

# **Presentation for the Working Group on euro risk-free rates**

## **Working Group euro RFR Meeting**

# Agenda

- 1. Subgroup 7 (SG7) activities: Actions/materials to be approved**
- 2. SG7 governance**
- 3. WG communication pillars**
- 4. SG7 – Work Streams: Update**
  - **WS 1 Eonia to €STR transition**
  - **WS 2 Euribor fallback**
  - **WS 3 Retail**

# 1. Subgroup 7: Actions/materials to be approved

## Purpose

SG7 to provide materials to be part of the initial communication toolkit for the elaboration of the communication plans. Documentation will be updated on a recurrent basis

### Roadmap

- *Description:* summarizes the main deliverables to expect for the WG on euro RFR in the next months
- *Status:* updated version after the latest publications of the WG sent to SG7 participants

**Status:** Closed ✓  
and approved

### Frequent Q&A document First Release\*

- *Description:* includes frequent questions and answers related to main topics the Euro free risk rates Group has been working on.
- This document will be part of the *materials of the communication toolkit and would facilitate the handling of media and public enquiries*
- *Status:* updated version including SG chairs comments, pending SG7 participants approval

**Status:** Closed to be approved ✓  
by WG on 16 October session

### Basic set of slides

- *Description:* institutional presentation on Euro free risk rates (set of standard slides) common for SG and WG members
- *Status:* pending SG chairs comments and SG7 participants approval

**Status:** Closed to be ✓  
approved by WG on 16  
October session

### EONIA to €STR Check list

- *Description:* guide of the steps to follow and the processes to be updated for EONIA €STR transition

**Status:** Closed to be ✓  
approved by WG on 16  
October session

# 1. Subgroup 7: Actions/materials work in progress



## Purpose

SG7 to provide materials to be part of the initial communication toolkit for the elaboration of the communication plans. Documentation will be updated on a recurrent basis

## Compilation of key messages for SG 7

- *Description:* includes key messages on the euro benchmark reforms from all the SGs perspective to put forward in future common material and communication tools.
  - This document will be used as a *starting point for creating comms plans messages*

**Status:** *Work in progress,* ✓  
*messages from SG chairs to be requested*

## Next Steps

Subgroup chairs and SG7 to produce key messages to cover key aspects of the next WG euro RFR deliverables:

- SG6 Risk management report
- SG6 Accounting report
- SG3 Euribor fallback legal plan
- SG5 Next steps

Purpose: To explain and give more visibility to the WG recommendations

## 2. Update on the SG7 governance

### Work streams definition:

- During July 16<sup>th</sup> meeting were discussed if we should organize the work streams by topics or target groups
- SG 7 participants had a clear preference to organize the group by topics along three work streams:
  - EONIA €STR transition
  - EURIBOR fallbacks (in coordination with EMMI)
  - Information to retail customers
- It was agreed to launch the three work streams in parallel with a dedicated communication plan for each of them, with the view that EONIA €STR transition was the most urgent topic

## 2. Update on the SG7 governance

### Constitution of Work streams:

- ECB launched a questionnaire for each SG 7 active institution to indicate in which work streams they would like to engage in
- The work streams are integrated by entities that had volunteered to take a particular active role in the SG7 by assuming responsibilities for specific work streams or communication products
- BPCE, HSBC, CaixaBank, are leading WS1, 2, 3 respectively
- Santander coordinates accuracy and consistency of the communication plans under a governance scheme

### Workstream composition

#### EONIA to €STR

BPCE Natixis **(Leader)**  
DB  
EFAMA  
BNP  
Eurex  
BoA ML  
Citibank  
EMMI  
Santander  
Ernst and Young

#### Euribor fallbacks

HSBC **(Leader)**  
Natwest  
Wells Fargo  
BBVA  
ING  
EMMI  
Santander  
PWC

#### Retail

CaixaBank **(Leader)**  
LBBW  
ING  
Unicredit  
Santander  
ABN AMRO  
Italian Banking Association (ABI)  
Spanish Banking Association (AEB)  
Deloitte

### 3. WG Communication Pillars (1/4)

#### OUR GOAL

- Support market participants regarding the transition based upon ECB WG recommendations
- Increase the visibility of the WG activities and the challenges of the reform for ensuring a smooth transition

#### APPROACH

- Increase WG euro RFR messages awareness, (Spread the Word) especially through ECB platform and bespoke communication channels

#### IMPLEMENTATION

- 📍 Define objectives and key messages to communicate
- 📍 Select target audience
- 📍 Define communication channels
- 📍 Identify a group of spokespeople in the WG euro RFR: Ambassadors leveraged by european and local instutions
- 📍 Identify quick-win materials

### 3. WG Communication Pillars (2/4)

- Working group should boost the visibility of its recommendations, and to onboard a variety of market players while discussing the reforms.
- This is the time for communication

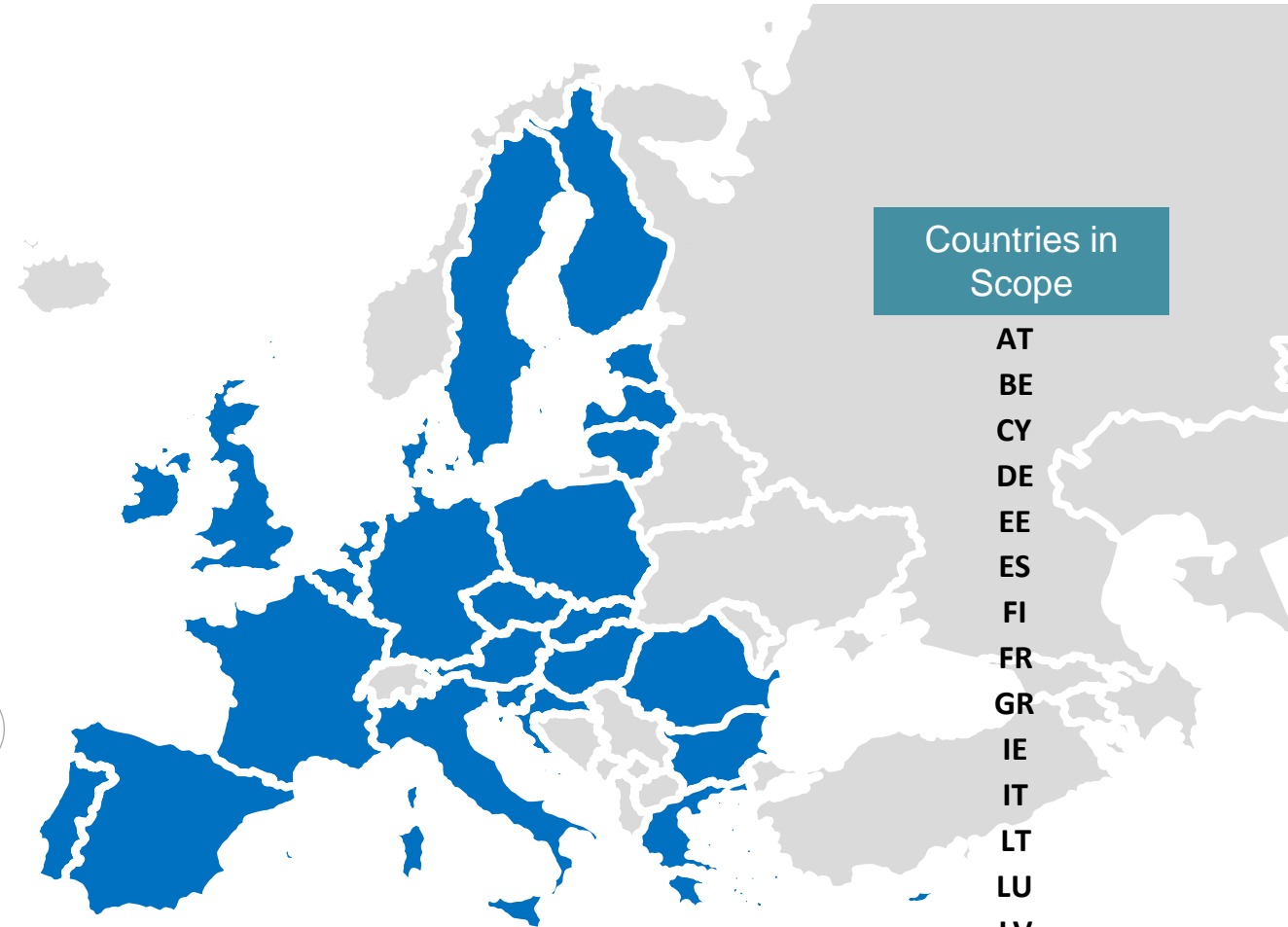




### 3. WG Communication Pillars(3/4)

## Ambassadors

- Concept: Group of spokespeople in the WG euro RFR to develop communication actions with local authorities acting a WG member.
- Proposed distribution of the work based on:
  - Domicile of the bank
  - Presence in country
- Ambassadors interaction would be supported and monitored by SG7 & ECB as defined by the WG media procedure
- Next steps
  - SG7 will develop the concept a come back working group members for approval
  - **Due date to close concept : November 2019**



# 3. WG Communication Pillar (4/4)

## Newsletter

- Update of the WG euro RFR activities and the status of the reform
- Frequency: monthly
- **Due date: November 2019**



## Other tools:

- Webinars

## Working Group on €uro Risk-Free Rate

Working Group on €uro Risk-Free Rate  
 Newsletter: September 2019

This monthly newsletter provides an update for those with an interest in the work of the Working Group on Sterling Risk-Free Reference Rates, keeping you updated on key news relating to RFR transition in GBP markets and others. If you have questions about any of the content or would like to get involved in any of the events mentioned please contact RFR. Secretariat at [RFR.Secretariat@bankofengland.gsi.gov.uk](mailto:RFR.Secretariat@bankofengland.gsi.gov.uk)

**What is happening with regard to IBORs and risk free rate use? – Key messages**

- In 2014, the Financial Stability Board (FSB) published its report "Reforming major interest rate benchmarks", which sets out a series of recommendations to strengthen existing benchmarks by underpinning them, to the greatest extent possible, with real transaction data and to develop alternative, nearly risk-free reference rates.
- The IBORs Interbank offered rates (IBORs) play a central role in financial markets; they act as reference rates for a broad range of financial instruments and are therefore key to financial stability.
- Declining activity in the underlying markets and challenges to the sustainability of panels contributing to these rates pose potentially serious risks to individual users of the rates and to the financial system more broadly. The alternative nearly risk-free rates (RFRs) selected for transitions in key jurisdictions will be based on robust and liquid underlying markets. Global regulators and the public/private sector have established RFRs working groups to identify RFRs and plan for a transition to those rates as appropriate.

## Working Group on €uro Risk-Free Rate

Preparing transition for interest rate benchmark reforms and the use of risk-free rates

This monthly newsletter provides an update for those with an interest in the work of the Working Group on Sterling Risk-Free Reference Rates, keeping you updated on key news relating to RFR transition in GBP markets and others. If you have questions about any of the content or would like to get involved in any of the events mentioned please contact RFR. Secretariat at [RFR.Secretariat@bankofengland.gsi.gov.uk](mailto:RFR.Secretariat@bankofengland.gsi.gov.uk)

### What is happening with regard to IBORs and risk free rate use? – Key messages

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- Global regulators and the public/private sector have established RFRs working groups to identify RFRs and plan for a transition to those rates as appropriate.

### Why markets need alternative risk-free rates

**FSB recommends on "Reforming major interest rate benchmark:**

- Strengthen existing benchmarks by underpinning them with transaction data to the greatest extent possible
- Develop alternative nearly risk-free rate

### Need for change: IBORs reform driven by the following factors:

- A lack of robustness, due to shrinking underlying markets coupled with the large volume of financial transactions that reference these rates, has resulted in systemic risk concerns and manipulation risks.
- Reluctance from LIBOR and EURIBOR panel banks to submit quotes.

### Context and deliverables

As a consequence of the BMR and outcome of the EONIA and EURIBOR reforms, the base case scenario for the working group is to provide recommendations for:

- A transition from EONIA to the euro risk-free rate (€STR); and
- Fallbacks for the euro risk-free rate and EURIBOR.

Type	Current Euro rates	Replacement	Fallback (BMR art 29.2)
ON	EONIA	RFR	Alternative RFR
Term	EURIBOR		RFR + term structure

This base case scenario forms the basis for the key deliverables of the working group:

- Identify and recommend (alternative) euro risk-free rates

### What is the problem with EONIA?

EONIA in its current form will not be BMR compliant, given the restricted and its administrator group on euro risk-free rates lack of underlying transactions EMMI announced that it will stop recommended €STR for its and high concentration of volumes publishing it on 3 January 2022. replacement after a public by only a few contributors consultation.

## 4. SG7 Work Streams – Communication plan

In order to assure the plans consistency and homogenization a template and guidelines for the construction of the communication plan has been provided

### SG7 – Preparing communication plans



#### Plan description

- Context
- Plan aim(s) and goal/(s)
- Topics to cover
- Definition of target audience (stakeholders)
- Definition of approach (reactive/proactive; high/low profile)
- Possible scenarios (to be included if several scenarios are to be considered)
- Coordination actions to be taken
- Channels for distributing



#### Communication Plan

##### Define

- Key milestones (dates or timeline)
- Key messages to be distributed

##### Action expected

- Description of the actions to be taken in relation to each of the milestones (including description of the materials to be developed, the distribution channels, and drafts).
- Identify stakeholder to be included

## 4. SG7 Work Streams – WS1 Eonia to €STR transition

### Objectives

- Support market participants regarding the transition based upon ECB WG recommendations
- Increase the visibility of the WG activities and the challenges of the reform for ensuring a smooth transition
- Increasing awareness and disseminating information about EONIA to €STR transition through publication communication & education materials
- Inform about industry milestones (e.g. CCPs time plans, ...)
- Communication of €STR progress report
  - ECB / WG to provide data & report to this SWG

### Target audience

- Financial Institutions, Banking & Markets Associations, Federations
  - Banks
  - Asset managers & servicers
  - Institutional investors
  - Large corporates
  - Insurance companies
- Infrastructure providers (e.g. CCPs, CSDs, Brokers, ...)
- Public Sector Entities
  - Agencies
  - Local Governments
  - National Treasuries (Debt Management Office/Ministry of Finance)
- European and National Competent Authorities
  - Central Banks
  - Regulators and Supervisors
- Retail and SMEs
  - *Eonia/€STR impact on retail very limited: initially not within the scope of the WS3*

## 4. SG7 Work Streams – WS1 Eonia to €STR transition

### Approach

- Proactive around defined milestones
- High Profile

### Material

- Standard Information Pack
- FAQs
- Checklists
- Newsletter
- Fedeed by :
  - Sub Groups, specifically SG3, SG5, SG5
  - Statistics from ECB, ISDA, CCPs, etc..
  - Newsflow (infrastructures, IASB, ,,)

### Coordination

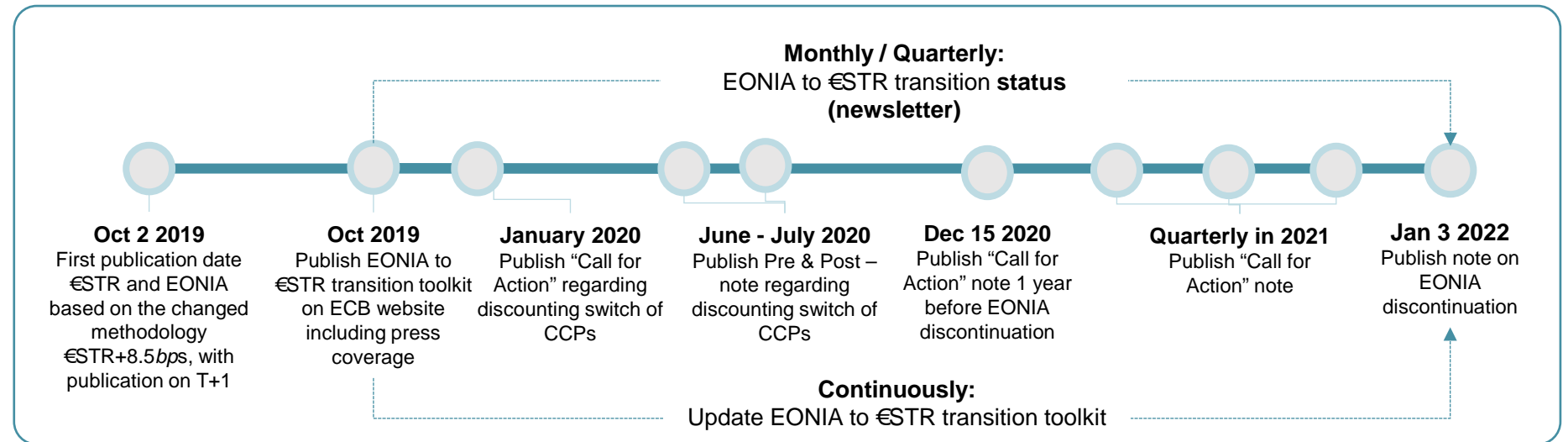
- Other SGs
- Banking & Markets Associations
- CCP's, infrastructures
- Organizations around legal documentation (e.g. ISDA, BDB, FBF ...)
- ECB regarding publications and media requests
- EMMI regarding EONIA

### Channels

- via Banking & Markets Associations for different jurisdictions and sectors
- via ECB WG website
- via LinkedIn and other social media
- via conferences
- via print media
- via newsletter (either only for EONIA / €STR or joined with other workstream) potentially monthly at the beginning

# 4. SG7 Work Streams – WS1 Eonia to €STR transition

## Key Milestones



## Proposal for Launch of Communication Plan

### Weeks#1to #3: Preparation phase

#### Material

- Develop and test 'EONIA to €STR Transition Toolkit' Key messages:
- ECB press statement with logo ECB

#### Communication action

- EONIA to €STR Transition Toolkit on RFR WG's page (ECB's website)
- Draft short Twitter and LinkedIn messages with link to Transitioning Toolkit
- Action supported by national Associations/Federations/NCBs/National Regulators/ESMA/EBA
- Financial Press & media

- Contacts with National Associations/Federations/NCBs/National Regulators/ESMA/EBA
  - Provide them with link to Transition Toolkit
  - Provide them with press release + LinkedIn and Twitter messages
  - Ask them to make all information public to their members / to publish information on their respective websites as of week 4
  - Ask them to activate their helpdesk as of week 4
- Contacts with journalists from each national financial press media
  - Provide them with link to Transition Toolkit on ECB's website
  - Provide them with press release
  - Finalize agreement for publication date of article (article should be published by the end of week 3 so that it remains a 'premiere' in their own interest)
  - Assist them in case of specific questions

### Week#4 Publication phase

illustrative

#### Week 4

- Publish EONIA to €STR transition toolkit on ECB website including press coverage
- Press statement released by ECB on behalf on WG - LinkedIn and Twitter messages by ECB on behalf on WG
- Implementation of communication actions from national Associations/Federations/NCBs/National Regulators/ESMA/EBA
- Press media actions

**Helpdesk** – ECB/SG7 to monitor under media procedure

## 4. SG7 Work Streams – WS2 Euribor fallbacks

### Objectives

- To specify a communication plan focused on the introduction of fallback clauses for contracts referencing EURIBOR,
- To provide supporting materials that would help communication by all stakeholders, such supporting materials would be specified in close conjunction with SG2 and SG3 and validated by the chairs of SG2, SG3 and SG7.
- To achieve some level of coordination with trade associations such as ISDA, ICMA, LMA, FBF etc.. and with the EURIBOR administrator EMMI.

### Target audience/ Stakeholders

- Financial institutions groups (banks, investment firms, insurance companies, asset managers, pension funds etc...)
- Large corporates
- Trade associations
- Public authorities

### 2-step approach

- 1) High level education on what a fallback clause is, the difference between temporary and permanent fallbacks, why they are required, the criteria to be met by a fallback clause based on term rates, the challenges to operationalize fallbacks, the risks in case of inadequate or insufficient communication
- 2) Specific information on the recommendations of the WG relating to the introduction of fallback clauses in EURIBOR legacy and new contracts: trigger events, pre consent clause (or not), recommended alternative rate, spread adjustment methodology timeline, scope of contracts, operational set up...

## 4. SG7 Work Streams – WS2 Euribor fallbacks

### Action plan

#### ▪ Channels

- The ECB-WG, ESMA and EC, EMMI websites
- Webinars organized in conjunction with industry and observers
- Social networks (Linkedin)
- Channels will be aligned on the communication for the EONIA and €STR transition
- From this perspective, the appointment of « WG ambassadors » would help
- Coordination with trade bodies, ESAs, NCAs... is important in order to be efficient and consistent
- Mailing campaign to and calls with trade associations, NCBs, NCAs (with the view to obtain consistent communication or a link to the ECB-WG website)

#### ▪ Timeline

- Calls will specialized media, following ECB media procedure for WG
- High level education should be done shortly after the communication on the transition from Eonia to €STR and preferably before the year end (but we should as well avoid the end of the year).
- The more detailed and pro-active communication on the introduction of fallback clauses in EURIBOR legacy and new contracts should only take place once there is a clear view on the WG recommendations on such clauses, unlikely before the beginning of Q2 2020.
- Communication on the high level education can be rolled out in 1-2 week(s); communication on the implementation of fall back clauses will be rolled out over 3-4 weeks

#### ▪ Material

- Materials will need to be validated by SG chairs in advance (ie start drafting the high level education now).



## 4. SG7 Work Streams – WS3 Retail

<p><b>Objectives</b></p>	<ul style="list-style-type: none"> <li>• <b>Increasing awareness and education</b> regarding the Benchmarks Reform through improved communication oriented to <b>retail and less financially sophisticated</b> market participants             <ul style="list-style-type: none"> <li>• Attention should be brought into the BMR and more specifically Euribor fallbacks</li> <li>• <b>Eonia/€STR</b> impact on retail very limited: initially <b>not within the scope</b> of the WS3</li> </ul> </li> <li>• Ensure that communication helps on a <b>smooth introduction of Euribor fallbacks</b> into retail and SME contracts with the challenge of legacy contracts</li> </ul>
<p><b>Target audience*</b></p>	<ul style="list-style-type: none"> <li>• Households and individuals</li> <li>• Small and Medium sized Enterprises</li> </ul>
<p><b>Stakeholders*</b></p>	<ul style="list-style-type: none"> <li>• Banking Associations</li> <li>• National Competent Authorities</li> <li>• Consumer Associations</li> <li>• Chambers of Commerce</li> <li>• Sectorial SMEs associations</li> </ul>
<p><b>Action Plan*</b></p>	<ul style="list-style-type: none"> <li>• Main pillars of the Action Plan <b>ideally to be clearer before year end</b></li> <li>• <b>Key Messages still not developed</b> and assessed by SGs 3, 5 and 6</li> <li>• <b>Coordination with EMMI</b> also needed</li> <li>• Further reflection on the <b>degree of proactivity</b> needed:             <ul style="list-style-type: none"> <li>• There is <b>no economic impact expected</b> for pure retail clients</li> <li>• Any <b>unnecessary concern or confusion</b> among retail clients <b>must be avoided</b></li> </ul> </li> </ul>
<p><b>Next Steps</b></p>	<p><b>Face to face meeting in Barcelona on Oct 22<sup>nd</sup> to discuss and agree on main pillars of the Action Plan</b></p>

\*Work in Progress