

Inaugural meeting of the working group on euro risk-free rates

Frankfurt am Main, Monday, 26 February 2018, 11:00-16:00 CET

SUMMARY

1. Welcome address – Benoît Cœuré, Member of the Executive Board, European Central Bank (ECB)

Mr Cœuré opened the meeting, thanking Mr Timmermans for agreeing to serve as chair of the working group. He recalled the importance of a successful euro reference rate reform for both the financial and the public sector, highlighting its relevance to the ECB with respect to monetary policy and financial stability. He explained the ECB's initiative to produce an overnight interest rate based on data already available to the Eurosystem under the Money Market Statistical Reporting (MMSR) Regulation. The ECB rate is designed to provide a backstop to the existing overnight benchmark, but the working group may also consider it as a candidate for a fall-back rate. The ECB aims to start releasing a daily rate before 2020. Mr Cœuré concluded that coordination, cooperation and transparency across market segments, products and users are therefore essential for the success of the benchmark reform and the possible transition to alternative rates.

The speech of Mr Cœuré is available on the ECB website.

2. The four institutions to introduce the mandate of the working group – Jean-Paul Servais (Belgian Financial Services and Markets Authority – FSMA)

Mr Servais shared some thoughts on the FSMA's experience in contributing to the supervision and reform of the EONIA and Euribor. He also introduced the mandate of the working group on behalf of the four public institutions involved and emphasised that the private sector should take the lead in the benchmarks' reforms through the working group, in a context of tight time constraints. Mr Servais clarified in particular that the working group should not involve itself in ongoing reform efforts on the Euribor, or predicate its results on their successful outcome; however, the development of fall-backs to the Euribor was indeed part of the working group's mandate. He also warned about certain dynamics around the Euribor, whereby banks would rather use the benchmark without contributing to it.

The speech of Mr Servais is available on the ECB website.

3. State of play of the benchmark reforms:

3.1. Background information on the Financial Stability Board (FSB) recommendations and state of play of the other working groups – Cornelia Holthausen (ECB)

Ms Holthausen recalled the background to the existing work on benchmarks, starting with the FSB recommendations from 2014. She also summarised the status of the work of the US, UK and Swiss working groups on alternative rates.

3.2. Background information on the International Swaps and Derivatives Association (ISDA) work on various currencies – Rick Sandilands (ISDA)

Mr Sandilands presented ISDA's mandate for developing fall-backs for IBOR-linked derivatives originating from the Official Sector Steering Group (OSSG), the FSB sub-group in charge of the interest rate benchmark reforms. He outlined the organisation of various ISDA working groups and the related issues to be resolved, including the development of fall-back rates for a risk-free rate ("RFR") that do not necessarily exist (as is the case in the euro area), a credit spread, term fixings, and basis risks between products as well as between derivative products. Finally, he pointed to ISDA's initiatives in cooperation with other trade associations including: the recent publication of a benchmark transition roadmap, a global survey launched at the end of February with a targeted coverage of 75 bilateral interviews and 4,000 electronic surveys, as well as a final report scheduled for mid-May 2018.

3.3. State of play of the EONIA and Euribor reforms – Petra De Deyne (European Money Markets Institute – EMMI)

Ms De Deyne recalled the Euribor reform process. The 2016-17 “pre-live verification” exercise had led to the conclusion that basing the Euribor on a fully transactions-based methodology was not possible given the current low level of transactions in the euro money markets. As the current, quote-based methodology is not compliant with the EU Benchmarks Regulation (BMR), EMMI is working on a hybrid methodology, combining transactions, market data and, should reliance on transactions be deemed impossible, well-framed expert judgment, with the aim of Euribor achieving compliance with the EU Benchmarks Regulation.

On the EONIA, she illustrated its current weaknesses, showing the decrease in underlying volume and the increase in concentration observed over recent years. EMMI’s attempt to reform the EONIA had resulted in the recent announcement that EONIA’s compliance with the EU BMR could not be warranted by 2020, should market conditions and dynamics remain unchanged. Under these circumstances, EONIA may still be used as a reference rate until 31st December 2019, under the transitional provisions of the Benchmarks Regulation. After January 2020, EONIA could not be used for new contracts, and the provision and use of EONIA in legacy contracts may be permitted following a decision by the Belgian FSMA, under the provisions established in the Benchmarks regulation, and if the EONIA panel can be maintained to continue supporting its daily calculation.

3.4. The EU Benchmark Regulation: timeline and constraints – Rik Hansen (Belgian FSMA)

Mr Hansen recalled the applicable legal framework for the EONIA and Euribor as defined by the EU Benchmarks Regulation, and notably the time constraints on the benchmark reforms in the euro area. In particular, he recalled that the transitional period for current benchmark administrators to register and to seek authorisation will run until the end of 2019. After this date, the use of non-compliant benchmarks will be prohibited for new contracts. For legacy contracts, a grandfathering period for the non-compliant benchmarks could be envisaged under Article 51.4 of the Benchmarks Regulation, subject to (i) the availability of alternative rates and (ii) the inclusion of fall-back rates in contracts and instruments referencing the benchmark. The progress of the working group will therefore be directly relevant for the future interpretation of the Regulation by the FSMA and by the college of supervisors.

4. Organisation of the work, deliverables and milestones envisaged for 2018 – Jaap Kes (ING)

Mr Kes presented a proposal for structuring the deliverables of the working group as well as organising its work within three work streams: a work stream #1 covering the choice of alternative risk-free rates; a work stream #2 exploring the construction of term rates; and a work stream #3 investigating contractual robustness for both legacy and new contracts indexed to the existing benchmarks.

The subsequent discussions highlighted two points:

- An urgent need to replace or develop the fall-back for the existing interest rate benchmarks, as no extension of the transitional provisions of the EU Benchmark Regulation after 2020 should be expected.
- An overall preference for, ideally, achieving a single solution applicable to all financial products, to the extent such solution would be possible, in order to limit basis risk. From an organisational point of view, there would not be separate work streams for cash and derivative products.

The working group concurred on the following points:

- (i) most of work stream #1 will be taken care of at working group level, given the tight time frame (with a specific industry outreach later in the year (mid-May 2018) to ensure the external participation in the selection of the alternative risk-free rate(s));
- (ii) work streams #2 and #3 will be addressed by newly established sub-groups;
- (iii) in the next few days the ECB Secretariat will launch a call among Working Group members for volunteers to contribute to the different work streams and participate in the sub-groups¹.

The working group also agreed on the following organisational points:

- the competition law provisions applicable to the working group will be clarified, ideally as soon as the next working group meeting;

¹ The composition of work streams #2 and #3, for which sub-groups will be established, may also include market participants external to the working group, including possibly those relevant institutions that had already flagged their interest via the call for expressions of interest displayed on the ECB webpage of the working group.

- particular importance will be given to ensuring transparency around the working group debates, in particular towards market participants other than the working group members, for instance through regular publication of meeting minutes and presentations as well as the organisation of industry outreach events.

5. Organisation of the work stream: establishment of the European Securities and Markets Authority (ESMA) sub-group

Mr Feldkamp gave the background and rationale for ESMA's providing the secretariat for the work on contractual robustness (work stream #3). This decision was made taking into account the particularity of the euro area, where the usage of retail contracts indexed to existing interest rate benchmarks is particularly significant, and its link to ESMA's consumer protection mandate. ESMA also indicated that Mr González-Páramo had agreed to chair the sub-group on contractual robustness. Mr González-Páramo, from BBVA, emphasised the importance for this sub-group of both providing maximum legal certainty to benchmark users and communicating extensively on these questions with all stakeholders.

6. Concluding remarks – Steven Maijor, Chair of the European Securities and Markets Authority (ESMA)

Mr Maijor recalled the long-standing involvement of ESMA in the interest rate benchmarks topic and the recent Commission proposal that ESMA should become the supervisor of critical benchmarks. He stressed the urgency of the matter and emphasised that the private sector had to find a sustainable solution to the interest rate benchmark issue, though he reassured the private sector that it can continue to rely on strong public sector support. Finally he pointed to the fact that the EONIA and Euribor reforms will be looked at independently, although the issues are closely linked to the work of the working group.

The concluding remarks of Mr Maijor are available on the ECB website.

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

The second meeting of the working group will take place in Frankfurt am Main at the ECB on Friday, 20 April 2018. The ECB also noted that the call for expressions of interest on its website was still open to market participants not represented in the working providing an opportunity to get involved at sub-group level.

List of participants at the working group on euro risk-free rates meeting

Participant's organisation**Name of participant****Chairperson (ING)**

ING

Mr Koos Timmermans

Ms Johanneke Weitjens

Voting members

Bank of Ireland

Mr Barry Moran

Barclays

Mr Sascha Weil

Barclays

Mr Andreas Giannopoulos

Bayerische Landesbank

Mr Harald Endres

BBVA

Mr José Manuel González-Páramo

BBVA

Mr Fernando Soriano

BNP

Ms Dominique Le Masson

BPCE/Natixis

Mr Olivier Hubert

BPCE/Natixis

Ms Sophie Asselot

CaixaBank, S.A.

Mr Javier Pano

CaixaBank, S.A.

Mr Jean Naslin

Crédit Agricole

Mr Carlos Molinas

Crédit Agricole

Mr Laurent Côte

Deutsche Bank

Mr Juergen Sklarczyk

DZ Bank

Mr Michael Schneider

DZ Bank

Ms Cornelia Gericke

Erste Group Bank AG

Mr Neil McLeod

Eurobank - Ergasias SA

Mr Theodoros Stamatiou

HSBC

Mr Pierre Jenft

ING

Mr Jaap Kes

ING

Ms Marjolein De Jong

Intesa Sanpaolo

Mr Marco Antonio Bertotti

Intesa Sanpaolo

Ms Maria Cristina Lege

KfW Bankengruppe

Mr Markus Schmidtchen

KfW Bankengruppe

Mr Ingo Ostermann

LBBW

Mr Jan Misch (excused)

Nordea

Ms Jaana Sulin

Santander

Mr José Manuel Campa

Société Générale

Mr Stéphane Cuny

Unicredit

Mr Alberto Covin

Non-voting members

European Money Markets Institute

Ms Petra De Deyne

European Money Markets Institute

Mr Alberto Lopez Martin

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

Ms Agathi Pafili
 Mr Peter De Proft
 Mr David Hiscock
 Mr Richard Sandilands
 Mr Ciarán McGonagle
 Ms Kam Mahil

Invited institution

European Investment Bank
 European Investment Bank

Mr Yassine Boudghene
 Mr Thomas Schröder

Observers

European Central Bank
 European Central Bank
 European Securities and Markets Authority
 European Securities and Markets Authority
 Financial Services and Markets Authority
 Financial Services and Markets Authority
 European Commission
 European Commission
 European Commission

Mr Benoit Cœuré
 Ms Cornelia Holthausen
 Mr Steven Maijor
 Mr Jakobus Feldkamp
 Mr Jean-Paul Servais
 Mr Rik Hansen
 Mr John Berrigan
 Mr Uwe Eiteljoerge
 Ms Alessandra Atripaldi

Secretariat

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Ms Anne-Lise Nguyen
 Mr Philippe Molitor
 Ms Juliane Kinsele
 Mr Pascal Nicoloso
 Mr Vladimir Tsonchev