

## Meeting of the working group on euro risk-free rates

held in Frankfurt am Main on Wednesday, 19 December 2018, 11:00-16:00

### SUMMARY

#### 1. Approval of the agenda and obligations of the working group members as regards competition law

**Steven van Rijswijk (Chair)** asked the members of the working group to approve the agenda of the meeting and reminded them 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. Update on the legislative procedure to amend the EU Benchmarks Regulation on transitional provisions

**Tilman Lüder (European Commission)** updated the working group on the latest developments regarding possible amendments to the EU Benchmarks Regulation (BMR), which permit a two-year extension for critical benchmarks. He stated that the amendments to the EU Regulation would have to be introduced as part of a pending legislative proposal amending the BMR – as part of either the review of the European Supervisory Authorities (ESAs) or the low carbon benchmark proposal. He indicated that some amendments to allow for an extension of the deadline for authorisation under the BMR for critical benchmarks had been adopted by both the European Parliament and by the Council of the European Union, albeit with different wording. The triilogue phase between the European Parliament, the Council of the European Union and the European Commission will now start in January 2019, so as to find a common position on the wording of possible amendments. The final outcome remains uncertain, as the extension of the BMR is also linked to the need for political agreement on the overall legislative proposals (ESA or low carbon benchmarks). The working group will be kept informed about developments to the process.

The members of the working group also discussed amendments to the BMR in order to extend the maximum period of mandatory contributions to critical benchmarks beyond the two-year time frame currently envisaged.

#### 3. Update by Subgroup 4 on EONIA transition paths

##### 3.1. Discussion and approval of the report of Subgroup 4 on EONIA transition

**Carlos Molinas (Crédit Agricole)**, the Chair of Subgroup 4 on EONIA transition, presented work conducted in the last five months to prepare the EONIA transition report for publication on the ECB's website after the meeting. He explained that the subgroup had managed to build a consensus around a transition path from EONIA to ESTER within a very tight time frame, considering that ESTER had only been recommended as a euro risk-free rate in September 2018.

In terms of procedure, he recalled that Subgroup 4's report had been sent for comments to the working group before the meeting. It was also presented at two teleconferences in December 2018, where members of the working group were given the opportunity to ask questions and share their views on the transition paths.

In terms of content, he recalled that the main recommendations of the report were addressed to the European Money Markets Institute (EMMI), EONIA's administrator, in order to adapt existing EONIA methodology from the current panel banks contribution system to a methodology indexed on ESTER plus a spread. Other recommendations were addressed to market participants regarding the progressive replacement of EONIA by ESTER in contracts and products, as well as the use of a single curve for each counterparty as a basis for collateral interest (clean discounting). For the recommendations to be effective, he recalled the need for continuing public sector support.

At the invitation of the Chair, all members of the working group endorsed the document for publication on the ECB website on 20 December.

**Jean-Louis Schirmann (EMMI)** took note of these recommendations, and particularly welcomed the reference to the establishment of a clear termination/discontinuation date for EONIA by the end of 2021. **Randy Priem (Financial Services and Markets Authority)** commended the working group on its recommendations.

### 3.2. Next steps for Subgroup 4

**Steven van Rijswijk (Chair)** recalled that the report's recommendations would be open for market feedback until 1 February 2019, so that the working group could discuss and take into account possible broader considerations during its next meeting on 27 February, before adopting its final recommendations in March 2019.

**Cornelia Holthausen (ECB)** indicated that the scenario of the EONIA recalibrated methodology could have implications regarding the start date of ESTER, as one of the report recommendations aims to align the recalibration of the EONIA methodology with the ESTER start date.

Finally, the working group agreed that outreach to market participants should be as wide as possible to collect a broader set of views before recommending a transition path from EONIA to ESTER. Members of the working group detailed their intention to support the visibility of the report on EONIA transition. In particular, trade associations will send information to their members or stakeholders, and some working group members also intended to send the report to clients and organise teleconferences with market contacts.

## 4. Update by Subgroup 2 on term structure methodologies

### 4.1. Discussion and approval of the public consultation on term rates based on ESTER

**Dominique Le Masson (BNP Paribas)** introduced the draft public consultation prepared by Subgroup 2 on determining an ESTER-based term structure methodology as a fallback in Euribor-linked contracts. She recalled that the aim of the document was to seek market feedback from a broad range of stakeholders on:

- (i) the use cases for certain term structure methodologies;
- (ii) the preference of the working group to base a term structure on firm, tradeable ESTER OIS quotes.

Furthermore, she clarified the context in which the public consultation will be launched with regard to the ongoing work by EMMI on the reform of Euribor and also by the International Swaps and Derivatives Association (ISDA) on determining fallbacks for derivatives. The working group praised the work done by Subgroup 2 within a short time frame. At the invitation of the Chair, all members of the working group endorsed the document for publication on the ECB website on 20 December.

### 4.2. Next steps for Subgroup 2

**Dominique Le Masson (BNP Paribas)** outlined Subgroup 2's planned issues for discussion in 2019, focusing on the following:

- (i) while the public consultation focuses only on ESTER-based forward-looking methodologies, the interaction between backward-looking and forward-looking methodologies will also need to be assessed;
- (ii) issues related to the need to account for differences in values between Euribor and the risk-free fallback rate will need to be analysed;
- (iii) cooperation with stakeholders, in particular ISDA and working groups in other jurisdictions, will need to be strengthened;
- (iv) requirements that enable broad-based adoption of a new term structure will need to be identified and framework proposals developed to ensure their successful implementation.

## **5. Update by Subgroup 3 regarding the legal analysis and fallback clauses**

### **5.1. Update on (a) the summary of the legal analysis and (b) the recommendations for fallback clauses for cash products**

**Adolfo Fraguas (BBVA)** presented a paper prepared by Subgroup 3 on the guiding principles for fallback provisions for euro-denominated cash products. The paper was divided into two sections:

- i) an outline of the current legal framework and market practices with a special focus on fallback provisions;
- ii) proposals for guiding principles for new fallback provisions in new contracts.

The paper recommends high-level guiding principles rather than specific fallback language and covers cash products only. Derivatives were omitted to avoid possible overlaps with the ISDA workstream. The need for specific fallback language recommendations for certain asset classes will be discussed by Subgroup 3 in more detail during the course of 2019. At the invitation of the Chair, the working group members endorsed the paper for publication on the ECB website in January 2019.

### **5.2. Engagement of law firms and next steps for Subgroup 3**

**Mr Fraguas (BBVA)** informed the working group that Clifford Chance and Linklaters had become members of the subgroup on contract robustness. These two law firms had been invited to become members of the group, consistent with the conclusions of the last working group meeting, and further to the request from some subgroup members to invite law firms to support their work. These two legal counsel firms were selected from international law firms with broad experience in the financial sector and also due to their presence in most European countries. Clifford Chance and Linklaters will participate in the subgroup's conference calls on contract robustness, engage with subgroup members on specific topics and review the documentation produced by the subgroup. The list of the members of the subgroup on contract robustness will be updated on the ECB website accordingly.

## **6. Other business**

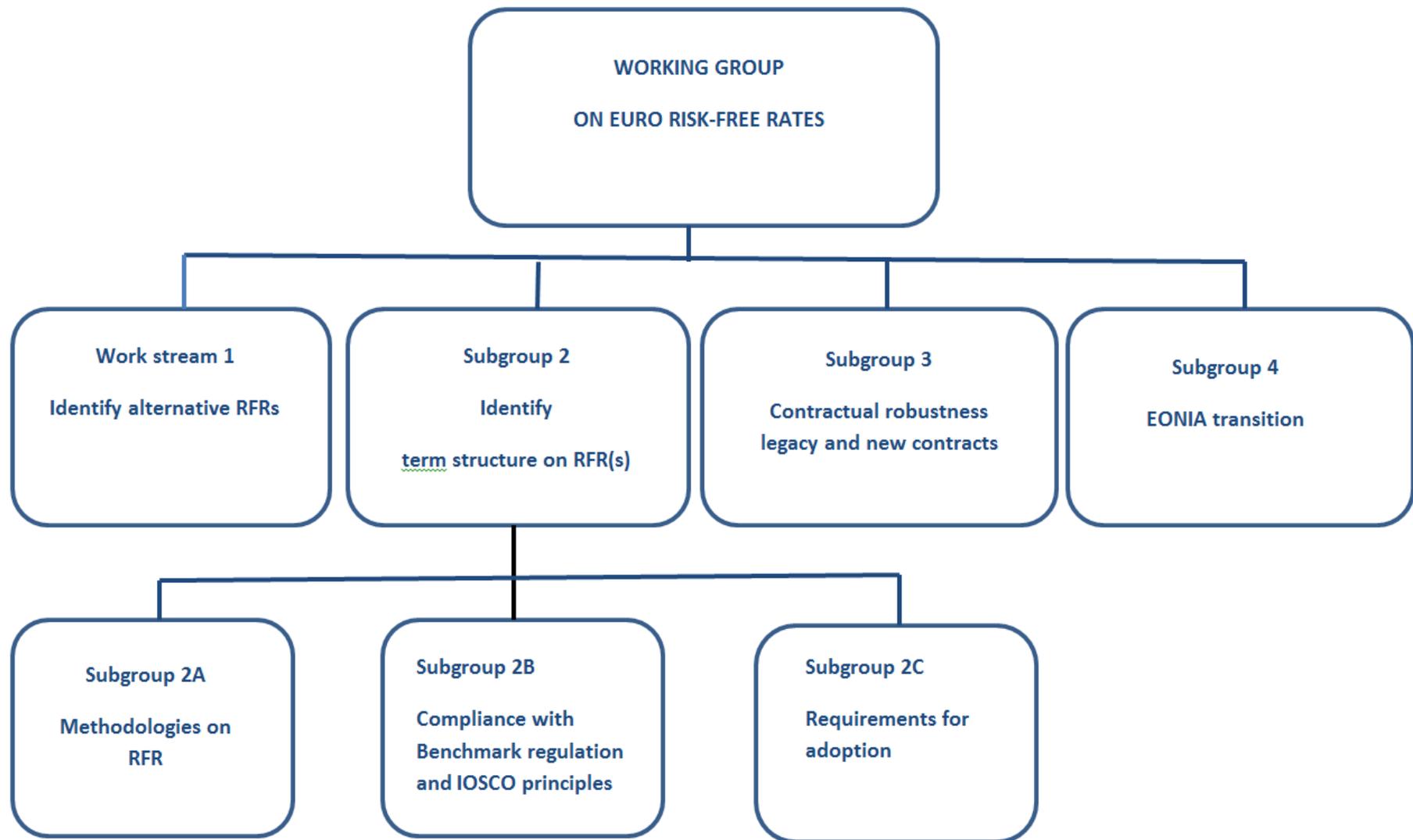
### **6.1. Update from ISDA on the results of the benchmark consultation on IBOR fallbacks**

**Ciarán McGonagle (ISDA)** presented some preliminary results of the market consultation on certain IBORs that was launched by ISDA in July 2018, with the aim of informing final decisions on approaches to term and spread adjustments for derivatives fallbacks. The findings are subject to approval by the ISDA Board Benchmark Committee. An anonymised and aggregated summary of responses to the consultation was planned for publication by the end of December 2018. Based on the feedback received from 164 entities, ISDA expects to proceed with developing fallbacks based on the compounded setting in arrears rate and the historical mean/median approach to spread adjustment. Mr McGonagle informed the working group that ISDA will launch supplemental consultations covering Euribor and Euro LIBOR following the publication of ESTER.

### **6.2. Feedback from the roundtable on euro risk-free rates on 9 November 2018**

The ECB secretariat reported that the roundtable on euro risk-free rates had attracted around 250 participants with an audience wider than working group and subgroup members, including asset managers, insurance companies, debt management offices, and several corporate organisations. An ex post informal survey showed that the feedback from the event was overall positive, and that demand for information and outreach is strong given that the way forward for euro benchmarks is still uncertain. Some 130 questions had been collected from the audience during the event, which will be used as a basis for producing a working group Q&A on benchmark transition.

The next meeting of the working group will take place at the ECB on Thursday, 27 February 2019.



## List of meeting participants

### Chair

ING

Mr Steven van Rijswijk

Ms Johanneke Weijtens

### Voting members

Bank of Ireland

Mr Barry Moran

Barclays

Mr Joseph McQuade

Bayerische Landesbank

Mr Harald Endres

BBVA

Mr Adolfo Fraguas Bachiller

BBVA

Mr José Carlos Pardo

BNP Paribas

Ms Dominique Le Masson

BNP Paribas

Mr David Gorans

BPCE/Natixis

Mr Olivier Hubert

BPCE/Natixis

Ms Sophie Asselot

CaixaBank, S.A.

Mr Juan Cebrián Torallas

CaixaBank, S.A.

Mr Francesco Xavier Combis Comas

Crédit Agricole

Mr Carlos Molinas

Crédit Agricole

Ms Florence Mariotti

Crédit Agricole

Mr Gaetan Romand

Deutsche Bank

Mr Juergen Sklarczyk

DZ Bank

Mr Michael Schneider

DZ Bank

Ms Cornelia Gericke

Erste Group Bank AG

Mr René Brunner

Eurobank - Ergasias SA

Mr Theodoros Stamatiou

HSBC

Mr Pierre Jenft

ING Bank

Mr Jaap Kes

ING Bank

Ms Marjolein de Jong-Knol

Intesa Sanpaolo

Mr Marco Antonio Bertotti

KfW Bankengruppe

Mr Markus Schmidtchen

KfW Bankengruppe

Mr Ingo Ostermann

LBBW

Mr Jan Misch

Santander

Mr José Manuel Campa

Santander

Mr Carlos Fernandez Infesta

Société Générale

Mr Olivier Balpe

Société Générale

Mr Stéphane Cuny

UniCredit Bank

Mr Alberto Covin

**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

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

**Invited institution**

European Investment Bank

Mr Yassine Boudghene

**Observers**

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

Ms Cornelia Holthausen  
Mr Holger Neuhaus  
Mr Michele Mazzoni  
Mr Randy Priem  
Mr Timothy de Meester  
Mr Tilman Lüder  
Ms Alessandra Atripaldi

**Secretariat**

European Central Bank  
European Central Bank

Ms Anne-Lise Nguyen  
Ms Stephanie Broks  
Mr Philippe Molitor  
Mr Pascal Nicoloso  
Ms Yasmina Santalla Perez  
Mr Michael Stenström  
Mr Vladimir Tsonchev