

Meeting of the working group on euro risk-free rates

held in Frankfurt am Main on Thursday, 13 September 2018, 11:00-16:00 CET

SUMMARY

1. Approval of the agenda, introductory remarks and obligations of the working group members as regards competition law

Mr Timmermans (Chair) welcomed the meeting participants and reminded the working group members of their obligations under EU competition law, as described in the guidelines on EU competition law published on the ECB's website.

He informed the working group that he will be leaving his function as CFO of ING and will consequently step down from his position as Chair of the working group, but will remain available until a replacement has been found. The working group will receive more clarity on the replacement of the Chair in the coming weeks from the founding public institutions of the working group.

2. Choice of euro RFR by the working group on euro risk-free rates

2.1. Presentation of the outcome of the euro RFR vote

Ms Holthausen (ECB) informed the working group of the outcome of the vote on the euro risk-free rate (RFR). Out of the three short-listed candidates¹, the euro short-term rate (ESTER) was unanimously recommended by the 21 voting members of the working group on euro risk-free rates. Ms Holthausen indicated that this unanimous result was a strong expression of support for ESTER and was consistent with the results of the previous public consultation on the three short-listed euro risk-free rates. This vote also brings the euro area more into line with other jurisdictions in which risk-free rates have already been chosen. Ms Holthausen explained that an ECB press release on the outcome of the vote had been published on the ECB website simultaneously with the announcement to the working group in order to avoid any possible privileged information.

Mr Timmermans welcomed the result and thanked the group for the rigorous and transparent selection process over the last few months. He invited the working group members, and in particular the trade and user associations, to share this information with their stakeholders.

2.2. Next steps and possible communication actions

The ECB Secretariat indicated that an industry roundtable on the euro risk-free rates would be organised on 9 November 2018 to inform a wider audience about the initial results and analysis of the working group, the next steps planned for the transition and some recommendations as regards the preparatory actions to be taken to achieve a smooth benchmark transition. A limited number of places will be advertised on the ECB website in the coming weeks and the roundtable will be available as a webcast to ensure access to the information shared and topics discussed at the meeting. Participation from consumer associations and corporates is particularly encouraged.

Mr Timmermans also indicated that the public consultation results had shown strong support among market participants for the working group to deal with the issue of fallbacks to the new risk-free rate (now identified as ESTER). The working group will be updated at the next meeting on the envisaged process to deal with this issue.

¹ The three euro risk-free rate candidates were (in alphabetical order): (i) ESTER – the new rate reflecting euro area banks' borrowing costs in the wholesale unsecured overnight market to be produced by the ECB; (ii) GC Pooling Deferred, a one-day secured, centrally cleared, general collateral repo rate produced by STOXX; and (iii) the RepoFunds Rate, a one-day secured, centrally cleared, combined general and specific collateral repo rate produced by NEX Data Services Limited.

3. High-level implementation plan

Mr Kes (ING) presented a high-level implementation plan for potential scenarios for EONIA transition and Euribor reform, drafted with the support of the subgroups leaders. The plan describes the various steps for an orderly transition of benchmarks in a context in which many uncertainties remain. Working group members discussed these various uncertainties, which are mainly linked to the timing and availability of the recommended EONIA replacement rate (now ESTER), the EONIA transition path to be recommended by the working group, the legal uncertainties attached to it, the need to develop a derivative market based on ESTER as soon as possible and, finally, the future compliance of a reformed Euribor with the EU Benchmark Regulation (BMR).

The document concludes that the timeline currently set out in the BMR² for the transition from EONIA to the new euro risk-free rate and the uncertainty around the future of Euribor make the process very challenging, given the legal and operational complexities identified in the plan. For this reason, the working group will make a request for public support to the public authorities. Working group members discussed extensively possible measures that would be needed to support the transition. The European Commission indicated that an extension of the transition period for continued use of current (non-authorised) EONIA and, possibly, Euribor benchmarks beyond 1 January 2020 could only be considered as a legislative option if the request was clear, had a high level of stakeholder support and was accompanied by evidence that all alternative options not entailing an extension of the transition period would not achieve the desired smooth transition.

The working group will further comment on and discuss this high-level implementation plan, and envisages its submission to the public authorities and publication on the ECB's website in the coming weeks.

4. Update by Subgroup 4 on EONIA transition on transition paths and work assumptions

Mr Molinas (Credit Agricole) updated the working group on the organisation of Subgroup 4, its deliverables and envisaged deadlines. He also outlined the identified EONIA transition paths to the recommended euro RFR (now ESTER) and the subgroup's working assumptions.

Subgroup 4 identified the following transition paths: a market-led transition, either (1) with or (2) without a transition period, after which EONIA would be discontinued; and a successor rate transition path, either (3) as a "pure succession" (whereby ESTER succeeds EONIA) or (4) with EONIA as a "tracker" of the new euro RFR (i.e. EONIA methodology indexed to ESTER).

The working group discussed the pros and cons of each path, notably: (i) whether a parallel run of EONIA and ESTER, as envisaged in market-led paths (1) and (2), would be a workable solution and, if so, what interaction could be expected between the two rates and curves; (ii) whether a successor rate transition would not be preferable owing to its apparent conceptual simplicity, in spite of remaining uncertainties in terms of feasibility; and (iii) the implications of a possible request for a BMR extension (see Item 3).

Subgroup 4 plans to present the criteria for recommending an EONIA transition path at the working group meeting on 18 October 2018 and its report – most likely including a recommendation - at the working group meeting on 19 December 2018.

5. Update by Subgroup 2 on the identification and recommendation of a term structure on RFRs

Subgroup 2 work stream leaders informed the working group on the progress made by their respective work streams. **Ms Le Masson (BNP)** indicated that Subgroup 2 had made significant progress on the assessment of term structure methodologies and the pros and cons of each of them.

Mr McLeod (Erste Bank) outlined the four methodological options for calculating term rates based on the recommended euro RFR (now ESTER) and a list of pros and cons for each of them: (i) a quotes-based methodology, where the term structure would be based on overnight index swap (OIS) committed quotes; (ii) a futures-based methodology, using a sequence of overlapping futures to extract the expected levels of the RFR and then calculate the term rates from the underlying curve; (iii) backward-looking methodologies

² As of 1 January 2020, the use of a benchmark that does not comply with the requirements of the BMR will be restricted (subject to the application of transitional provisions). EONIA's administrator, the European Money Markets Institute (EMMI), has already indicated that EONIA will not meet the requirements of the Regulation, while the position regarding Euribor remains uncertain.

– consistent with the methodologies currently put forward in the International Swaps and Derivatives Association (ISDA) consultation on fallback proposals; and (iv) an OIS transactions-based methodology.

Mr Covin (UniCredit) presented some conclusions on the liquidity of the OIS market based on ECB money market statistical reporting (MMSR) and LCH data. Both datasets highlighted the low number of transactions and low volumes in the OIS market, as well as the high concentration due partly to a very large number of transactions on “broken dates” which do not fit into any standard bucket. Hence, the activity in the OIS market seemed rather low for creating a robust benchmark. A complex model encompassing all daily OIS transactions might be possible but would raise other issues (constant recalibration, complexity). Mr Covin indicated that the selection criteria for the scorecard assessment of these methodologies would be presented at the meeting on 18 October 2018.

Mr Infesta (Santander) informed the group of the findings of an initial review of the above-mentioned four methodological options against the IOSCO Principles for financial benchmarks. He pointed out that none of the methodologies would be non-compliant with the principles at this stage. However, an important caveat regarding forward-looking methodologies is the lack of information about market volumes (IOSCO Principle 7) as these markets do not yet exist.

The working group discussed the pros and cons of the methodologies and highlighted some differences in this assessment depending on the usage of the rates, in particular for cash products and derivative products. It also discussed the following points:

- The need to recourse to an administrator in the production of these term rates would be very likely for forward-looking methodologies. Subgroup 2’s feedback underlined the value of the availability of a backward-looking calculation of such rates by a calculation agent to help ease the adoption of the rates. Subgroup 2 will discuss in more detail the advantages of either a private administrator (benchmark provider) or a public institution (central bank) providing such term rates.

- The issue linked to the possible input data unavailability for the quote-based methodology in the context of Brexit.

Ms Le Masson (BNP) indicated that at the next meeting Subgroup 2 will present a scorecard to assess the different methodological options. A public consultation on the four methodologies is envisaged by the end of 2018.

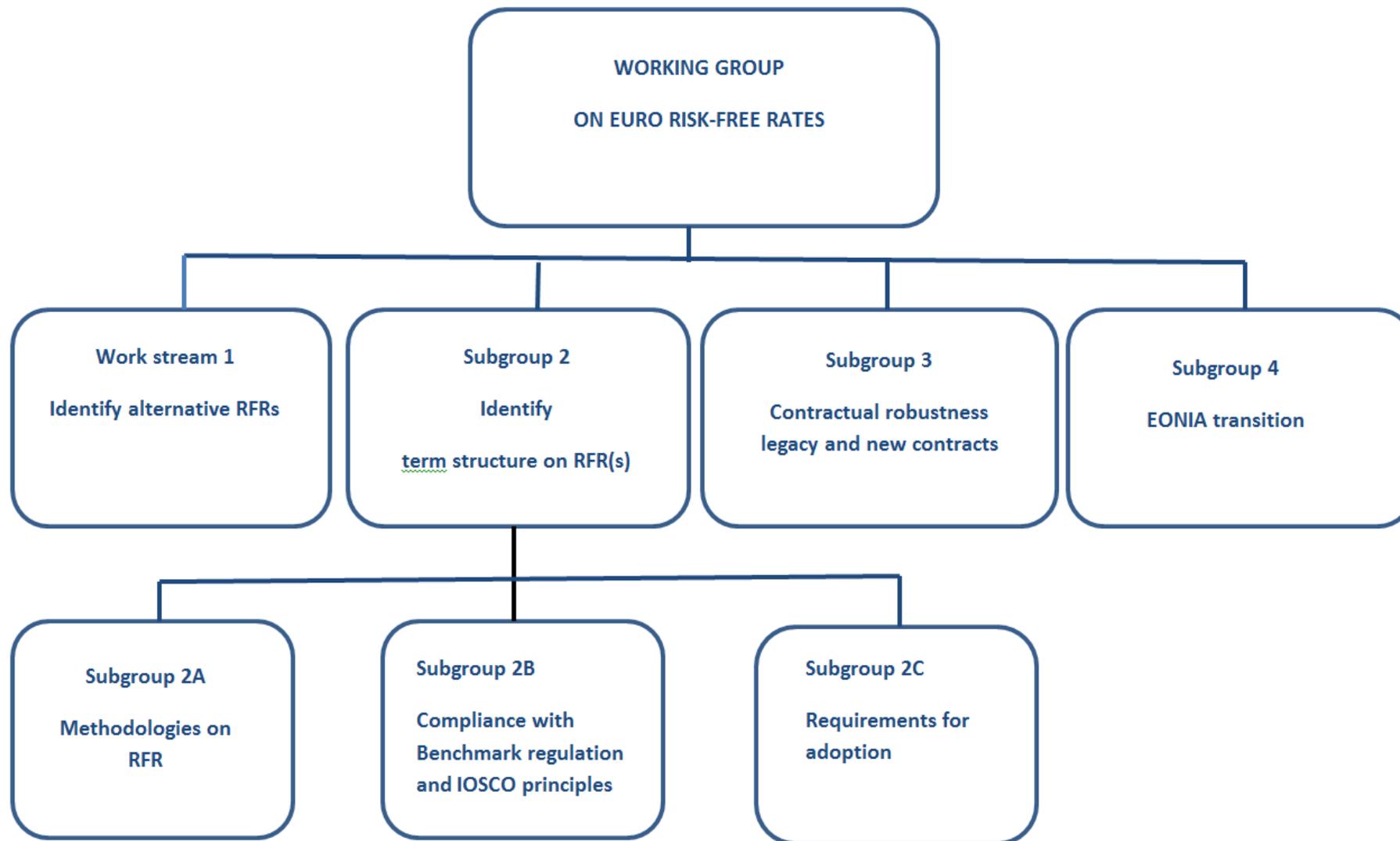
6. Update by Subgroup 3 on contractual robustness – scenarios and legal options for the replacement of EONIA and the reform of Euribor

The representatives of the subgroup on contractual robustness (**BBVA**) presented the various legal options to ensure smooth EONIA transition and Euribor reform with regard to legacy contracts. The options under investigation include: (a) bilateral agreements, (b) multilateral agreements, (c) legislative or regulatory amendments, and (d) public authority support. Each option presents its own challenges, and the options should not be seen as mutually exclusive. The various paths for EONIA transition, as described above in Item 4, may require measures from the private sector and support from the public sector to ensure a smooth transition and the continuity of contracts and entail various legal risks. These considerations should be taken into account by the working group when recommending an EONIA transition path. Regarding the Euribor reform, the legal analysis should be further explored in the coming weeks once EMMI has published its update on the state of play of the reform process.

The subgroup will now further analyse the possible legal risks associated with the various EONIA transition paths in close cooperation with Subgroup 4. An executive summary on the legal frameworks and market practices regarding fallback provisions and a memo on the drawbacks of existing fallback provision will be presented in October and published.

7. Other business: planning the next meeting and follow-up

The next meeting of the working group will take place at the ECB in Frankfurt am Main on Thursday, 18 October 2018.



List of meeting participants

Participant's organisation

Chairperson

ING

Voting members

Bank of Ireland
Barclays
Barclays
Bayerische Landesbank
BBVA
BBVA
BBVA
BNP Paribas
BNP Paribas
BPCE/Natixis
BPCE/Natixis
CaixaBank, S.A.
CaixaBank, S.A.
Crédit Agricole
Deutsche Bank
DZ Bank
DZ Bank
Erste Group Bank AG
Eurobank - Ergasias SA
HSBC
ING Bank
ING Bank
Intesa Sanpaolo
KfW Bankengruppe
KfW Bankengruppe
LBBW
Nordea Bank
Santander
Santander
Société Générale
Société Générale
UniCredit Bank
UniCredit Bank Ireland p.l.c

Name of participant

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Ms Johanneke Weitjens

Mr Barry Moran
Mr Sascha Weil
Mr Andreas Giannopoulos
Mr Harald Endres
Mr José Manuel González-Páramo
Mr Adolfo Fraguas Bachiller
Mr José Carlos Pardo
Ms Dominique Le Masson
Mr David Gorans
Mr Olivier Hubert
Ms Sophie Asselot
Mr Juan Cebrian
Mr Javier Pano
Mr Carlos Molinas
Mr Christian Gau
Mr Michael Schneider
Ms Cornelia Gericke
Mr Neil McLeod
Mr Theodoros Stamatiou
Mr Pierre Jenft
Mr Jaap Kes
Ms Marjolein de Jong-Knol
Mr Marco Antonio Bertotti
Mr Markus Schmidtchen
Mr Ingo Ostermann
Mr Jan Misch
Ms Jaana Sulin
Mr Óscar García Maceiras
Mr Carlos Fernandez Infesta
Mr Olivier Balpe
Ms Amélie Pichon
Mr Alberto Covin
Mr John O'Farell

Non-voting members

European Money Markets Institute
European Money Markets Institute
European Fund and Asset Management Association
International Capital Market Association
International Swaps and Derivatives Association
International Swaps and Derivatives Association
Loan Market Association

Mr Jean-Louis Schirmann
Mr Alberto López Martín
Ms Agathi Pafili
Mr David Hiscock
Mr Rick Sandilands
Mr Ciarán McGonagle
Ms Kam Mahil

Invited institution

European Investment Bank

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