



EUROPEAN CENTRAL BANK

EUROSYSTEM

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ESTER – Main features of the ECB unsecured overnight rate

WG RFR meeting
Frankfurt, 11 July 2018

Main features of the rate

Scope: unsecured deposits to measure borrowing costs

Calculation: weighted average, trimming 25%

Data sufficiency policy: contingency triggers (20 banks, 75% top 5 banks' concentration ratio)

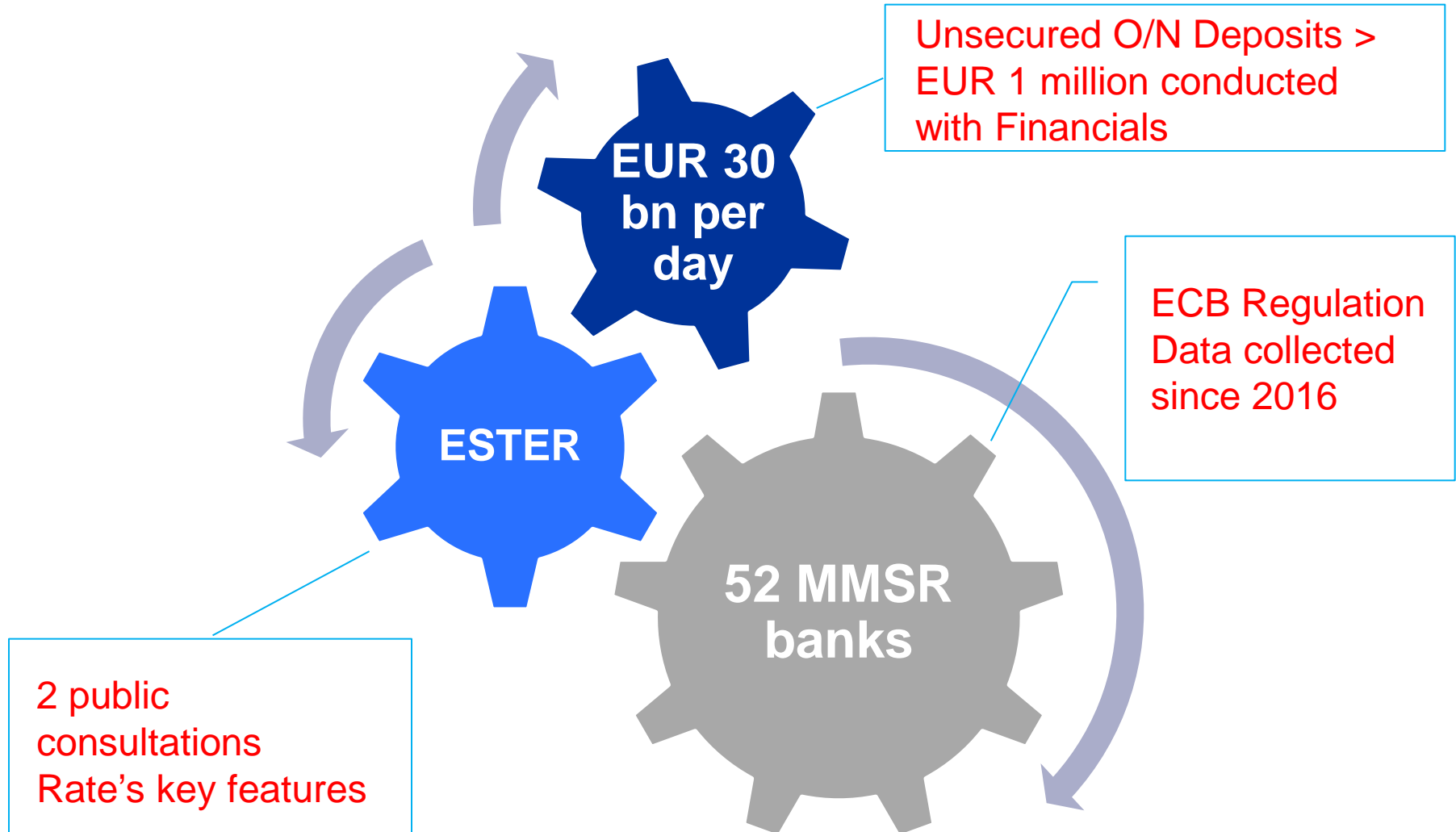
Governance and processes: ESTER published by 9:00 am Frankfurt time

Publication policy and transparency on errors

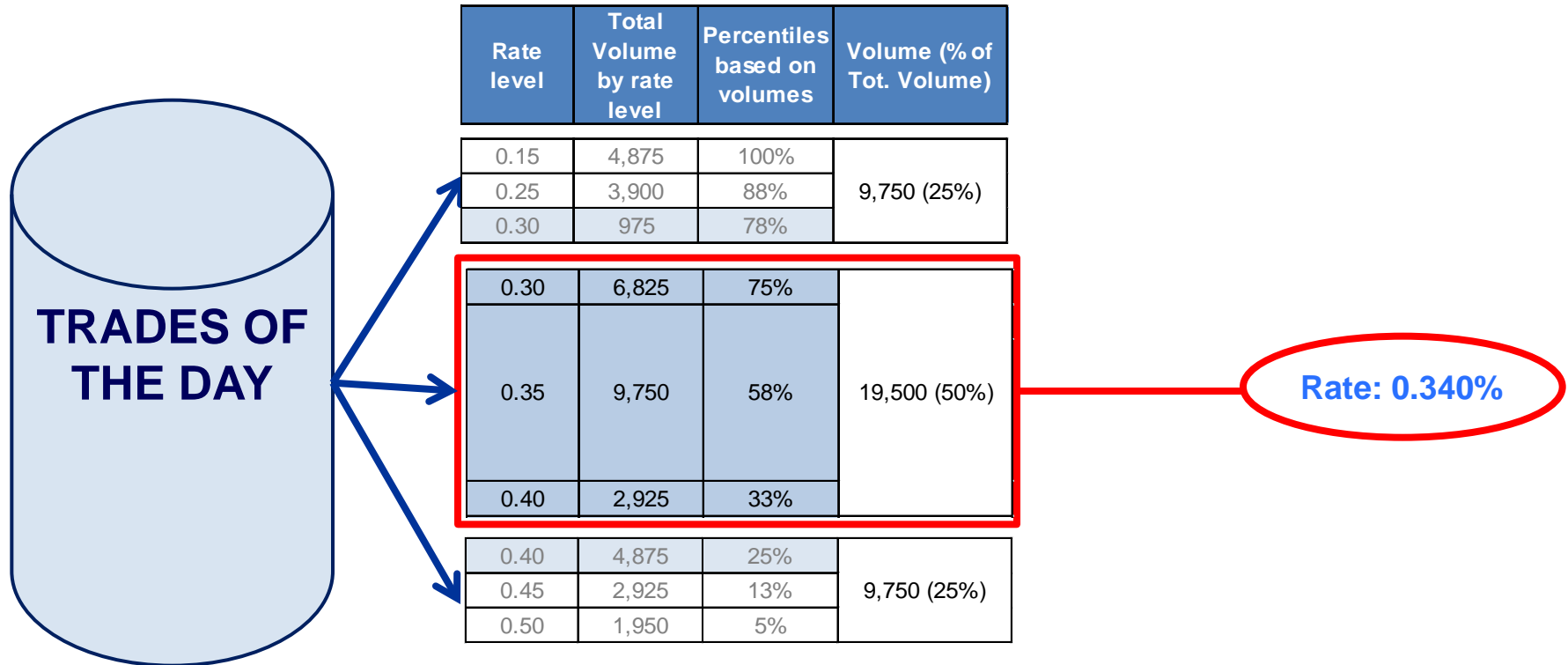
Rate published daily by October 2019
Pre-ESTER publications since 28 June

ESTER aims at consistency with IOSCO principles

ESTER is fully transactions-based, and relies on clear computation parameters



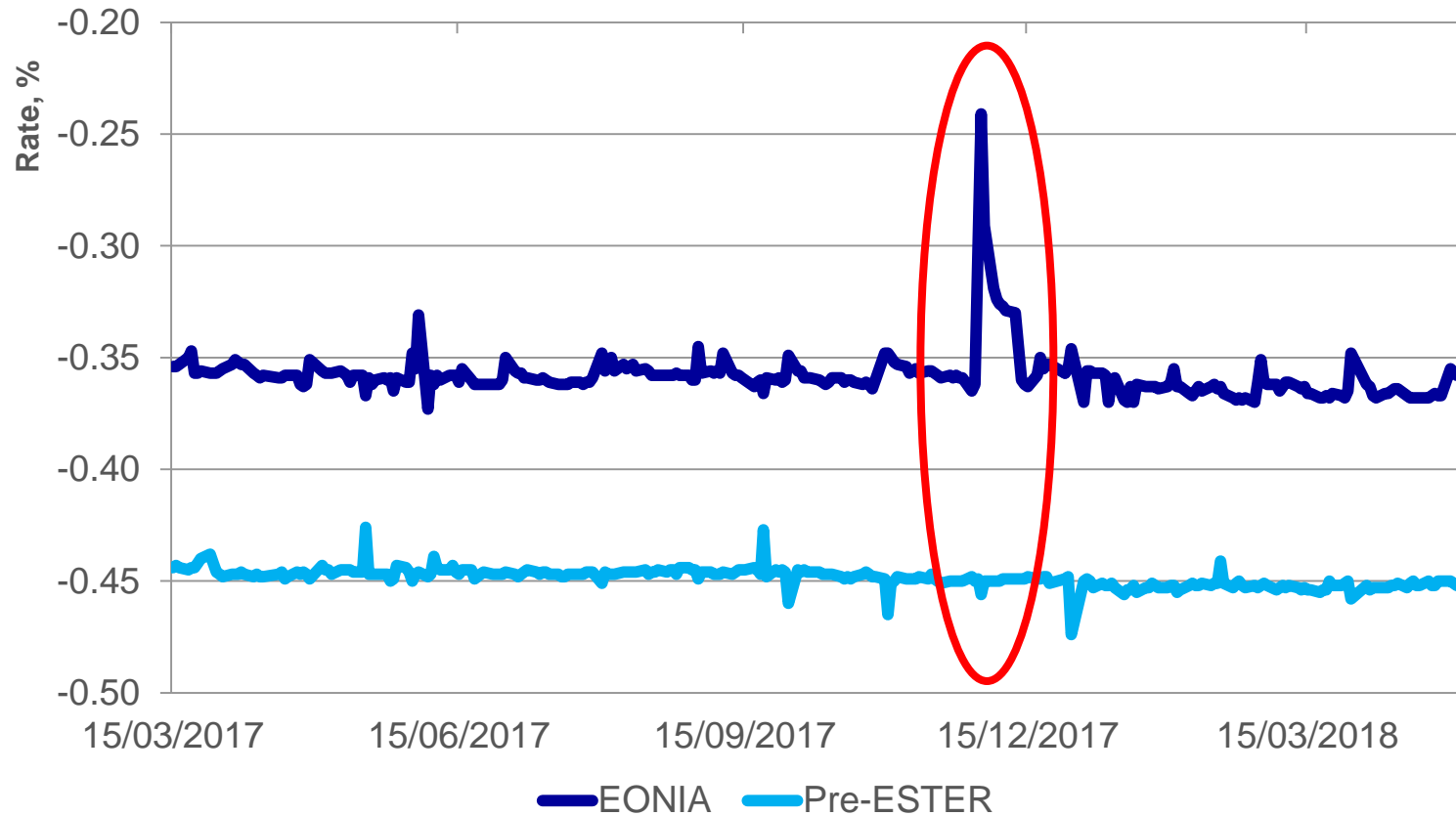
Trimming at 25% level – stylised example



No information loss:

- All trades used to determine ESTER
- ESTER calculation based on the centre of the trades' distribution

ESTER is quite stable

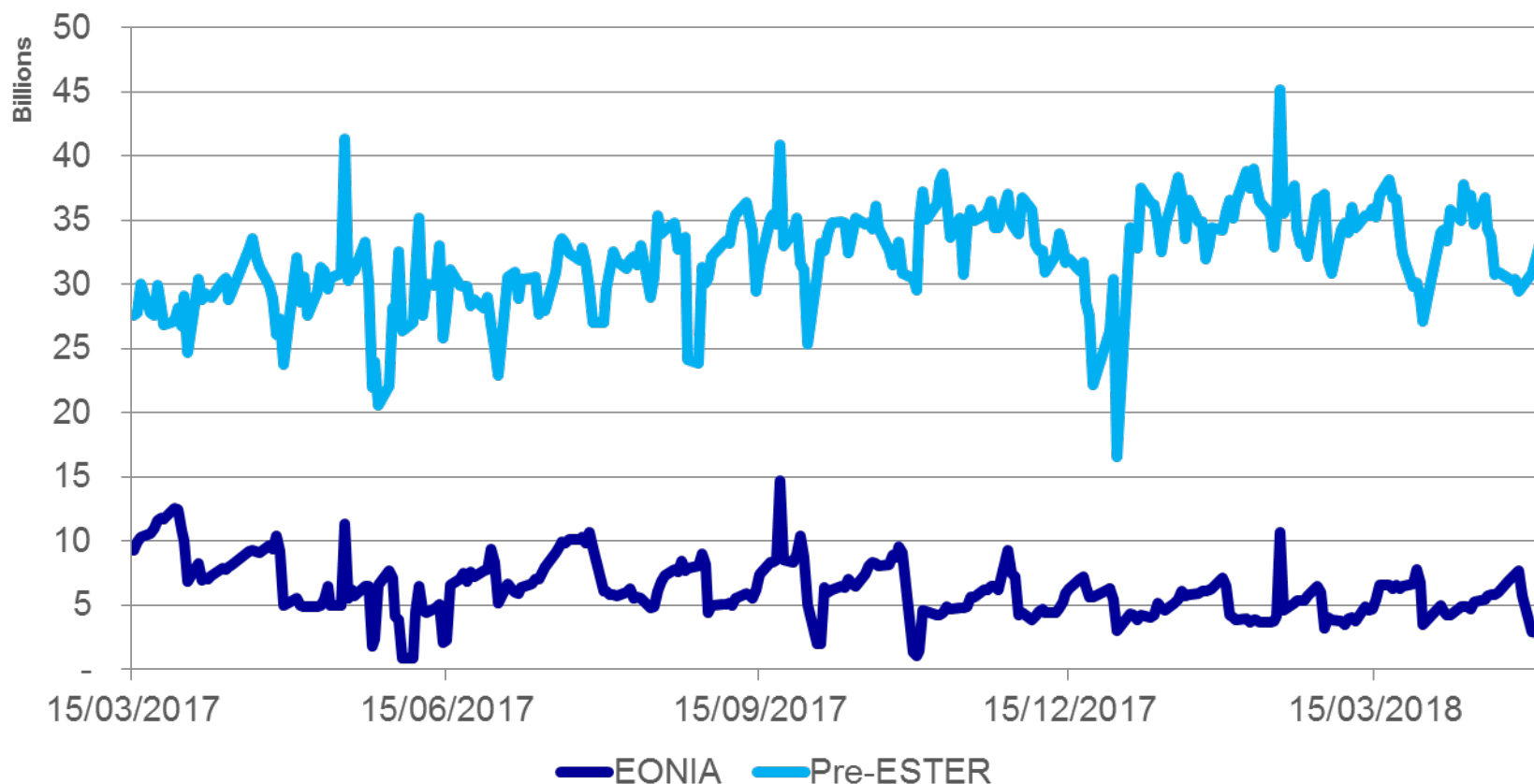


Source: ECB pre-ESTER publication

In sum:

- Rate reacts to market factors (Excess Liquidity, rate falls at quarter-ends)
- While being less vulnerable to outliers

Volumes are steady



Source: ECB pre-ESTER publication

ESTER volume remains in a range at significant volumes, falls at quarter-ends

Rate behaviour and volume represent a good compromise

Clear conceptual logic to measure borrowing costs

Rate robustness

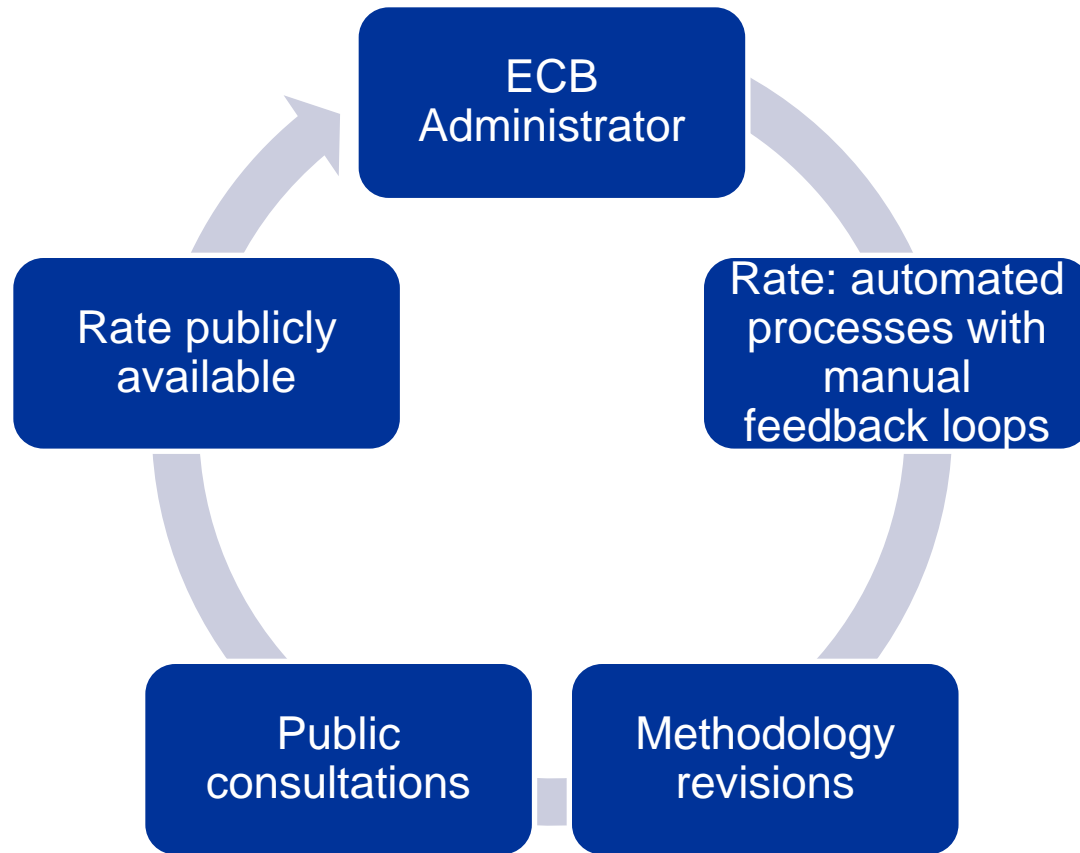
	High	Low
Rate	-0.426%	-0.474%
Volume, EUR bn	44,084	16,478
Number of trades	635	264
Number of banks	35	25
Share largest 5 banks	66%	51%
Contingency triggers	No	

Contingency triggers

Source: ECB pre-ESTER publication

No contingency triggered by lack of transactions (data: March 2017 to May 2018)
Data sufficiency and low concentration

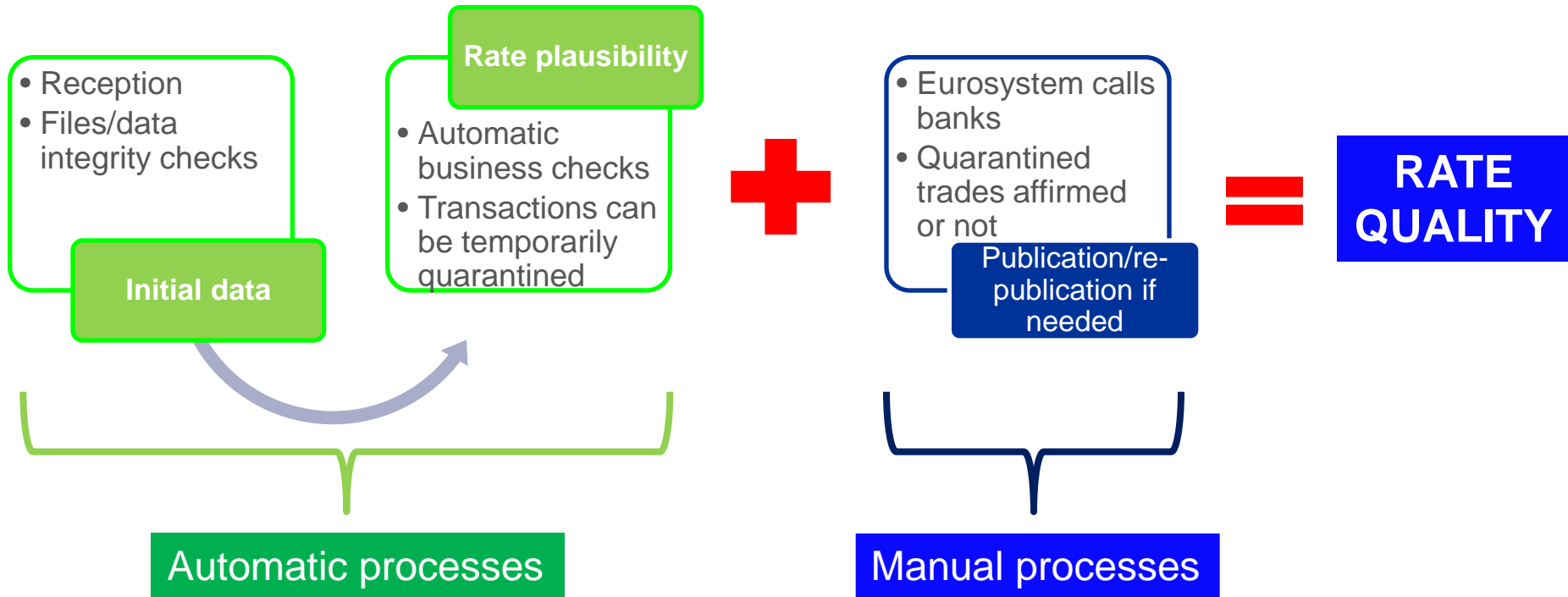
From governance to processes



At regular intervals, **ESTER methodology will be re-assessed and**

- **Adapted with market changes,**
- **Or re-confirmed**

Rate production process guarantees quality



Automation allows speed and quality while requiring thorough testing
Eurosystem will call reporting banks to ensure highest quality possible

Market informed every day on how the rate was determined

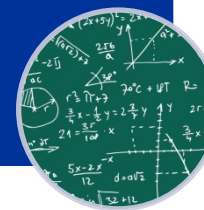
- 1) Rate, 3 decimals
- 2) Total volume
- 3) Number of transactions
- 4) Mode: normal, contingency

Rate determination



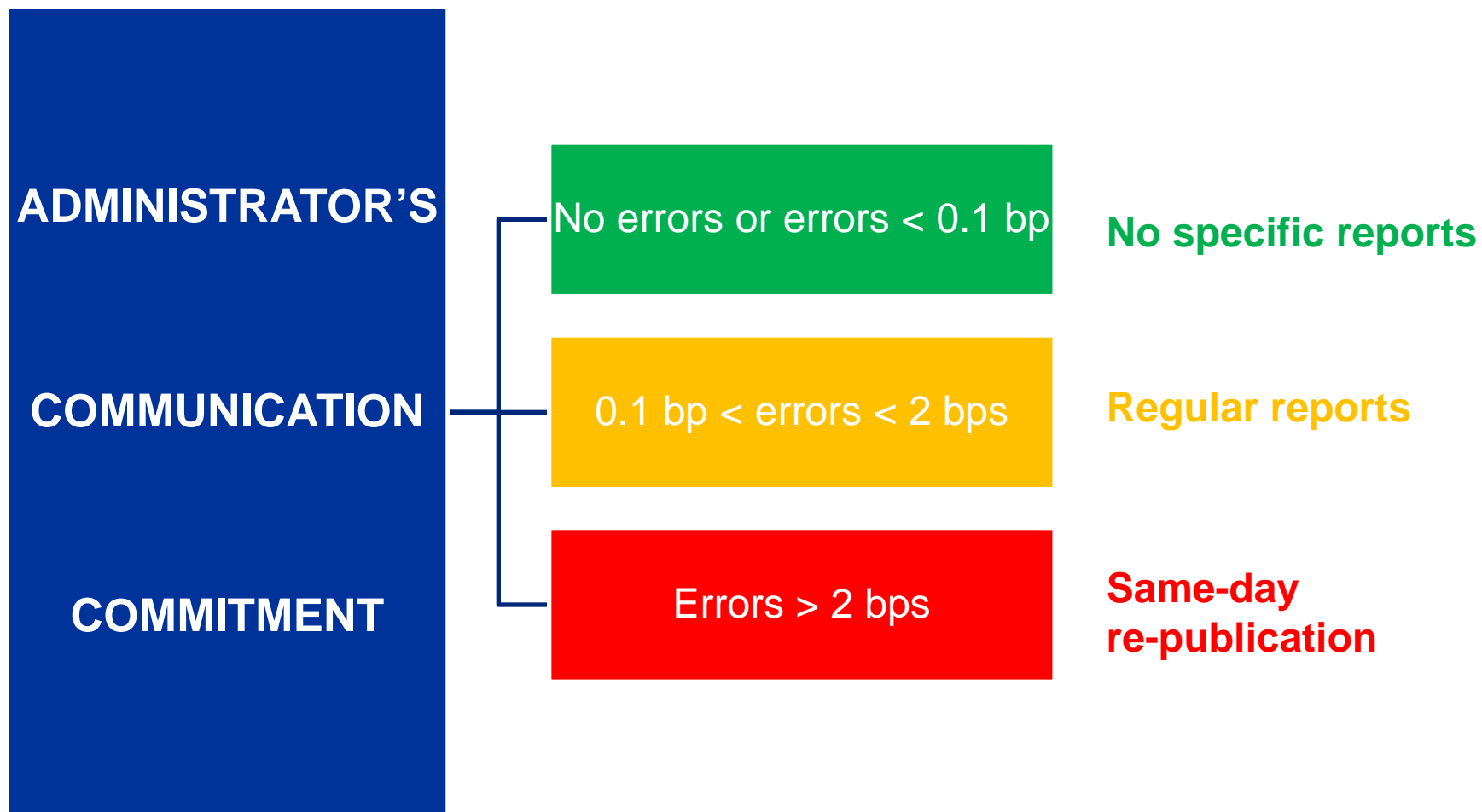
- 1) Number of banks
- 2) Share volume by largest 5 reporting banks
- 3) Rates at 25th and 75th percentiles

Additional information



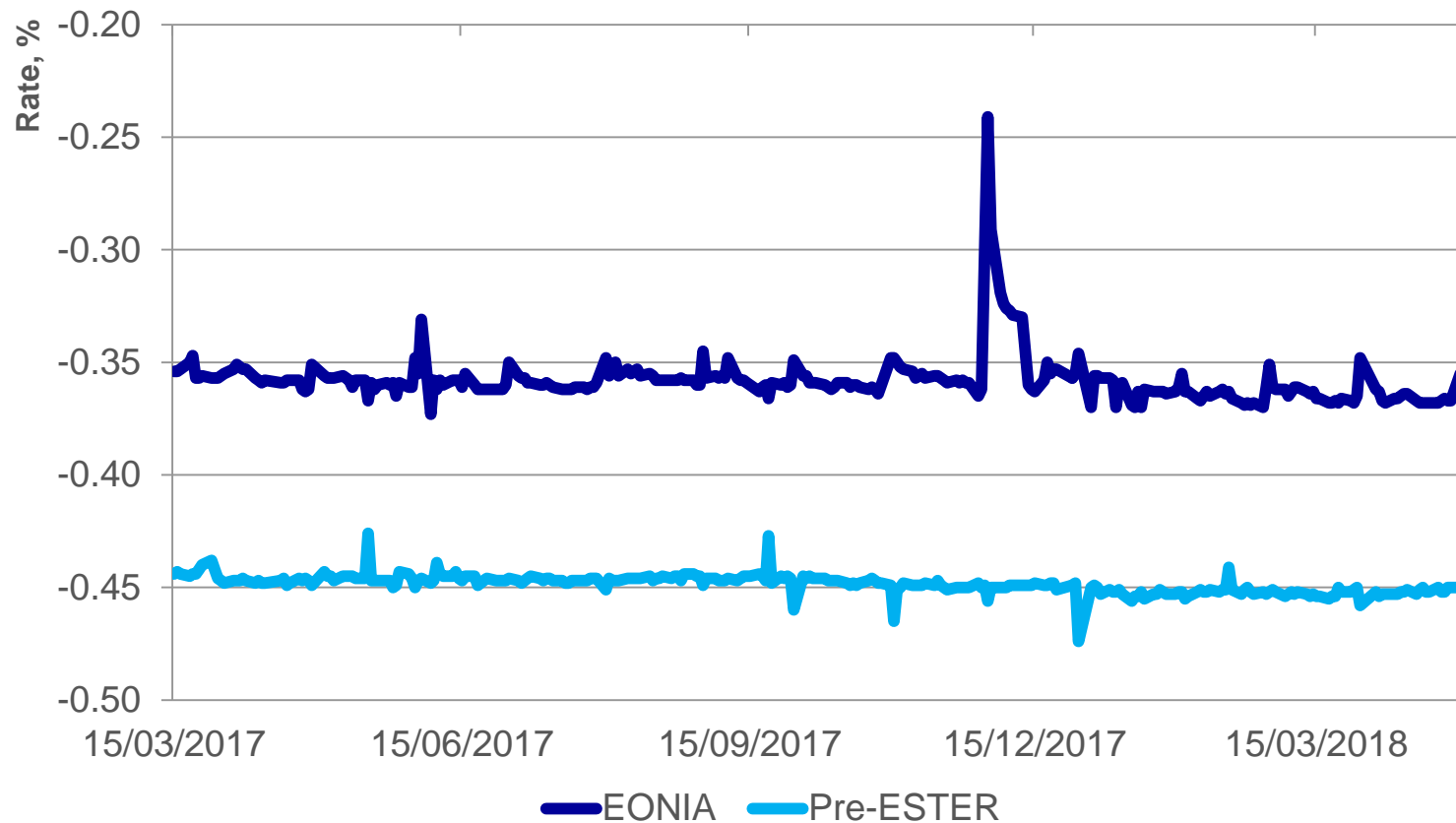
Rate is well explained to the markets and the public

Transparency policy: frequency of communication depends on importance of errors



Ad hoc communications if needed: transparency and flexibility

Pre-ESTER main metrics from March 2017 to May 2018



Source: ECB pre-ESTER publication

- **Average ESTER-EONIA spread: 9.05 bps**
- **Average ESTER daily volatility: 0.34 bps**