

Call for expressions of interest: looking for an administrator for a €STR-based forward-looking term structure as a fallback in EURIBOR-linked contracts

- In February 2018, the European Central Bank (ECB), the Belgian Financial Services and Markets Authority (FSMA), the European Securities and Markets Authority (ESMA) and the European Commission set up a working group on euro risk-free rates and tasked it with identifying and recommending alternative euro risk-free rates. That working group selected the €STR as the successor to the EONIA and is in the process of preparing a market adoption plan to ensure a smooth transition from the EONIA to the €STR.
- Last year, as part of its preparatory work, the working group tasked its subgroup 2 with the following:
 - exploring possible fallback arrangements for the EURIBOR;
 - determining and recommending a term structure methodology for the euro risk-free rate as a fallback in EURIBOR-linked contracts, in compliance with the EU Benchmarks Regulation (BMR), in case the EURIBOR is unavailable.
- The working group gave that subgroup the following guidance in this regard:
 - The methodology for calculating a fallback for the EURIBOR needs to be compliant with the BMR.
 - The subgroup might like to consider the work that is already being carried out in the relevant International Swaps and Derivatives Association (ISDA) currency groups, given that the ISDA has been tasked by the Financial Stability Board with working on fallback methodologies for interbank offered rates (IBORs) in the derivatives industry, while being mindful of the broader usage of EURIBOR rates (i.e. the fact that their use extends beyond the derivatives market).
- On 20 December 2018, the working group issued a second [public consultation](#) on calculation methodologies for determining a €STR-based forward-looking term structure that could be used as a fallback in EURIBOR-linked contracts. That consultation ran until 1 February 2019 and attracted 73 responses from a wide range of market participants. A [summary of those responses](#) was published on the ECB's website in February 2019.
- Notwithstanding the possibility of using backward-looking methodologies as a fallback for some EURIBOR-linked contracts, feedback from the consultation reiterated the point that a robust forward-looking solution as a fallback for the EURIBOR was very important for some users and some products (particularly cash products).

- The working group then tasked its subgroup 5 with further analysing both backward and forward-looking approaches as fallbacks for the EURIBOR, taking account of work being done in other currency areas and by international associations.
- On 14 March 2019, taking account of the feedback received in response to the second public consultation, the working group [recommended](#) that an OIS (tradable) quotes-based methodology be used to calculate a €STR-based forward-looking term structure methodology that could be used as a fallback in EURIBOR-linked contracts within a reasonable period of time following the launch of daily €STR publication.
- The working group acknowledged that a successful transition from the EONIA to the €STR was needed, with (i) significant transfer of liquidity to €STR OIS markets, (ii) transparent and regulated underlying derivatives markets, such as trading on multilateral trading facilities (MTFs), and (iii) sufficient sources of data.
- The working group believes that the reliability of the benchmark in times of stress and compliance with both the IOSCO principles and the BMR are essential attributes of any forward-looking term rates calculated in accordance with the recommended methodology.

The working group is now interested in meeting potential benchmark administrators with a view to ensuring the robust administration of €STR-based term structures. With that in mind, the working group invites interested benchmark administrators to consider (i) the [summary of responses](#) to the working group's second public consultation and (ii) the working group's [recommendation](#) of a calculation methodology based on OIS (tradable) quotes, and to indicate their intention to present a proposal on the development of such a rate. They should signal that intention by sending an email to the working group's secretariat at the ECB (EuroRFR@ecb.europa.eu) by 30 September 2019.

Each interested benchmark administrator will then be invited – separately – to formally present its proposals and observations at the working group's meeting on 16 October 2019, which may include a Q&A session.

For reasons of transparency, all of the presentations given by potential administrators will be published on the ECB's website after the working group meeting on 16 October 2019, so they should not contain any commercially sensitive information. All discussions prior to those presentations will be regarded as confidential.

Following that meeting on 16 October 2019, the working group will consider all applications and may request further analysis.

Should you require any further information or guidance in this regard, please feel free to contact the working group's secretariat (EuroRFR@ecb.europa.eu).