ECB-PUBLIC
6 June 2018

Meeting of the working group on euro risk-free rates

held in Frankfurt am Main on Thursday 17 May 2018, 11:00-16:00 CET

SUMMARY

1. Approval of the agenda, introductory remarks and obligations of the working group members as regards competition law

Mr Timmermans (Chair) welcomed the meeting participants and reminded the working group members of their obligations under EU competition law. He noted that the guidelines on EU competition law – presented at the previous meeting and designed to ensure that members and individuals participating in the working group and subgroups are aware of their obligations – had been slightly amended to take into account certain comments from working group members. The amended version of the guidelines would be published on the ECB website for reference, and be brought to the attention of the subgroup members, to whom they also applied. In addition, the minutes of each meeting of the working group would be reviewed by Freshfields Bruckhaus Deringer LLP, as would any sensitive documents (on an ad hoc basis).

2. Potential scenarios for EONIA and Euribor and their influence on the timing, roadmap and deliverables of the working group

Mr Kes (ING) detailed the various scenarios regarding the future of EONIA and Euribor which would have a direct impact on the scope and timing of the working group's deliverables. Three scenarios were possible as a consequence of the combination of the non-compliance of EONIA with the EU Benchmarks Regulation and the uncertainty as to whether the reformed Euribor would be compliant with that regulation before 1 January 2020 – being the date from when the use of non-compliant benchmarks would be prohibited, at least in new contracts. The three scenarios were:

- a "positive" scenario (1) in which EONIA would be prohibited for use in new contracts but permitted in legacy contracts, and Euribor would become compliant with the EU Benchmarks Regulation;
- a scenario (2) in which EONIA and Euribor would both be non-compliant, but their use would be permitted in legacy contracts after 2020 (while prohibited in new contracts);
- a scenario (3) in which EONIA and Euribor would not be compliant and their usage would be prohibited both in new and legacy contracts after 2020.

For each of these scenarios, Mr Kes outlined the actions required from the working group and the consequences if the deadline of 1 January 2020 were not to be met. He also highlighted the significant risk that time constraints imposed by the EU Benchmarks Regulation would not accommodate some of the scenarios above. Working group members were asked to reflect on the feasibility of each scenario and propose possible mitigating measures.

Working group members agreed that the short time available for establishing solutions to the more difficult scenarios (scenarios 2 and 3) would make that task very challenging, if not impossible. Opinions were divided as to the individual capacity of member institution to deal with the consequences of scenario 1; several members considered that adaptation was feasible, and some had already started to make preparations.

Members identified two possible mitigating measures to address the more difficult scenarios: (i) the swift development of a derivative market based on the EONIA replacement rate; and (ii) possible review of the deadlines under the EU Benchmarks Regulation to extend the transitional period. On the second point, the representatives of European Securities and Markets Authority (ESMA) and the European Commission explained that amendments to the regulation were not a viable option for the working group, given the political and time constraints.

In response to a question put to it, the ECB stressed that, for various legal and practical reasons, the ECB had no intention of taking over the EONIA trademark after 2020; neither for a new ECB rate, nor to replicate EONIA to the extent that was feasible based on data collected under the Money Market Statistical Reporting (MMSR) Regulation.

The possible use of EONIA for legacy contracts after 2020 would be decided on by the Belgian Financial Services and Markets Authority (FSMA) in due course, in accordance with the criteria set out in Commission Delegated Regulation (EU) 2018/67 of 3 October 2017. For this reason, EONIA could not be considered as a possible RFR candidate after the 2020 deadline passes.

The working group concluded that:

- further investigations would be made into how the differentiation between new contracts and legacy contracts could work in practice, in order to better assess the feasibility of each scenario;
- further clarification of the timing and conditions of the Belgian FSMA's decision regarding the usage of EONIA and Euribor after 2020 might be warranted.

3. Deliverables of work stream 1

3.1. Mapping exercise: update on the estimation of the aggregate usage of EONIA and Euribor

Mr Molitor (ECB) presented estimates of outstanding amounts of debt securities and interest rates derivatives linked to Euribor and EONIA, based on data provided by the ECB and ESMA. According to these data, EUR 109 trillion of Euribor-linked and EUR 22 trillion of EONIA-linked interest rate derivatives were outstanding at the end of October 2017. 46% of the Euribor-linked contracts and 77% of the EONIA-linked contracts were expected to mature by the end of 2019. EUR 1.62 trillion of Euribor-linked and EUR 4.4 billion of EONIA-linked debt securities were estimated to be outstanding at the end of March 2018. Of these, 20% of the Euribor-linked and 82% of the EONIA-linked debt securities were scheduled to mature by the end of 2019.

3.2. Selecting the euro risk-free rate(s) (RFR(s))

3.2.1. List of candidate RFRs according to the published list of criteria, as proposed by work stream 1

The working group discussed a preliminary assessment of the candidate euro RFRs against the list of selection criteria which were agreed at the previous working group meeting and published on the ECB's website. Both secured and unsecured options were considered. All working group members were invited to suggest additional candidate RFRs for consideration.

The working group considered that several candidate RFRs did not adequately meet the approved criteria. These rates included the ECB's deposit and main refinancing rates; the Euribor one week, one month, and three month term rates; EURONIA; the pan-European repo index under development by the European Money Markets Institute (EMMI); and the GC Pooling and GC Pooling Extended indices produced by STOXX Limited.

The working group was continuing with its assessment of three overnight unsecured rates – Euro LIBOR; a potential overnight Euribor; and the ECB's unsecured rate[1] – as well as two secured rates: the RepoFunds Rate Euro produced by NEX Data; and the GC Pooling Deferred index produced by STOXX Limited.

To facilitate the assessment, several providers of benchmarks had been invited to make presentations on the features of some of the candidate RFRs. In this context, the providers of the two secured benchmarks under consideration, NEX Data and STOXX Limited, presented their rates to the members of the working group. Providers of possible unsecured euro interest rate indices will be invited in the next working group meeting. It was agreed that the ECB would publish on its website an open invitation to all euro benchmark providers to indicate their interest in presenting their candidate rate to the working group, provided that the rate was deemed a relevant option as an alternative euro risk-free rate, and was in line with the selection criteria.

The working group agreed that their discussions would be fed into a public consultation on a shortlist of candidate RFRs. It was anticipated that this public consultation document would be published by the end of the second quarter of 2018 with the support of the ECB Secretariat, and would provide an assessment of the candidate RFRs against the selection criteria. The market's feedback as a result of the public consultation would provide working group members with more detailed information on which to base their assessment ahead of the working group's recommendation of a euro RFR. It was tentatively agreed that this recommendation should be made in autumn 2018.

3.2.2. Presentation of the RepoFund Rate indices by NEX Data

[1] ESTER: Euro Short-Term Rate.

Mr Belpassi (NEX Data) presented to the working group the RepoFund Rate indices, and notably the RepoFund Rate Euro index. He noted that these indices represented the effective cost of funding for the majority of one-day repo trades in each of the relevant sovereign bond markets and included both general collateral and specific collateral trades. He indicated that the indices were calculated from eligible repo trades using sovereign government bonds as collateral and executed on the regulated platforms of BrokerTec and MTS.

3.2.3. Presentation of the GC Pooling indices by STOXX

Mr Odendall (Deutsche Börse Group – Global Funding & Financing), Mr Georgiev (STOXX) and Mr Bartholomew (Eurex Exchange) presented to the working group the GC Pooling indices, and more specifically the STOXX GC Pooling EUR Deferred Funding Rate index. They indicated that this index represented one-business-day secured euro funding transactions taking place on the Eurex Repo GC Pooling Market (with more than 131 participants), and were a depiction of the cost of pan-European wholesale short-term secured funding, based on two standardised GC Pooling baskets of ECB-eligible collateral.

In the discussions with the index providers which followed the presentations, working group members asked about certain methodological features of both the RepoFund Rate and the GC Pooling indices, their respective licence costs, the governance arrangements of the benchmark providers, and their compliance with the EU Benchmarks Regulation.

3.2.4. Information on the fact-finding survey on consultation and decision-making procedures within each voting institution of the working group

The ECB Secretariat informed the working group that all 21 voting members had reported to it on their organisation's internal procedures regarding reporting, internal coordination and decision-making on benchmark-related topics. This survey was conducted in preparation for the formal voting procedure to select the euro RFR, planned for autumn 2018.

The results of the survey showed some variations in internal organisation between the voting institutions, with several still in the process of structuring their coordination procedures. Nevertheless, each working group member provided evidence of (i) being empowered by their top or senior management to vote on behalf of their institution, and (ii) either a decision procedure already in place for the vote, or in the process of being established.

In this context, no follow-up was envisaged by the ECB Secretariat in relation to the internal procedures of each voting institution. However, the voting procedure of the working group would be further considered by the ECB Secretariat, for the further information of the working group members.

4. Update of subgroup 2 on term structure

4.1. Subgroup 2 on governance, organisation and allocation of members

Ms Le Masson (BNP) recalled the main objectives of subgroup 2, which aimed to identify and recommend a term structure on RFR(s). She reminded the group about the three subgroups – 2A, 2B and 2C – dealing (respectively) with (i) the methodological approaches to constructing term rates; (ii) the assessment of these methodologies against the principles of the International Organization of securities Commissions (IOSCO) and the EU Benchmarks Regulation, and communication with stakeholders and (iii) the requirements for adoption of the new term structure in order to ease implementation. Ms Le Masson also explained the governance structure of subgroup 2 and the allocation of tasks between subgroups 2A, 2B and 2C. In this regard, she indicated that the composition of the subgroups should be flexible and also subject to reconsideration if new members joined or if current members were seen to be too inactive.

4.2. Subgroups 2A, 2B and 2C: their respective mandates, detailed roadmaps and first outcomes of discussions

Mr McLeod (Erste), Carlos Infesta (Santander) and **Mr Covin (Unicredit)** introduced the high-level objectives and deliverables of their respective subgroups.

The initial issues considered by subgroup 2A (methodologies on RFRs) related to the various backward and forward-looking methodologies available for the construction of a term rate; a possible preference for basing the methodologies on real transactions as far as possible; and the need to analyse the relevance of additional credit spread methodologies. Regarding the analysis of basis risk, it was clarified that (i) in case methodologies would have to be differentiated depending on the financial product concerned (although not the main scenario so far), the analysis would have to include the resulting basis risk; and (ii) the cross-currency basis risk would also need to be analysed, taking into account the international context in which RFRs vary.

Subgroup 2B (compliance with the EU Benchmarks Regulation/IOSCO) provided the working group with details of its deliverables. The intention was to draft an evaluation template for the purpose of assessing the options that would be proposed by subgroup 2A against the EU Benchmarks Regulation and the IOSCO principles, and, to a lesser extent, against the general provisions of the Market Abuse Regulation. The initial discussions of subgroup 2B highlighted the difficulties linked to unknown parameters, such as the liquidity of the futures market, which would affect the regulatory compliance of the various methodologies. The subgroup's intention was also to focus in particular on international coordination with other working groups and on plans for communicating with and educating stakeholders.

The initial discussions of subgroup 2C (requirements for adoption) related to: (i) a possible preference for using a single term structure for all types of users and products, subject to the availability of a suitable term structure that was robust and reliable; and (ii) the pros and cons of the backward and forward-looking methodologies from a user perspective (discussion to be made in cooperation with subgroup 2A). Subgroup 2C also reported that it was preparing a survey of the working group to assess adoption requirements regarding term rates (use cases, data inputs, tenors, etc.).

Overall, the leaders of subgroup 2 agreed on the need to develop a derivatives market based on the new RFR(s) as soon as possible.

5. Update on the activities of subgroup 3 on contractual robustness

5.1. Approval of the composition and terms of reference of subgroup 3

Mr Feldkamp (ESMA) presented the final changes that had been made to the terms of reference and recalled that the revised composition of subgroup 3 had been circulated to the working group. The revised terms of reference and composition of the subgroup were approved by the working group and will be made publicly available on the ECB's website.

5.2. Organisation of subgroup 3 and detailed roadmap

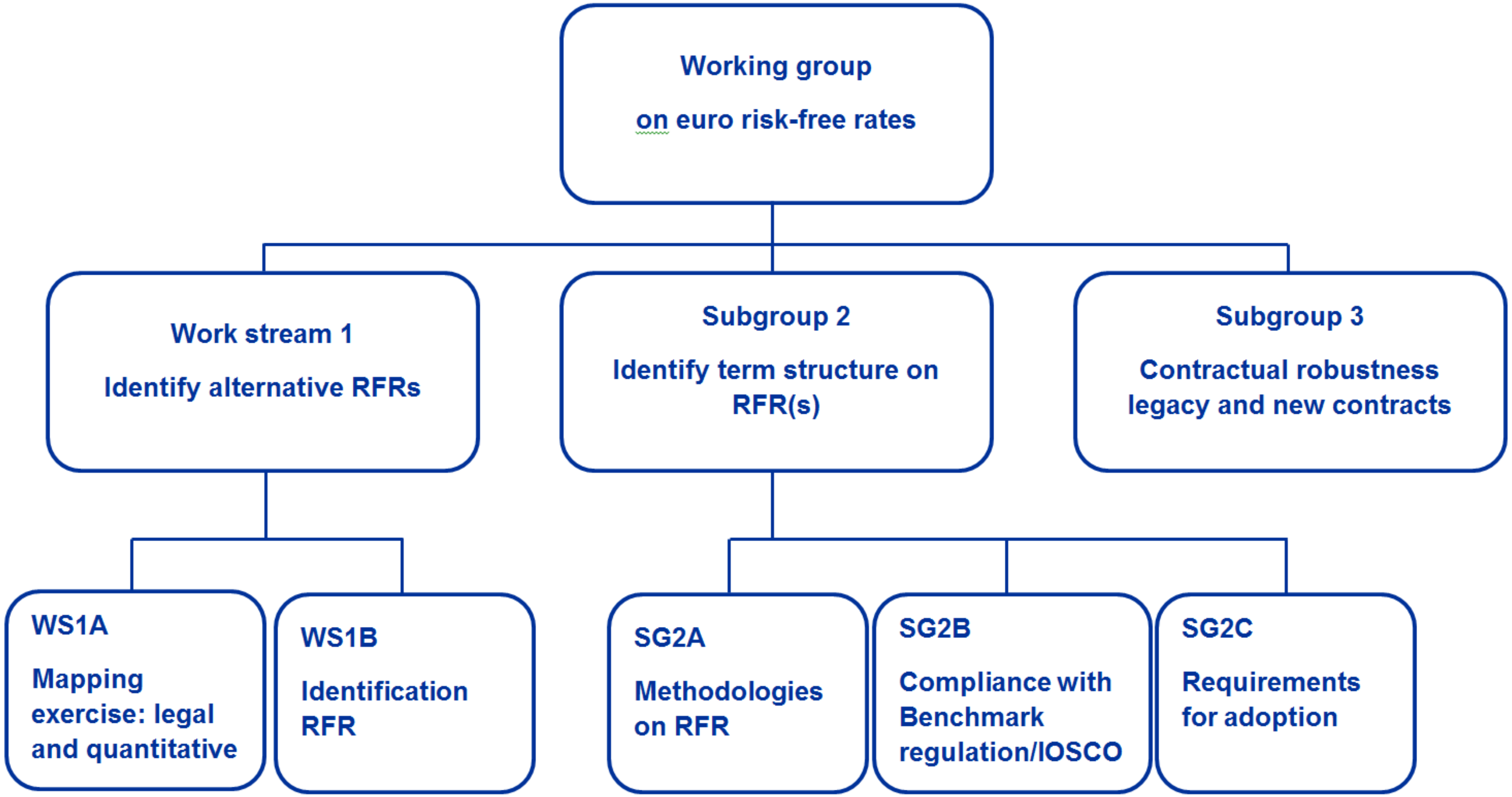
Mr Gonzalez-Paramo and **Mr Fraguas** (both **BBVA)** updated the working group on the progress of subgroup 3. Leveraging the preliminary legal mapping work initiated by work stream 1A, subgroup 3 was carrying out an in-depth analysis of legal risks and their impact on legacy contracts, taking one asset class as an example and producing a template to be followed for other asset classes. The other asset classes requiring analysis would be distributed among the members of subgroup 3 for assessment, with the aim of presenting an interim report to the working group at its next meeting.

The initial analysis of mortgages by subgroup 3 confirmed that fallback clauses triggered in the event of cessation of a benchmark were rare in legacy contracts. Moreover, in most cases where they did exist, there were serious doubts concerning their implementation in practice; either because they related to the situation of a temporary cessation, or because consumer protection legislation limited their operation. The analysis also confirmed that to amend the contractual conditions of these retail contracts would require a very considerable period of time and involve an extremely heavy cost and operational burden.

In the subsequent discussions it was clarified that the difficulties involved would be broadly similar regardless of whether the contracts were amended to provide for fallback to existing benchmarks (as required by the EU Benchmarks Regulation), or to rates that replaced existing benchmarks.

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

The next meeting of the working group would take place in Frankfurt am Main at the ECB on Wednesday, 11 July 2018.


Working group
on euro risk-free rates
Work stream 1
Identify alternative RFRs
Subgroup 2
Identify term structure on RFR(s)
Subgroup 3
Contractual robustness legacy and new contracts
WS1A
Mapping exercise: legal and quantitative
WS1B
Identification RFR
SG2A
Methodologies on RFR
SG2B
Compliance with Benchmark regulation/IOSCO
SG2C
Requirements for adoption

EUROPEAN CENTRAL BANK

EUROSYSTEM

List of meeting participants

Participant's organisation	Name of participant
Chairperson	Mr Koos Timmermans
ING	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 Gonzalez-Paramo
BBVA	Mr Adolfo Fraguas
BBVA	Mr José Carlos Pardo
BNP	Ms Dominique Le Masson
BPCE/Natixis	Mr Olivier Hubert
BPCE/Natixis	Ms Sophie Asselot
CaixaBank, S.A.	Mr Sergio Castella
CaixaBank, S.A.	Mr Juan Cebrian
Crédit Agricole	Ms Florence Mariotti
Deutsche Bank	Mr Christian Gau
DZ Bank	Mr Michael Schneider
DZ Bank	Mr Philipp Nordloh
Erste Group Bank AG	Mr Neil McLeod
Eurobank - Ergasias SA	Mr Theodoros Stamatiou
HSBC	Mr Pierre Jenft
ING Bank	Mr Jaap Kes
ING Bank	Ms Marjolein De Jong
Intesa Sanpaolo	Ms Maria Cristina Lege
KfW Bankengruppe	Mr Markus Schmidtchen
KfW Bankengruppe	Mr Ingo Ostermann
LBBW	Mr Jan Misch
Nordea	Mr Markku Keränen
Santander	Mr Jose Manuel Campa
Santander	Mr Carlos Infesta
Société Générale	Mr Stéphane Cuny
Unicredit	Mr Alberto Covin

Non-voting members

European Money Markets Institute	Mr Alberto Lopez Martin
European Fund and Asset Management Association	Ms Agathi Pafili
International Capital Market Association	Mr David Hiscock
International Swaps and Derivatives Association	Mr Ciaran McGonagle
Loan Market Association	Ms Kam Mahil

Invited institution

European Investment Bank	Mr Yassine Boudghene

Observers

European Central Bank	Ms Cornelia Holthausen
European Central Bank	Mr Holger Neuhaus
European Securities and Markets Authority	Mr Jakobus Feldkamp
Financial Services and Markets Authority	Mr Rik Hansen
European Commission	Ms Alessandra Atripaldi

Other (items 3.2.2 and 3.3.3 only)

Nex Data Services Limited	Mr Luca Belpassi
Deutsche Börse Group – Global Funding & Financing (GFF)	Mr Frank Odendall
Eurex Exchange	Mr Lee Bartholomew
STOXX Limited	Mr Yuliyan Georgiev

Secretariat

European Central Bank	Ms Anne-Lise Nguyen
European Central Bank	Mr Philippe Molitor
European Central Bank	Mr Pascal Nicoloso
European Central Bank	Mr Vladimir Tsonchev
European Central Bank	Mr Mikael Stenström