The ECB's first public consultation on developing a euro unsecured overnight interest rate closed on Friday 12 January 2018. 54 market participants – two-thirds of them from the banking sector – submitted responses or comments to the consultation document. The response sample ensures suitable geographic coverage and adequately reflects relevant (sub-)sector views. The main messages from the financial sector may be summarised as follows:

1. The vast majority of respondents agreed with the definition suggested in the public consultation document and expected the rate to be generally accepted by the public as a reference rate.

2. Nearly all respondents agreed that a rate reflecting banks’ daily borrowing costs would provide a meaningful reference in financial contracts, including derivatives, and for valuation purposes.

3. Respondents expected the new rate to be applied to all those contracts and types of valuations currently referencing the EONIA.

4. Respondents largely agreed that the borrowing costs of banks in their transactions with financial institutions, including banks, provided a good basis for the computation of a meaningful interest rate for measuring banks’ cost of funding. However, some respondents also expressed concern that normalising liquidity conditions or regulatory constraints could lead to the proposed scope of transactions being considered too narrow.

5. Most respondents agreed that transactions with the general government or non-financial corporations were not a suitable component for the new rate, as such transactions might not reflect market movements or different regulatory treatment. Moreover, respondents essentially agreed not just on the need to define an arm’s length transaction, but also on the difficulty involved in doing so.

6. Respondents viewed the definition and implementation of a transaction size threshold as challenging and potential benefits as unclear.

7. More than half of respondents agreed to base the new rate solely on money market deposits. Other respondents most frequently cited certificates of
deposits (CDs) and commercial papers (CPs) with an overnight maturity, to the extent that such markets existed, as possible additional money market instruments to consider in order to increase the robustness of the rate. A few respondents suggested including call accounts/call money as a subgroup of deposits.

8. Respondents acknowledged that a good balance between the publication time and quality of the new rate, which also takes account of the cost and resource implications of reporting banks, had to be found. They admitted that a change in the publication time from 18:45 CET on day T (as with the current EONIA) to 09:00 CET on day T+1 (the preliminary publication time proposal for the new ECB unsecured overnight rate included in the November 2017 consultation document) was necessary if the new rate were to be based on real transactions and no longer on offered rates and if a high quality of the rate was to be achieved. Many respondents also noted that from the users’ perspective a somewhat earlier time could have been preferable, and that the move to 9:00 CET on day T+1 would have a significant impact on banks’ and other financial market participants’ processes: the fixing, pre-matching, settlement, valuation and validating processes for money market, derivative and repo transactions.

9. Finally respondents reiterated the importance of a well-planned, documented and communicated development and implementation process to ensure a smooth transition to a widely accepted, trusted and used ECB reference rate. Respondents largely expected the new ECB reference rate to replace the EONIA and become a critical market yardstick.

The ECB will continue to regularly inform market participants on the progress made and will consult the financial sector on key features of the future framework. The institution also intends to ensure an effective information flow to provide the financial sector with as much information and time as possible to prepare for a smooth implementation of and transition to the new rate.
Chart 1
Response sample ensures appropriate geographic coverage …

January 2018
(number of respondents by geographic area)

Source: ECB.
Note: EU refers to international associations.

Chart 2
… and reflects relevant stakeholder groups

January 2018
(number of respondents by sector)

Source: ECB.
Definition of underlying interest

Does the suggested definition of underlying interest provide a relevant basis for the rate to be generally accepted by the public as a reference rate?

The vast majority of respondents agreed with the definition suggested in the public consultation document and expected the rate to be generally accepted by the public as a reference rate. Respondents stressed that the definition should include the elements/words *unsecured, overnight and arm’s length*. All definition elements should be specified: *euro area bank, unsecured, overnight and at arm’s length*. Specifically, the term *arm’s length* ought to be explained to ensure that the transaction rate reflects market conditions and is unaffected by other transactions. Some respondents also saw the need for clearer differentiation between definition and methodology.

Moreover, respondents noted that the new ECB unsecured overnight rate would only be a part of the overnight funding costs of a bank. Some respondents also suggested enlarging the scope of the MMSR reporting population to further enhance geographical diversity and the scope of transactions considered.

Chart 3

A large majority of respondents agreed with the suggested definition and expected the rate to be generally accepted by the public as a reference rate.

![Bar chart showing responses to the definition question.]

Source: ECB.

1 The definition on page 19 of “First ECB public consultation on developing a euro unsecured overnight interest rate”, ECB, Frankfurt am Main, November 2017, reads as follows: “The [new ECB unsecured overnight rate] is a rate which reflects the euro overnight funding costs of euro area banks. The rate is published daily on the basis of transactions deemed to be executed at arm’s length.”
Scope of the ECB interest rate – borrowing cost

Do you agree that a rate reflecting banks’ daily funding costs would provide a meaningful reference in financial contracts, including derivatives, and also for valuation purposes?

Nearly all respondents agreed that a rate reflecting banks’ daily funding costs would provide a meaningful reference in financial contracts, including derivatives, and for valuation purposes. Concerns raised or caveats expressed relate to the need for sufficient trading volume in the unsecured interbank market as a precondition for the rate being a relevant rate for, in particular, derivative markets. Responses also highlighted that market participants ought to be more judicious in their use of common reference rates for a variety of instruments and products. For instance, wholesale derivative market relevant rates need not strictly anchor retail products. A few responses also noted that the definition might lead to a bias towards the most stressed part of the banking system in times of stress, compared with a definition having a broader counterparty scope (i.e. extending beyond the banking system). Finally, responses noted that, since the benchmark is an overnight rate, it does not address issues relating to term structure or end user preference for forward-looking rates.

Chart 4
Nearly all respondents agreed that a rate reflecting banks’ daily funding costs would provide a meaningful reference in financial contracts, including derivatives, and for valuation purposes

January 2018
(number of responses)

Source: ECB.
Please describe the contracts and types of valuations to which you would potentially apply the rate. Are there types of financial contracts for which it would provide a suitable reference? Are there other types for which it would not provide a meaningful reference?

**Respondents expected the new reference rate to be applied to all those contracts and types of valuations currently referencing the EONIA.** It was expected that all new contracts, such as those currently indexed to the EONIA, would be indexed to the new ECB unsecured overnight interest rate: loans (e.g. swingline loans) and borrowings (including current accounts, CPs, CDs and floating rate notes), short and medium-term securities indexed to the EONIA, securities financing contracts, derivatives contracts (both OTC and exchange-traded) and discounting, including collateral discounting. The new reference rate could also be used for internal transfer pricing, the calculation of penalty fees and the performance benchmarking of certain investment funds.
Scope of the ECB interest rate – arm’s length transaction

Do you agree that the borrowing costs of banks in their transactions with financial institutions, including banks, provide a good basis for the computation of a meaningful interest rate aimed at measuring banks’ cost of funding?

Respondents largely agreed that the borrowing costs of banks in their transactions with financial institutions, including banks, provided a good basis for the computation of a meaningful interest rate for measuring banks’ cost of funding. However, some respondents also expressed concern that normalising liquidity conditions or regulatory constraints could lead to the proposed scope of transactions being considered too narrow.

**Chart 5**
There was large agreement that the borrowing costs of banks in respondents’ transactions with financial institutions, including banks, provided a good basis for the computation of a meaningful interest rate for measuring banks’ cost of funding.

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<td><strong>Disagree</strong></td>
<td><strong>Not specified</strong></td>
<td></td>
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</table>

January 2018
(number of responses)

Source: ECB.

Do you agree that transactions with counterparties such as general government or non-financial corporations are in general not a suitable component of an interest rate based on arm’s length transactions?

Most respondents agreed that transactions with general government or non-financial corporations are not a suitable component for the new rate, as such transactions might not reflect market movements or different regulatory treatment. Moreover, respondents wondered about the relevance of overnight deposits in government and non-financial corporation transactions. Respondents also acknowledged that national specificities might make the inclusion of (part of) these transactions more fitting.
Some responses expressed caution not to discard such transactions before a thorough analysis was conducted.

Respondents disagreeing referred to the fact that, in particular, transactions with non-financial corporations represented an important element shaping bank’s funding costs. As transactions were scarce resources, they were too valuable not to be used and their inclusion would add to the robustness of the reference rate.

Respondents moreover essentially agreed on the need to define an arm’s length transaction, but also on the difficulty involved in doing so.

**Chart 6**
Respondents viewed transactions with general government or non-financial corporations as not being a suitable component for the new rate, as such transactions might not reflect market movements or different regulatory treatment.

In relation to the above question, do you consider it useful to apply a size threshold above which transactions with non-financial corporations can be considered as arm’s length transactions and as not being influenced by specific factors, and that it would be worthwhile further investigating their use as an input to the new interest rate?

Respondents viewed the definition and implementation of a transaction size threshold as challenging and potential benefits as unclear. Besides national specificities leading to different suitable thresholds, respondents mentioned that a notional threshold would not change regulation-driven pricing. Respondents also questioned whether methodology adjustments were better able to address identified concerns (e.g. transactions being too small or very large, one-off transactions unduly affecting rate volatility). Finally, some respondents also mentioned the likely
additional reporting burden and additional costs as an argument against the implementation of thresholds.

Respondents that were more open to the investigation of thresholds referred to the possibility of a targeted enlargement of the transaction basis for deriving the new rate.

**Chart 7**

Definition and implementation challenges were seen as outweighing potential, though unclear, benefits of a size threshold for transactions with non-financial corporations.

January 2018

(number of responses)

Source: ECB.
Scope of the ECB interest rate – types of instrument

Would you agree that money market deposits are the only instruments on which the new rate should be based?

More than half of respondents agreed to base the new rate solely on money market deposits. Respondents disagreeing revealed a strong preference for extending the scope to other money market instruments (e.g. call accounts, CDs or CPs), indicating that they were very active in these markets or that the referenced instrument was important in their jurisdiction. A number of agreeing respondents expressed also their openness to investigate (either at the current juncture or should market developments so warrant) the inclusion of other instruments.

Chart 8
Respondents agreed to base the new rate solely on money market deposits

If you consider that other segments of the unsecured money market should be covered, which should these be and why?

Certificates of deposits (CDs) and commercial papers (CPs) with an overnight maturity, and to the extent that such markets existed, were the most frequently cited possible additional money market instruments to consider in order to increase the robustness of the rate. A few respondents suggested including call accounts/call money as a subgroup of deposits.
Chart 9
Respondents most frequently cited CDs and CPs as possible additional money market instruments to consider

January 2018
(number of responses)

Source: ECB.
Note: Multiple entries by some of those respondents suggesting other segments.
Publication time

In the case of publication at 09:00 CET on the morning of the following day, how would this publication timing impact the usage of the published rate?

Respondents widely indicated that a change in the publication time from 18:45 CET on day T (as with the current EONIA) to 09:00 CET on day T+1 (November 2017 consultation document proposal for the new ECB unsecured overnight rate) would have a significant impact on banks’ and other financial market participants’ processes: the fixing, pre-matching, settlement, valuation and validating processes for money market, derivatives and repo transactions.

Respondents also pointed to the important implication that any rate published after markets open the morning after the underlying data were gathered bore the risk of not properly reflecting market opening conditions, thereby negatively impacting on derivatives or repo markets.

While respondents did not see any commercial or business implications and expected markets to adjust, they saw a later publication time as negatively impacting the acceptance, usability and usage of the new ECB unsecured overnight interest rate.

While some respondents referred to the need to investigate amendments to the MMSR reporting framework (including the possible pre-reporting of reference rate-relevant transactions), they pointed to the need to prioritise quality aspects and to consider the cost and resource implications of reporting banks.

Chart 10

Publication at 09:00 CET on the morning of the following day would significantly impact internal processes, valuations and payments.

January 2018
(number of responses)

Source: ECB.
If the published rate were to be required earlier than 09:00 CET, at what time would it be required and for which purposes?

**Respondents predominantly stated that earlier publication was preferable, while recognising that data quality was essential.** Against this background, some respondents also advanced the idea of splitting unsecured overnight reporting from other transaction reporting for MMSR.

**Chart 11**

Publication as soon as possible after close of business would be relevant for financial institutions’ processes and for the relevance and use of the new rate in markets.

![Chart showing preferences for publication times](source: ECB)

What is the latest publication time after which the interest rate would lose its value from the perspective of users? Could you explain in more detail for which usage(s) and why?

Respondents highlighted that publication of the new reference rate after the markets had opened would significantly reduce its relevance and impact its usability. It would also lead to information asymmetry in the markets.
Chart 12
Publication of the new reference rate after the markets open significantly reduces its relevance, impacts its usage and leads to information asymmetry in the markets

January 2018
(number of responses)

Source: ECB.
Are there other high-level features or issues which should be taken into account and have not been sufficiently covered by the previous questions?

Respondents reiterated the importance of a well-planned, documented and communicated development and implementation process to ensure a smooth transition to a widely accepted, trusted and used ECB reference rate. Respondents largely expected the new ECB reference rate to replace the EONIA and become a critical market yardstick.

Respondents also referred to the importance of identifying a proper name or label to emphasise the unsecured nature of the rate and to familiarise market participants with the new naming convention in the very near future.

Respondents also raised concern that the new rate might be linked to transactions with relatively low volumes, an aspect that could become problematic in times of stressed market conditions when volumes were expected to fall significantly. Respondents therefore urged consideration be given to measures for enhancing volumes by looking beyond MMSR participants and allowing a bigger pool of contributors, while acknowledging that banks joining the pool would face cost and resource implications. They also called for additional work on stress scenario analysis and fall-back mechanisms in the event the volume of transactions were to fall below a minimum level.

Finally, respondents strongly emphasised the importance of a short-term reference rate for creating a term structure.