

Teleconference of the working group on euro risk-free rates

Wednesday, 14 October 2020, 15:00-16:15 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 discuss and endorse the final drafts of the public consultation on euro interbank offered rate (EURIBOR) fallback trigger events and the public consultation on EURIBOR fallback measures for cash products. Both public consultations are scheduled for publication by the end of 2020.

Mr Phutrakul informed working group members that this would be the last meeting attended by **Cornelia Holthausen (ECB)** and thanked her for her valuable contributions as a founder of and observer in the working group.

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. **Update by subgroup 3 on the public consultation on EURIBOR fallback trigger events**

José Carlos Pardo (BBVA) presented the final draft of the public consultation on EURIBOR fallback trigger events, reflecting the comments received during the working group written procedure after the previous working group meeting on 10 September 2020.

Mr Pardo highlighted the most relevant changes compared to the previous draft version:

1. An update on the proposal by the European Commission to amend the Benchmark Regulation (BMR) was added to the consultation paper. The proposed legislation would empower the European Commission to designate a statutory rate to replace references to a critical or otherwise systemically relevant benchmark that will no longer be published from a given moment in the future. It was clarified that this statutory rate should be seen as a last-resort solution and should not be interpreted by market participants as replacing due compliance with Article 28(2) BMR.
2. Clarification was added regarding the possible trigger event where EURIBOR ceases to be published without there being a prior official announcement by the competent authority or the administrator, as comments received during the written procedure suggested that it was not apparent whether this event would be of a temporary or permanent nature. This trigger event was therefore amended by adding a recommendation that counterparties should agree on a period after which the benchmark unavailability would be deemed a permanent discontinuation.
3. Following the discussions during the previous working group meeting on whether a material change in the EURIBOR methodology should be deemed a EURIBOR fallback trigger event, a more detailed explanation was added to the consultation paper to clarify the consultation question which explicitly states that a material change should not result in an automatic trigger event. Instead, such a change could be covered by either (i) an acknowledgment that EURIBOR may materially change and that references to EURIBOR shall continue to be used; or (ii) an option for parties to negotiate the continuation of the contract using the materially changed EURIBOR or to fall back to EURIBOR fallbacks included in the contract.

The working group agreed with the above-mentioned changes and approved the consultation paper on EURIBOR fallback trigger events for publication. It also thanked Mr Pardo and subgroup 3 members for the high quality of their work.

3. **Update by subgroup 5 on the public consultation on EURIBOR fallback measures for cash & derivatives products**

Christian Gau (Deutsche Bank) and **Anna Kozhevnikova (Generali)** presented the final draft of the public consultation on EURIBOR fallback measures for cash products, reflecting the comments received during the working group written procedure after the previous working group meeting on 10 September 2020.

Mr Gau and **Ms Kozhevnikova** highlighted the most relevant changes compared to the previous draft version:

1. In the final draft it was clarified that, while the current liquidity of the €STR overnight index swap (OIS) market remained modest,¹ the working group expects the liquidity to increase to the same level as observed in the current EONIA OIS market by the time EONIA ceases to exist on 3 January 2022. Given that the EONIA methodology has changed to become a tracker rate of the €STR plus a spread of 8.5 basis points, the liquidity transfer from the EONIA OIS market to the €STR OIS market has, in reality, already happened, as the two markets have become fungible from a risk and liquidity point of view. Working group members acknowledged that the high level of concentration in the current OIS market remained a concern, and a more diversified distribution of counterparties would enhance the development of a representative forward-looking term rate. Taking into account these aspects relating to the selection criterion “robustness/availability”, in the view of several working group members, the forward-looking term rates should be assessed as “feasible with some relevant changes” instead of a combination of “feasible with some relevant changes”/“having questionable feasibility”.
2. The final draft contains a question about whether market participants would find it useful to have access to a publication of the recommended spread adjustment and/or an all-in rate that consists of the recommended term rate plus the recommended spread adjustment. For competition law reasons, the working group could launch a call for interest, but would not be able to choose or recommend a particular benchmark administrator. Instead, as with the working group’s earlier call for interest for potential administrators for a forward-looking term rate, the choice of any preferred administrator and spread adjustment and/or all-in rate would remain with the benchmark users.
3. Because of the broad market support for the International Swaps and Derivatives Association’s (ISDA’s) proposed fallbacks to be applied to EURIBOR and EUR LIBOR derivatives and ISDA’s further guidance during recent months explaining how IBOR fallbacks are applied across derivative products, the final draft of the public consultation does not contain any questions on derivatives.

With respect to point 1 above, **Cornelia Holthausen (ECB)** asked working group members to carefully consider the selection criterion “robustness/availability” in relation to a forward-looking term rate and the uncertainties concerning its future existence. The turnover in the €STR OIS market remained modest. Even though the EONIA OIS market and the €STR OIS market represented the same underlying market, and the respective OIS markets had become fungible from a risk and liquidity point of view, the transition from one to the other was yet to happen. Furthermore, it remained to be seen whether the current liquidity of the OIS market (EONIA and €STR) was sufficient for the calculation of a term rate and whether a methodology based on committed OIS quotes would perform well in periods of market stress. **Ms Holthausen** reiterated that the high level of concentration observed in the EONIA OIS market also remained a concern, as this could potentially make the rate more vulnerable to the behaviour of a limited number of actors.

During the subsequent discussion, the working group took note of all considerations and agreed on all changes presented under points 1, 2 and 3. With respect to point 1, the working group supported the assessment of the “availability/robustness” of forward-looking rates as “feasible with some relevant changes”, acknowledging the high level of concentration in the current OIS market, but agreeing that, given that EONIA has changed its underlying methodology to become a tracker rate of the €STR + 8.5 basis points, the liquidity transfer from the EONIA OIS market to the €STR OIS market has, in reality, already happened, as the two markets have become fungible from a risk and liquidity point of view. With respect to point 2, working group members also discussed whether a call for interest should be launched to potential administrators for the provision of a spread adjustment and/or an all-in-rate consisting of the term rate plus the spread adjustment; working group members agreed to wait for the outcome of the public consultation before assessing the need for such a call.

The working group approved the consultation paper on EURIBOR fallbacks for publication and thanked **Ms Kozhevnikova** and **Mr Gau** as well as subgroup 5 members for the high quality of their work and for producing such a comprehensive and complete document.

4. Update by subgroup 7 on the communication actions and next steps to promote the public consultations

Javier Pareja (Santander) asked working group members to approve the publication of the new edition of the working group newsletter. He clarified that an additional newsletter covering the two public consultations will be prepared. Working group members approved the newsletter and highlighted its usefulness in reaching out to external parties.

Furthermore, **Mr Pareja** informed working group members that subgroup 7 was preparing **one single deck** of slides covering the two public consultations in order to help working group members and the ambassadors to

¹ In September 2020, 1.2% of new EUR OIS volumes were traded against the €STR, according to publicly available LCH data (see <https://www.lch.com/services/swapclear/volumes/rfr-volumes>).

reach out to interested parties. It was envisaged that, shortly after the release of the two public consultations, the working group ambassadors would organise communication actions in their respective jurisdictions involving a broad spectrum of market participants to (i) explain the background for the introduction of EURIBOR fallbacks in contracts, (ii) raise awareness of the two public consultations, and (iii) request market participants, organisations representing market participants and other interested stakeholders to provide feedback on the documents, ensuring a high response rate for these public consultations that is representative of the relevant EURIBOR stakeholders. The deck of slides would also be available on the working group's page on the ECB's website.

In this context **Cornelia Holthausen (ECB)** underlined the importance of such outreach events/activities and encouraged ambassadors to step up communication efforts to attract maximum involvement and response to the working group consultations from a broad set of EURIBOR users, including outside the banking community. In order to ensure transparency, visibility and a proper information flow, these events should be reported to the secretariat of the working group.

In addition, **Ms Holthausen** announced that on 14 December, between 14:30 and 18:15 CET, the ECB would host a working group round table to promote the two public consultations. Such a round table would increase the visibility of the topic. The organisational details, including the agenda, will be published in due course.

The next meeting of the working group is scheduled for 18 February 2021.

List of participants

Participant's organisation

Name of participant

Chairperson

ING

Mr Tanate Phutrakul

Ms Marjolein de Jong-Knol

Voting members

Bank of Ireland

Mr Barry Moran

Barclays

Mr Joseph McQuade

Bayerische Landesbank

Mr Harald Endres

BBVA

Mr José Carlos Pardo

BBVA

Mr Adolfo Fraguas

BBVA

Ms Eva Montalvo

BBVA

Mr Ignacio Ollero

BNP Paribas

Ms Dominique Le Masson

BNP Paribas

Mr David Gorans

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Mr Patrick Chauvet

BPCE/Natixis

Mr Olivier Hubert

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Ms Sophie Asselot

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Mr Francesc Xavier Combis Comas

Crédit Agricole

Ms Florence Mariotti

Crédit Agricole

Mr Laurent Cote

Deutsche Bank

Mr Christian Gau

Deutsche Bank

Mr Juergen Sklarczyk

DZ Bank

Mr Philipp Nordloh

DZ Bank

Mr Michael Schneider

Erste

Mr René Brunner

Erste

Mr Neil McLeod

Eurobank SA

Mr Theodoros Stamatou

HSBC

Ms Nathalie Gay Guggenheim

ING Bank

Mr Jaap Kes

Intesa Sanpaolo

Ms Maria Cristina Lege

KfW Bankengruppe

Mr Ingo Ostermann

LBBW

Mr Jan Misch

Nordea

Ms Jaana Sulin

Santander

Ms Mónica López-Monís

Santander

Mr Javier Pareja

Société Générale

Mr Stephane Cuny

UniCredit Bank

Mr Umberto Crespi

Non-voting members

European Money Markets Institute

Mr Jakobus Feldkamp (recused from Item 3)

European Money Markets Institute

Ms Petra de Deyne (recused from Item 3)

EFAMA
International Capital Market Association
International Swaps and Derivatives Association
International Swaps and Derivatives Association
Loan Market Association

Ms Agathi Pafili
Ms Katie Kelly
Mr Rick Sandilands
Mr Jonathan Martin
Ms Kam Mahil

Invited institutions

European Investment Bank
Generali
Generali

Mr Nikolaos Tzoldos
Ms Anna Kozhevnikova
Mr Fabio Mandirola

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