ΕΠΙΤΡΟΠΗ ΚΕΦΑΛΑΙΑΓΟΡΑΣ ΚΥΠΡΟΥ
CYPRUS SECURITIES AND EXCHANGE COMMISSION

To : **Regulated Entities**

i. **Cyprus Investment Firms ('CIFs')**
ii. **Administrative Service Providers ('ASPs')**
iii. **Undertakings for Collective Investment in Transferable Securities ('UCITS')**
iv. **UCITS Management Companies ('UCITS MC')**
v. **Alternative Investment Fund Managers ('AIFMs')**
vi. **Alternative Investment Funds ('AIFs')**
vii. **Alternative Investment Funds with a Limited Number of Persons ('AIFLNPs')**

From : **Cyprus Securities and Exchange Commission**

Date : **29 June 2020**

Circular No : **C394**

Subject : **Interest Rate Benchmarks – Reform of short-term interest rates such as London Interbank Offered Rate LIBOR and EURIBOR and transition to Risk Free Rates (RFRs)**

The Cyprus Securities and Exchange Commission (the 'CySEC') wishes, with this Circular, to inform Regulated Entities on the latest developments with regards to LIBOR. In particular:

1. LIBOR is currently produced in 7 tenors (overnight/spot-next, one week, one month, two months, three months, six months and twelve months) across five currencies (USD, GBP, EUR, JPY and CHF), based on submissions by 20 panel banks, which reflect the rate at which banks may borrow money on unsecured terms in wholesale markets.

2. In response to both cases of attempted manipulation of interbank rates and to the increasing absence of active underlying markets and scarcity of term unsecured deposit transactions, serious questions had been raised about the future sustainability of LIBOR benchmarks.

3. As such, LIBOR is expected to cease to exist after the end of 2021. Until then, the LIBOR panel banks have voluntarily agreed to continue to provide to LIBOR rates, in order to ensure a period of smooth transition.

4. LIBOR ending is a market event and the transition to alternatives is a market led. Given the extent to which LIBOR is deeply embedded in current business practices, it seems that transition will be complex and will take time. However, insufficient preparations for transition to alternative rates could have a negative impact on the safety and soundness of firms and cause harm to their clients and to the markets in which they operate.

5. In the context of transition away from LIBOR, regulatory authorities and central banks, have identified alternative RFRs for each of the 5 LIBOR currencies. These are:

Jurisdictions	**Working Group**	**Alternative Ref Rate Name**	**Administrator**	**Collateralisations**	**Description**
United States of America	Alternative Reference Rates Committee	Secured Overnight Financing Rate (SOFR)	Federal Reserve Bank of New York	Secured	Secured rate that covers multiple overnight repo market segments
United Kingdom	Working Group on Sterling RiskFree Reference Rates	Sterling Overnight Index Average (SONIA)	Bank of England	Unsecured	Unsecured rate that covers overnight wholesale deposit transactions
Switzerland	The National Working Group on CHF Reference Rates	Swiss Average Rate Overnight (SARON)	SIX Exchange	Secured	Secured rate that reflects interest paid on interbank overnight repo rate
Japan	Study Group on Risk-Free Reference Rates	Tokyo Overnight Average Rate (TONAR)	Bank of Japan	Unsecured	Unsecured rate that captures overnight call rate market
Euro-zone	Working Group on Risk-Free Reference Rates for the Euro Area	Euro short-term rate (€STR)	European Central Bank	Unsecured	Unsecured rate that captures overnight wholesale deposit transactions

6. Additionally, in 2019, EURIBOR was authorised as a compliant benchmark under the Commission Delegated Regulation 2018/1643 ("BMR Regulation") and as such, participants in the capital markets are able to use EURIBOR. Regarding EONIA[1], in order to ensure smooth transition to €STR, it will continue to be published until **3rd January 2022**, the date on which the benchmark will be discontinued. For up to date information regarding euro risk free rates you are encouraged to visit the webpage of the Working group on euro risk-free rates at the following link : https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html

[1] EONIA stands for Euro OverNight Index Average. The EONIA rate is the 1-day interbank interest rate for the Euro zone. In other words, it is the rate at which banks provide loans to each other with a duration of 1 day. Therefore, EONIA can be considered as the 1-day Euribor rate.

7. In light of the above, CySEC expects that Regulated Entities are proactive on this matter and take all necessary steps to remove any dependencies on LIBOR by the end of 2021, where appropriate. Regulated Entities should ensure that their board of directors and senior management understand the risks associated with the expected cessation of LIBOR and transition to alternative RFRs, and are taking appropriate actions in identifying, measuring and monitoring such risks.

Sincerely,

Demetra Kalogerou
Chairwoman of the Cyprus Securities and Exchange Commission