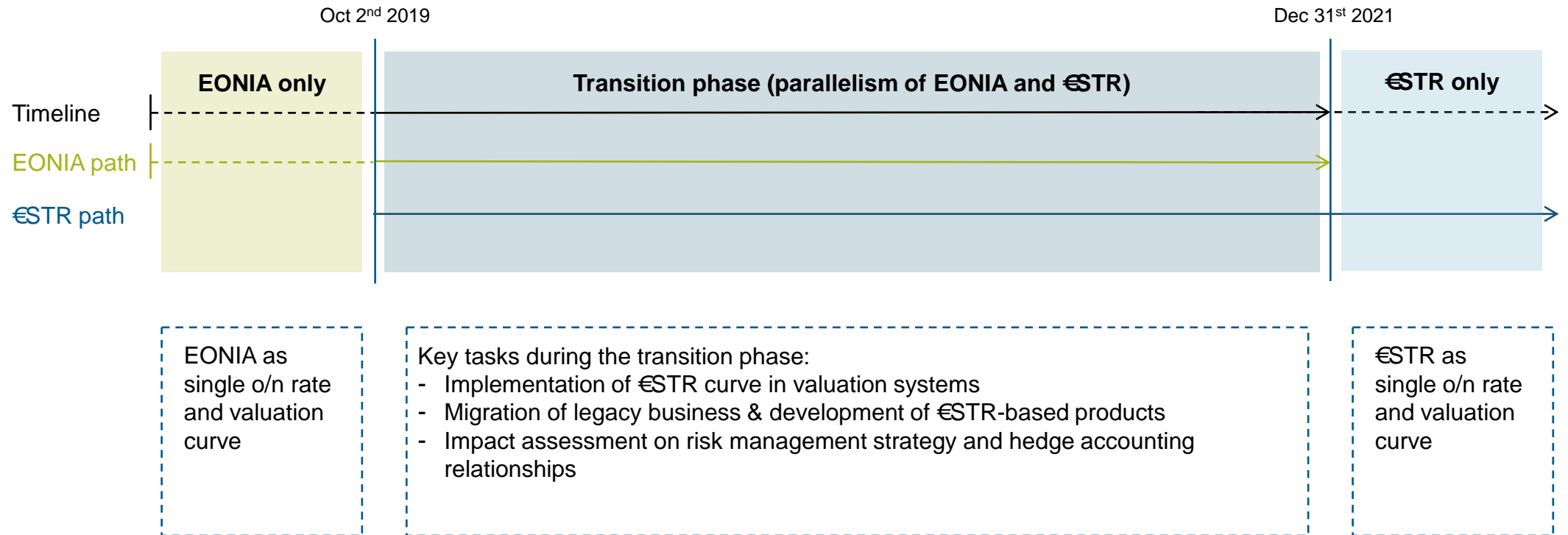
Intended timeline

Composition of subgroup 6

Category	Institutions
European Credit Institutions (14)	BBVA, BNP, BPCE/Natixis, Caixa, Crédit Agricole, Deutsche Bank, DZ Bank, ING, Intesa Sanpaolo, NordLB, Nat. Bank of Greece, Santander, SocGen, Unicredit
International Credit Institutions (4)	Goldman Sachs, J.P. Morgan, RBC, Wells Fargo
Consulting & Accounting Firms (7)	Chatham, Deloitte, d-fine, EY, KPMG, Milliman, PwC
Associations (3)	AFME, EACT, EFAMA
Clearing Houses (2)	Eurex, LCH/LSE
Other European Institutions (2)	EIB, ESM
Total	32 participating institutions
<i>Chair / Secretariat</i>	<i>KfW / ECB</i>
<i>Observers</i>	<i>ECB, ESMA, European Commission, Belgian FSMA</i>

In total 32 participants (plus chair, secretariat and observers) with diverse backgrounds

Timing Considerations of BMR implementation



»» Focus of analysis and objectives of subgroup 6

Focus of the analysis

- The impact analysis will be conducted on a generic, macro level, i.e. highlighting how the transition from EONIA to €STR and the inclusion of fallbacks has to be handled applying current accounting standards and what the necessary adjustments to risk management functions will be without making detailed reference to the impacts for each product class

Objectives

- Subgroup 6 shall analyze the impact on financial accounting (focus on IFRS 9 and IAS 39 but other standards in objective as well) and risk management (focus on interest rate risk management but other risk categories could be considered as well) of (1) the transition from EONIA to €STR and (2) the inclusion of fallbacks to EURIBOR based on a €STR-based term structure methodology and possible fallback triggers
- As the publication of €STR will be in October this year, the impact analysis for (1) is considered more pressing
- The deliverable impact analysis will therefore consist of four major parts
 - 1. The impact of EONIA to €STR transition on accounting
 - 2. The impact of EONIA to €STR transition on risk management
 - 3. The impact of the inclusion of fallbacks on accounting
 - 4. The impact of the inclusion of fallbacks on risk management

Planned procedure

- Members of subgroup 6 will form drafting groups, in which the impact analysis will be conducted
- The major outcome of the analysis will be discussed and agreed on by subgroup 6 and serve as result type of the work conducted by the subgroup
- In case it is sensible, subgroup 6 will liaise with the IASB as well as ISDA to share insights on the handling of accounting and risk management related issues

»»» Hedge accounting impact analysis

Focus will be on avoiding unwinding of hedge relationships

Preconditions

- To support the market wide adoption of €STR as a new benchmark an unwinding of existing hedge accounting relationships that purely result from a change in the respective benchmark should be avoided wherever possible
- Unwinding hedge relationships could create an operational burden and might result in adverse P&L effects

Key elements of hedge accounting impact analysis

- Subgroup 6 will identify critical points that could trigger discontinuation of hedge accounting relationships
- In doing so, subgroup 6 will closely monitor and incorporate the results of the work done by the IASB with respect to the IBOR reform and its effects on financial reporting
- Amongst other things the analysis shall assess
 - whether the transition will result in a substantial modification of the contract terms
 - the need for changes in the hedge documentation and resulting need for discontinuation
 - whether hedges remain highly effective
- The analysis shall incorporate cash flow as well as fair value hedges
- The focus will be on IFRS 9 and IAS 39 but other standards might be incorporated as well

»»» Risk management impact analysis

Focus will be on valuation infrastructure and interest rate risk management functions

Preconditions

- The market wide adoption of €STR as a new benchmark as well as €STR-based fallbacks for EURIBOR will require adjustments to risk management systems as well as risk management practices
- Challenges may arise from differences in timing of the transition from one rate to another as well as the uncertainty surrounding applicability, consistency and timing of fallback rates

Key elements of risk management impact analysis

- Overview on interest rate risk management functions which are likely to be affected by the BMR
- Challenges in risk management practice, e.g. implication on hedging of interest rate risk as well as asset liability management, that might arise especially during the transition period (e.g. different standards for cash and derivative products)
- Advice on potential adjustments for risk management systems and valuation infrastructure -> recommendation to immediately start adapting these systems
- (Historical) data requirements

»»» Detailed agenda of subgroup 6

1. Preconditions

2. General assumptions

2.1 Assumptions with regard to the transition path during the market adaption phase

2.1.1 EONIA - €STR transition as recommended by the working group

2.1.2 EURIBOR fallbacks based on a €STR-based term structure methodology

3. Risk management perspective

3.1 Impact analysis of EONIA - €STR transition

3.1.1 Implications on IT systems and valuation infrastructure

3.1.2 Implications for interest rate risk management and ALM function

3.2 Impact analysis of €STR-based fallbacks to EURIBOR

3.2.1 Implications on IT systems and valuation infrastructure

3.2.2 Implications for interest rate risk management and the ALM function

4. Hedge Accounting perspective

4.1 Impact analysis of EONIA - €STR-transition

4.1.1 Modification of contract terms

4.1.2 Changes in hedge documentation

4.1.3 Impact on the highly effective test

4.1.4 Accounting implications with respect to Fair Value Measurement (IFRS 13)

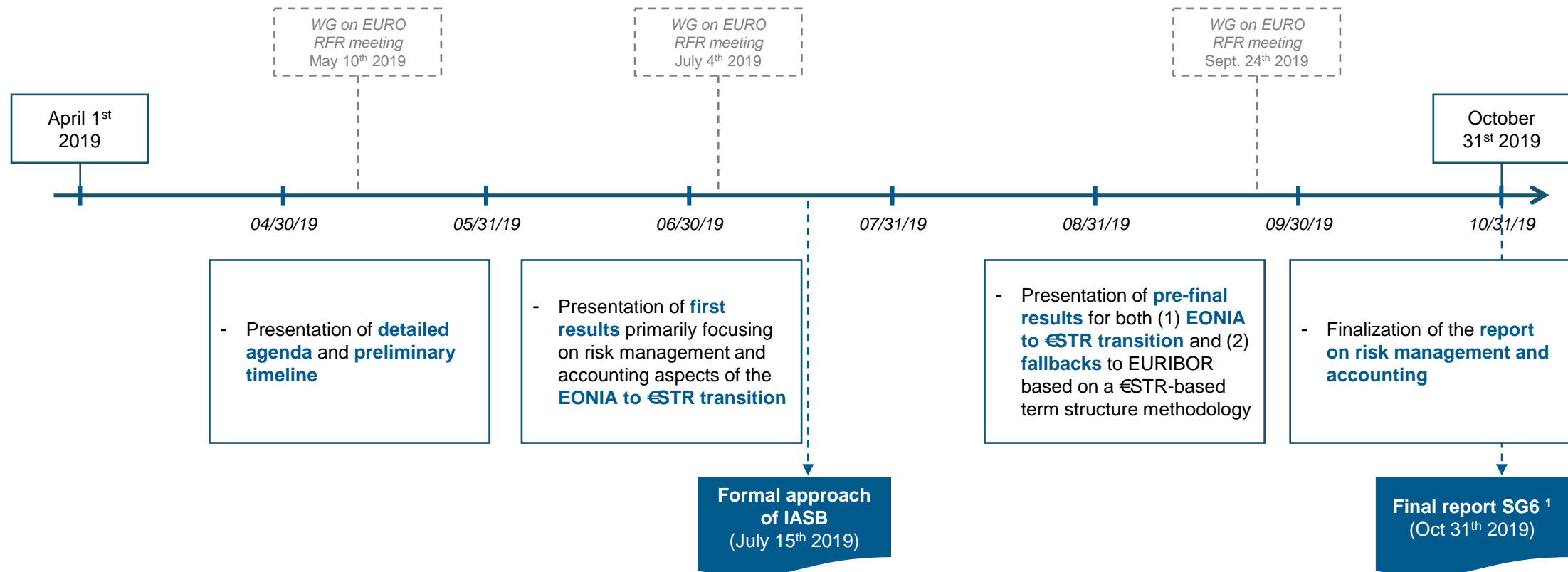
4.2 Impact analysis of €STR-based fallbacks for EURIBOR

4.2.1 Changes in hedge documentation

4.2.2 Accounting impact of inconsistency between fallbacks in hedged items and hedge instrument

4.2.3 Accounting implications with respect to Fair Value Measurement (IFRS 13)

Intended timeline for subgroup 6



¹ Including a roadmap of operational aspects to be considered in risk management and accounting

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