

Teleconference of the working group on euro risk-free rates

Thursday, 18 February 2021, 13:00-17:00 CET

SUMMARY

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

Tanate Phutrakul (Chair) opened the call, pointing out that the main purpose of the meeting was to reflect on the feedback received from the two public consultations: i) on euro interbank offered rate (EURIBOR) fallback trigger events, and ii) on €STR-based EURIBOR fallback rates. In this context, potential administrators of €STR-based forward-looking term structures were invited to give an update on their plans to produce such a term structure.

Mr Phutrakul 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. Summary of responses to the public consultations

2.1. Public consultation on EURIBOR fallback trigger events

Yasmina Santalla (ECB) presented a summary of the feedback received from the public consultation on [EURIBOR fallback trigger events](#) launched on 23 November 2020. The full summary of the responses can be found on the [ECB website](#).

José Carlos Pardo (BBVA), chair of subgroup 3 on contract robustness, noted that five out of seven of the EURIBOR fallback trigger events from the consultation received strong support from the respondents. Mr Pardo added that the remaining two trigger events would need to be discussed again in subgroup 3 in the light of the feedback received. **Mr Pardo** highlighted, as another point for discussion, the question as to whether or not the pre-cessation trigger event for EURIBOR could be incorporated into the International Swaps and Derivatives Association's (ISDA's) EURIBOR fallback provisions in their 2006 Definitions and protocol, in order to increase global consistency across currencies and products.

2.2. Public consultation on €STR-based EURIBOR fallback rates

Yasmina Santalla (ECB) presented a summary of the feedback received from the public consultation on [€STR-based EURIBOR fallback rates](#) launched on 23 November 2020. The full summary of the responses can be found on the [ECB website](#).

Anna Kozhenikova (Generali), Neil McLeod (Erste) and Christian Gau (Deutsche Bank), co-chairs of subgroup 5 on cash and derivatives products, concluded that the working group received clear feedback for many of the key questions raised in the public consultation. This included five out of nine use cases, all elements of the spread adjustment (apart from the one-year transition period) and all elements of the calculation methodology and conventions. Four of the use cases received less than 66% support from respondents, meaning these require further discussion in subgroup 5.

The subgroup 5 co-chairs also suggested launching a call for interest for potential administrators for the publication of the spread adjustment and/or an all-in rate (compounded €STR + spread adjustment), as this working group proposal received almost unanimous support from market participants (95%).

2.3. Discussion on the next steps for the endorsement of final recommendations

The chairs of subgroup 3 and subgroup 5 agreed to prepare a proposal for the final recommendations on fallback triggers and rates, to be discussed at the respective subgroups. It was envisaged that the proposal would then be presented to the working group during its next meeting on 31 March.

Marjolein de Jong-Knol (ING) clarified that the working group will ultimately take a final decision on the list of EURIBOR fallback recommendations via a voting procedure, performed by the 21 voting members' institutions. According to the [working group's terms of reference](#), each voting member will have one vote, while observers will not be eligible to vote. Ideally, the working group's decisions and recommendations should be reached by consensus, or otherwise by a two-thirds majority where necessary.

During the subsequent discussion, working group members supported the proposed way forward for the endorsement of the EURIBOR fallback recommendations as well as the launch of a call for interest for potential administrators to provide the spread adjustment and/or an all-in rate (compounded €STR + spread adjustment).

Some working group members highlighted the limited participation of end users, such as corporates and investment funds, in the public consultations, in particular in the consultation on €STR-based EURIBOR fallback rates. Some members suggested, therefore, that there might not be sufficient evidence for some of the use cases in the €STR-based EURIBOR fallback rates public consultation, in particular where EURIBOR is used as a benchmark for investment funds and in transfer pricing models.

Forward-looking rates for several use cases received considerable support in the consultation (e.g. mortgages, SME loans and trade finance products) and among the working group members. In addition, the forward-looking rates will be complemented by an alternative backward-looking rate on the second layer of the waterfall structure, which parties could fall back on in the event that a forward-looking rate were to become unavailable. However, some working group members expressed caution with respect to the future existence of the forward-looking rates and the fact that the working group will most likely recommend their use despite there being no clarity yet on their future existence.

Tilman Lueder (European Commission) noted these concerns adding that, while there is a clear demand for forward-looking rates, as reflected in the responses to the public consultation on €STR-based EURIBOR fallback rates, it is not clear whether forward-looking rates will become available. He advised the working group to use precautionary language when drafting the EURIBOR fallback provision recommendations.

Finally, some working group members suggested that the working group's EURIBOR fallback recommendations may be too complex to implement. However, other members pointed out that this complexity reflects the broad use of EURIBOR in many different products, and that such complexity in fallback recommendations exists in other jurisdictions.

3. Update by potential administrators of €STR-based forward-looking term structures

Mr Phutakrul (Chair) welcomed **Alex Nourry (Clifford Chance)**, who joined this part of the meeting on a pro bono basis to ensure that the discussion which followed was in accordance with EU competition law. **Mr Phutakrul** reminded members of the usual confidentiality rules that apply to any confidential business information disclosed by any of the administrators during their presentations.

European Money Markets Institute (EMMI) and **ICE Benchmark Administration (IBA)** presented their work on a forward-looking €STR term structure to the working group.¹ The presentation was followed by a Q&A with the working group. Members' questions focused on the methodology of the rate, whether the methodology would be robust during periods of market stress and whether Brexit had any impact on the planned production of the rate in view of the domicile of IBA.

EMMI and **IBA** explained that the rate would be based on committed OIS quotes from trading platforms and €STR futures settlement prices, rather than OIS transactions. They felt that the methodology was robust in times of stress, primarily because €STR volumes tend to rise in a stress situation, while €STR futures settlement prices acted as a backup. **IBA** (the calculation agent) noted that they were based in the United Kingdom, while the administrator of the rate (**EMMI**) is based in the European Union. **IBA** has already committed to keeping their benchmark services available after Brexit.

Refinitiv presented their work on a forward-looking €STR term structure to the working group. The presentation was followed by a Q&A with the working group. Members' questions focused on the methodology of the rate, the level of liquidity in the EUR OIS market and whether Brexit had any impact on the planned production of the rate.

¹ One other potential administrator (FTSE Russell) declined the opportunity to present developments they have made on a €STR-based forward-looking term rate at this meeting. Another administrator, IHS Markit, had previously announced that they would suspend work on term risk-free rates based on the €STR.

Refinitiv explained that the rate was based on committed Overnight Index Swap (OIS) quotes from interdealer and dealer-to-client trading platforms, rather than OIS transactions. They noted that the same methodology had been used in their work to create a term SONIA rate for the GBP market. Given the size of the EUR OIS market, they expected to be able to produce a robust benchmark. **Refinitiv** had recently become part of the London Stock Exchange Group (LSEG). The benchmark would be considered a third-country benchmark under EU rules.

The working group then exchanged views on progress towards a forward-looking €STR term rate. Members welcomed the work done by EMMI, IBA and Refinitiv. Both presentations highlighted the low usage of €STR derivatives, which hampered the production of a forward-looking €STR term structure. However, some members felt that liquidity in the €STR market would increase over time as soon as the transition from EONIA to €STR is completed. One member questioned the viability of a quote-based benchmark given the historical issues around quote-based IBORs. Some members explained that the situation for a €STR-based forward-looking term rate will be more transparent because it will be based on committed OIS quotes that will be visible on trading platforms. One member wondered if the absence of other potential providers signalled concerns about the viability of a forward-looking rate. Finally, one member noted that the working group should consider the robustness of the potential forward-looking rates before drafting the working group's final recommendations.

Helmut Wacket (ECB) reiterated the ECB's concerns about a forward-looking €STR term structure based on quotes rather than OIS transactions. He noted that the number of quote providers was still very low and that the maximum number of providers was even lower than the minimum number of banks for which €STR is not considered representative and hence published in contingency mode.

4. Update on the OIS market transition from EONIA to €STR

Mr Wacket (ECB) updated the working group on progress on transition from EONIA to the €STR in the derivatives market. Take-up of the €STR was still very low. The new rate accounted for only ~5% of new trade volumes, while only 4% of the stock of EUR OIS trades now referenced the €STR.² Transition progress had been extremely slow, with less than one year to go before the end of the EONIA benchmark, and members of the working group were encouraged to lead by example for migration to the €STR.

Mr Phutrakul (Chair) invited comments from working group members. Members recognised the importance of the transition from EONIA to the €STR, (i) because EMMI planned to cease the publication of EONIA as of 3 January 2022 and (ii) for the viability and representativeness of €STR-based forward-looking rates. Many members noted that their institutions were ready and able to trade €STR products, but that customer demand remained focused on EONIA products. Several members raised the idea of greater support for transition in the public sector, perhaps in the form of a letter to financial institutions, to help overcome the first-mover disadvantage inherent in the transition.

5. AOB

5.1. Status of the working group after publication of the EURIBOR fallback recommendations

Mr Wacket (ECB) informed the working group members that public authorities had discussed the future of the working group, acknowledging that it was close to completing its agreed deliverables once the recommendations for EURIBOR fallback rates and triggers are published. He recognised that the working group proved valuable in coordinating private and public sector efforts in steering the benchmark reform and thus it would be beneficial if the working group continued under an updated mandate and with ESMA taking over from the ECB as secretariat support to the working group.

Iliana Lani (ESMA) informed the working group members that work on new terms of reference is ongoing and will be presented in the next working group meeting on 31 March 2021. Under the new terms, the working group will have a lighter structure as there will be no subgroups. Moreover, the working group will be open to potential participation from other market participants, market associations and market infrastructures. The main focus of the working group going forward will be to monitor and, where needed, steer:

- (i) the transition from EONIA to the €STR;
- (ii) the development of EURIBOR fallback rates and their wide adoption;
- (iii) the evolution of LIBOR use and the impact of LIBOR discontinuation on EU markets.

² Source: LCH clearing house data.

Mr Phutrakul (Chair) thanked ESMA for taking over the secretariat responsibilities and informed that ING would step down as chair of the working group after the publication of the EURIBOR fallback recommendations, thus giving the opportunity to other market participants to chair and contribute to the future working group deliverables. **Ms Lani** encouraged working group members to consider expressing interest in taking over the role of chair from ING.

List of participants

Participant's organisation

Name of participant

Chairperson

ING

Mr Tanate Phutrakul

Ms Marjolein de Jong-Knol

Voting members

Bank of Ireland

Barclays

Bayerische Landesbank

BBVA

BBVA

BBVA

BNP Paribas

BNP Paribas

BNP Paribas

BPCE/Natixis

CaixaBank, S.A.

CaixaBank, S.A.

Crédit Agricole

Crédit Agricole

Deutsche Bank

Deutsche Bank

DZ Bank

DZ Bank

Erste

Erste

Eurobank SA

HSBC

ING Bank

Intesa Sanpaolo

KfW Bankengruppe

KfW Bankengruppe

LBBW

Nordea

Santander

Santander

Santander

Société Générale

Société Générale

UniCredit Bank

Mr Barry Moran

Mr Joseph McQuade

Mr Harald Endres

Mr José Carlos Pardo

Mr Adolfo Fraguas

Mr Ignacio Ollero

Ms Dominique Le Masson (recused from Item 3)

Mr David Gorans

Mr Patrick Chauvet

Mr Olivier Hubert

Mr Francesc Xavier Combis Comas

Mr Julius Moschitz

Ms Florence Mariotti

Mr Laurent Cote

Mr Christian Gau

Mr Juergen Sklarczyk

Mr Philipp Nordloh

Mr Michael Schneider

Mr René Brunner

Mr Neil McLeod

Mr Theodoros Stamatiou

Ms Nathalie Gay Guggenheim

Mr Jaap Kes

Ms Maria Cristina Lege

Mr Ingo Ostermann

Mr Markus Schmidtchen

Mr Jan Misch

Ms Jaana Sulin

Ms Mónica López-Monís

Mr Javier Pareja

Ms María Teresa Bermúdez Tejero

Mr Stephane Cuny

Mr Olivier Balpe

Mr Umberto Crespi

Non-voting members

European Money Markets Institute	Mr Jean-Louis Schirmann (recused from Item 2.3, 3, and 4 except EMMI's presentation during Item 3)
European Money Markets Institute	Ms Petra de Deyne (recused from Item 2.3, 3, and 4 except EMMI's presentation during Item 3)
EFAMA	Ms Agathi Pafili
International Capital Market Association	Ms Katie Kelly
International Swaps and Derivatives Association	Mr Jonathan Martin
International Swaps and Derivatives Association	Mr Graham Bryant
Loan Market Association	Ms Kam Mahil

Invited institutions

European Investment Bank	Mr Nikolaos Tzoldos
European Investment Bank	Mr Thomas Schröder
Generali	Ms Anna Kozhevnikova

Additional invited institutions (for the presentations during Item 3)

Clifford Chance	Mr Alex Nourry
ICE Benchmark Administration	Mr Timothy Bowler
Refinitiv	Mr Jacob Rank-Broadley
Refinitiv	Ms Shirley Barrow
Refinitiv	Mr Robert Walton

Observers

European Central Bank	Mr Helmut Wacket
European Commission	Mr Tilman Lueder
European Commission	Ms Alessandra Atripaldi
European Commission	Mr Rik Hansen
European Securities and Markets Authority	Ms Iliana Lani
European Securities and Markets Authority	Mr Michele Mazzoni
European Securities and Markets Authority	Mr Cristian Weststeijn
Financial Services and Markets Authority	Mr Randy Priem

Secretariat

European Central Bank	Ms Yasmina Santalla Pérez
European Central Bank	Ms Letycja Steinkamp
European Central Bank	Mr Simon Forsyth
European Central Bank	Mr Pascal Nicoloso
European Central Bank	Mr Vladimir Tsonchev
European Central Bank	Mr Magnus Wirkkala Georgsson
European Central Bank	Ms Lamprini Ziaka