PROCEDURE file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) 2020/0154(COD)

Regulation

Preparatory phase in Parliament

Exemption of certain third country foreign exchange benchmarks and the designation of replacement benchmarks for certain benchmarks in cessation

Amending Regulation 2016/1011 2013/0314(COD)

Subject
2.50.03 Securities and financial markets, stock exchange, CIUTS, investments
2.50.04 Banks and credit
2.50.08 Financial services, financial reporting and auditing
2.50.10 Financial supervision
2.80 Cooperation between administrations
4.60.06 Consumers’ economic and legal interests

Key players

European Parliament

Committee responsible
ECON Economic and Monetary Affairs

Rapporteur
Appointed

Committee for opinion
ITRE Industry, Research and Energy

Rapporteur for opinion
Appointed

Council of the European Union

Key events

24/07/2020 Legislative proposal published COM(2020)0337

Summary

Technical information

Procedure reference 2020/0154(COD)

Procedure type COD - Ordinary legislative procedure (ex-codecision procedure)

Procedure subtype Legislation

Legislative instrument Regulation

Stage reached in procedure Preparatory phase in Parliament

Documentation gateway

Legislative proposal COM(2020)0337 24/07/2020 EC

Document attached to the procedure SWD(2020)0142 27/07/2020 EC

Document attached to the procedure SWD(2020)0143 27/07/2020 EC

2020/0154(COD) - 24/07/2020 Legislative proposal

PURPOSE: to amend EU rules on financial benchmarks to address the problems arising from the likely cessation of certain widely used
LIBOR rates in the EU.


ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: this proposal to amend Regulation (EU) 2016/1011 on EU Financial Benchmarks is based on the fact that one of the most important indices for the financial world, the London Interbank Offered Rate (LIBOR), is to be phased out by the end of 2021.

Financial benchmarks are indices by reference to which the amount payable under a financial instrument or a financial contract or the value of a financial instrument is determined. By setting out governance and data quality standards for benchmarks that are referenced in financial contracts, the Benchmark Regulation aims to strengthen the trust of capital market participants in indices used as benchmarks in the Union.

In light of the anticipated cessation of LIBOR after the end of 2021, supervised entities (such as banks, investment firms or asset managers) in the European Union shall be faced with legal uncertainty for hundreds of thousands of financial contracts. In order to avoid adverse consequences for the lending capacity of the European banking sector, early clarification as to the availability of a statutory replacement rate for use by supervised entities in all LIBOR referencing contracts that mature beyond the end of 2021 is necessary.

The fact that the Benchmarks Regulation does not provide for mechanisms to organise the orderly discontinuation of a systemically important benchmark in the Union could lead to heterogeneity in the solutions adopted by different Member States, which would lead to disruptions in the internal market.

CONTENT: this proposal amending the Financial Benchmarks Regulation introduces various tools to ensure that the phasing out of a widely used interbank rate does not unduly affect the ability of the banking sector to provide funding to EU companies and therefore jeopardise a key objective of the Capital Markets Union. By providing the necessary tools for a legally sound transition away from IBOR rates, this initiative would benefit retail customers who have taken out loans with IBOR rates as a benchmark.

Orderly termination of a financial benchmark

The proposed amendments to the provisions of the Benchmarks Regulation governing the winding down of a benchmark with systemic relevance in the Union are based on three main pillars:

1. The European Commission may designate a replacement rate if and when a benchmark whose cessation would result in significant disruption in the functioning of financial markets in the Union ceases to be published. In designating the statutory replacement rate, the European Commission shall take into account the recommendations of the risk free rate working groups operating under the auspices of the central banks responsible for the currency in which the rates of the benchmark in cessation are denominated.

2. The statutory replacement rate shall replace, by law, all references to the 'discontinuing benchmark' in all contracts concluded by an EU supervised entity. In order to benefit from the statutory replacement rate, contracts using the Cessation Benchmark should be ongoing at the time the designation enters into force; no contract concluded after the entry into force of the implementing act designating the statutory replacement rate would be allowed to use the statutory replacement rate as a reference.

3. For contracts not involving an EU supervised entity, Member State are encouraged to adopt national statutory replacement rates. At the appropriate time, the European Commission may issue a recommendation that the national statutory replacement rates will be identical to the statutory replacement rate that is designated for contracts involving EU supervised entities.

Exemption of specific foreign exchange benchmarks

The proposed amendments aim at exempting specified third country spot foreign exchange benchmarks from the scope of the Regulation where they fulfil certain criteria.

In order for the spot foreign exchange benchmark to qualify for exemption, it has to: (1) measure the spot exchange rate of a third-country currency that is not freely convertible and (2) be used by EU supervised entities, on a frequent, systematic and regular basis as settlement rate to calculate the pay-out under a currency forward or swap contract.

Furthermore, to enable the Commission to have all the necessary elements to designate exempted benchmarks, ESMA and the ECB are required to provide it with relevant information and views on specific exemption criteria.