

Teleconference of the Working group on euro risk-free rates

Tuesday, 21 April 2020, 13:00-14:45 CET

SUMMARY

1. Introductory remarks, approval of the agenda and obligations of the working group members under competition law

Steven van Rijswijk (Chair) explained that the purpose of the call was to update the working group on the state of play of the subgroups' work and amend the planning for their next deliverables regarding Euribor fallbacks in view of the coronavirus (COVID)-19 crisis.

He reminded the members of the working group of their obligations under EU competition law, as described in the guidelines on compliance with EU competition law published on the ECB's website.

2. Updated planning of working group deliverables in the wake of the COVID-19 crisis

2.1. Postponement of the central counterparties' (CCPs) discounting switch from around 22 June to around 27 July 2020

Marjolein de Jong-Knol (ING) presented the outcome of the discussions with CCPs on the EONIA to €STR discounting switch date. She recalled that the working group had already discussed the potential impact of the current COVID-19 pandemic on the EONIA to €STR transition and specifically on the level of readiness of market participants for the upcoming EONIA to €STR CCP discounting regime switch that had originally been planned to take place around 22 June 2020.

The working group had provided the European Association of CCP Clearing Houses (EACH) with the results of an informal survey of its members¹ and had asked EACH to consider the outcome of the survey as well as the concerns that had been raised by some members of the working group.

Against this background, on 17 April 2020 EACH had suggested postponing the switch date by five weeks, from 22 June 2020 to around 27 July 2020². That suggestion had been made in order to "grant to market participants some relief and allow them extra time to make the necessary arrangements," while pointing out that "any longer delay may severely impact the USD discounting switch planned for 16/19 October 2020 as well as jeopardise the ability of EACH Members to act in an orderly and unified manner."

2.2. Delay of the working group's upcoming deliverables due to COVID-19

Marjolein de Jong-Knol (ING) recalled that the members of the working group on euro risk-free rates had been asked, on 27 March, to provide their opinion on the possible delays of the working group's deliverables following the COVID-19 crisis, notably the postponement of consultation by Subgroups 3 and 5 on Euribor fallback trigger events.

The proposed delay would imply that the final recommendations on Euribor fallback provisions and the related report on market-based solutions to amend Euribor legacy contracts would be scheduled for early 2021, instead of summer 2020 as had initially been planned. The survey results had indicated that there was no opposition to delay the aforementioned consultations.

In the absence of any comments, the updated planning was approved by the working group.

¹ See: https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/20200407/2020_04_07_WG_on_Euro_RFR_meeting_minutes.pdf

² See: <https://www.eachccp.eu/wp-content/uploads/2020/04/EACH-statement-on-the-transition-from-EONIA-to-€STR-discounting-regime.pdf>

3. Updates by subgroup 5 on cash products and derivatives

3.1. On the working group consultation on swaptions affected by the CCP discounting transition from EONIA to the €STR

Christian Gau (DB) recalled that the deadline for the working group's public consultation on swaptions affected by the CCP discounting transition from EONIA to the €STR had been extended by two weeks until 17 April 2020. This decision had been made to ensure better visibility of the consultation in the context of the pandemic crisis.

The summary feedback was scheduled to be published in the weeks ahead. Depending on the market feedback and subject to sufficient consensus, the working group may issue a recommendation in mid-May. He recalled that any future recommendation should be issued sufficiently in advance of the CCPs' discounting switch date to €STR, now suggested by EACH to take place on 27 July.

3.2. On the consultation on Euribor fallbacks for cash and derivative products

Anna Kozhevnikova (Generali) and Christian Gau (DB) updated the working group on the state of play of the public consultation on Euribor fallback provisions that was to be launched in Autumn 2020, together with the subgroup 3 public consultation on Euribor fallback triggers (see item 4).

They presented the structure of the public consultation on Euribor fallback provisions, which would cover: (i) the rate methodologies (both backward-looking and forward-looking); (ii) the preferred fallback rates by asset class, according to a pre-defined set of criteria (such as (a) operational ease/feasibility, (b) client acceptance, (c) hedging ease, (d) accounting impact, (e) risk-management impact, and (f) consistency with other jurisdictions/asset classes; this list of criteria is still under discussion within subgroup 5); (iii) a consistent spread methodology to be used across products in addition to the fallback rate; and (iv) issues related to market conventions on €STR compounded rates.

Ms Kozhevnikova also informed the working group that subgroup chairs had discussed the accounting impact of the various fallback methodologies with some of the experts of subgroup 6 on accounting issues. This feedback would be used in the consultation document (see item 6.1).

For derivative products, the fallback provisions of the International Swaps and Derivatives Association (ISDA) for Euribor and EUR LIBOR contracts had been used as a starting point for subgroup 5's analysis.³ Subgroup 5 had accordingly focused on issues for some specific derivative products. Subgroup 5 is working in close cooperation with the ISDA (also a member of subgroup 5) to refer to the possible additional solutions the ISDA may provide for such products. According to the new timeline for the next working group deliverables, the final version of the Euribor fallback consultation would be presented at the working group meeting on 3 September 2020. The publication of the consultation should take place around mid-October.

4. Update by subgroup 3 on the Euribor legal action plan

4.1. Public consultation on the Euribor fallback trigger

José Carlos Pardo (BBVA) updated the working group on the draft public consultation on the identification and formulation of events that would trigger the activation of the Euribor fallback provision (trigger events). Since the last working group meeting, subgroup 3 members had discussed whether a "pre-cessation" trigger should be included in the list of trigger events for all asset classes to be submitted for public consultation. Subgroup 3 would discuss this question extensively in May to finalise the set of trigger events and submit it to the working group in September 2020, in line with the new timeline that had been agreed.

4.2. Market-based solutions to amend legacy contracts and instruments referencing the Euribor to embed fallback provisions

José Carlos Pardo (BBVA) recalled that subgroup 3 was analysing how to amend legacy contracts and existing financial instruments by private, contractual means. Subgroup 3 would draft a short paper providing descriptive and factual guidance explaining the steps to take to amend existing documentation for different asset classes, as well as the main challenges and considerations, before the end of 2020.

³ See the ISDA's responses to a supplemental consultation on the spread and term adjustments that would apply to fallbacks for derivatives referencing the EUR LIBOR and Euribor: <https://www.isda.org/2020/02/24/isda-publishes-results-of-consultation-on-fallbacks-for-derivatives-referencing-euro-libor-and-euribor/>

4.3. Update on the compounded €STR and civil law

José Carlos Pardo (BBVA) also informed the group that the analysis of the compliance to civil law of compounding methodologies used in the calculation of backward-looking rates⁴ would be delayed. The Chair of subgroup 3 would explore whether a small group of subgroup 3 members could still commit to making progress on this analysis. Once completed, the legal assessment would be shared with subgroup 5 as input for their discussion on backward-looking methodologies as Euribor fallbacks.

5. Update by subgroup 7 on the communication actions

Maite Bermúdez (Santander) mentioned that in the course of March, several materials created by subgroup 7 had been published on the working group's ECB webpage, such as the March edition of the [Newsletter](#) and an updated [communication toolkit](#).

In general, the pandemic crisis had made the roll-out of the “ambassador framework” (i.e. a network of bank representatives across European countries) challenging. Nevertheless, in some countries the national banking associations or local authorities had been contacted or were about to be contacted and some outreach events for the banking industry had taken place. Also, the “ambassador network” was exploring possible new communication actions, e.g. similar to recent outreach efforts to raise visibility around the swaption consultation.

Steven van Rijswijk welcomed the publication of recent subgroup 7 deliverables as well as the communication action from the ambassador framework to support greater visibility of the recent swaption consultation. He urged ambassadors to continue being flexible and able to respond to such requests, and also issued a reminder that some jurisdictions were still without a contact point.

6. AOB

6.1. Update of the International Accounting Standards Board work and subgroup 6 workshop

Markus Schmidtchen (KfW) updated the working group on a workshop with Subgroup 5 chairs that had been organised to clarify potential financial accounting implications of the different methodologies used to calculate an €STR-based backward-looking rate that were being considered as potential Euribor fallbacks by subgroup 5.

He recalled that an analysis of the potential financial accounting and risk management implications of the introduction of €STR fallbacks to Euribor was included in the two working group reports that had been published in October 2019 and November 2019, respectively, but this workshop had been aimed at answering some concrete questions. The workshop had ranked the different methodologies under consideration by subgroup 5 according to their financial accounting and risk-management impact, with the payment delay methodology having a minimum impact and the last reset methodology bearing more consequences. The summary of the workshop would be distributed within subgroups 5 and 6 and would support the analysis of the Euribor fallback consultation, to be published in October 2020.

In addition, Mr Schmidtchen informed the working group members that the International Accounting Standards Board (IASB) had published an exposure draft entitled *Interest Rate Benchmark Reform – Phase 2*⁵ for public consultation until 25 May. Working group members were encouraged to reply to this consultation. The IASB planned to issue final amendments in Q3 2020 following a possible endorsement by the relevant European authorities before the end of the year.

Finally, he referred to an analysis performed by the European Financial Advisory Group (EFRAG) on the amendments made by the EU and US accounting authorities in the light of the IBOR reform, pointing out similarities between them.⁶

⁴ In some EU Member States, the civil code prohibits compounding overdue interest to protect consumers. Subgroup 3 is assessing whether the development of a compounded €STR may be affected by this prohibition as it is not related to any delayed interest payment but is a mathematical formula applied before the relevant interest is due. Any conclusion must be read as subject to confirmation by courts in national case-law.

⁵ Phase 2 relates to IBOR replacement issues. The *Interest Rate Benchmark Reform – Phase 2* exposure draft sets out the IASB's proposals for amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases.

⁶ [EFRAG TEG meeting, paper 09-03, Interest Rate Benchmark Reform – Update on Phase 2. Overview of tentative decisions, 4-5 March 2020](#)

List of participants

Participant's organisation

Name of participant

Chairperson

ING

Mr Steven van Rijswijk

Ms Marjolein de Jong-Knol

Voting members

Bank of Ireland

Mr Barry Moran

Barclays

Mr Joseph McQuade

Barclays

Mr Andreas Giannopoulos

Bayerische Landesbank

Mr Harald Endres

BBVA

Mr José Carlos Pardo

BBVA

Mr Juan Fernández

BNP Paribas

Ms Dominique Le Masson

BNP Paribas

Mr Patrick Chauvet

BNP Paribas

Mr David Gorans

BPCE/Natixis

Mr Olivier Hubert

CaixaBank, S.A.

Mr Xavier Combis

Crédit Agricole

Mr Carlos Molinas

Deutsche Bank

Mr Christian Gau

DZ Bank

Mr Philipp Nordloh

DZ Bank

Mr Michael Schneider

Erste

Mr René Brunner

Erste

Mr Neil McLeod

Eurobank SA

Mr Theodoros Stamatou

HSBC

Mr Pierre Jenft

HSBC

Ms Nathalie Gay Guggenheim

ING Bank

Mr Jaap Kes

Intesa Sanpaolo

Ms Maria Cristina Lege

KfW Bankengruppe

Mr Markus Schmidtchen

KfW Bankengruppe

Mr Ingo Ostermann

LBBW

Mr Jan Misch

Nordea

Ms Jaana Sulin

Santander

Ms Maite Bermúdez

Santander

Mr Javier Pareja

Santander

Ms Mónica López-Monís

Société Générale

Mr Olivier Balpe

Société Générale

Mr Stephane Cuny

UniCredit Bank

Mr Umberto Crespi

Non-voting members

European Money Markets Institute

Mr Jean-Louis Schirmann

European Money Markets Institute

Ms Petra de Deyne

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International Capital Market Association

International Swaps and Derivatives Association

International Swaps and Derivatives Association

International Swaps and Derivatives Association

Loan Market Association

Ms Agathi Pafili

Ms Katie Kelly

Mr Rick Sandilands

Mr Jonathan Martin

Mr Graham Bryant

Ms Kam Mahil

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European Investment Bank

European Investment Bank

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European Central Bank

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European Commission

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