



EUROPEAN CENTRAL BANK
EUROSYSTEM

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FINAL

Meeting of the working group on euro risk-free rates

held in Frankfurt am Main on Thursday, 29 August 2019, 11:00 to 16:00 CET

SUMMARY

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

Steven van Rijswijk (Chair) asked the members of the working group on euro risk-free rates to approve the agenda for the meeting and reminded them 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 5 on market adoption for cash products and derivatives

Steven van Rijswijk (Chair) thanked subgroup 5, and especially subgroup 5 chairs **Anna Kozhevnikova (Generali)** and **Christian Gau (Deutsche Bank)** and the subgroup 5 secretariat, for the successful completion of the report on the impact of the transition from EONIA to the €STR on cash and derivatives products that was published on 19 August 2019.

Anna Kozhevnikova (Generali) and **Christian Gau (Deutsche Bank)** gave an update on the upcoming work of subgroup 5. First, it would focus on exploring measures to ensure the establishment of liquid €STR markets for derivatives and cash products, with a view to publishing a related report before the end of the year. Second, subgroup 5 would analyse and propose recommendations concerning (i) how the €STR-based forward-looking and backward-looking term structures can co-exist as potential fallbacks for EURIBOR and (ii) the most relevant EURIBOR fallback methodology for each financial product. This work would start in October 2019, building on the analysis carried out by subgroup 2 on backward-looking methodologies as discussed during this meeting as well.

Working group members discussed potential follow-up actions to the recommendations made in the recently published report on the impact of the transition from EONIA to the €STR on cash and derivatives products, prepared by subgroup 5. In particular, it was agreed that (i) the subgroup 5 chairs would look into possible further interaction with CCPs regarding the recommendations made with respect to switching the discounting regime from EONIA to the €STR and (ii) subgroup 7, in coordination with subgroup 5, would reach out to the relevant market associations to follow up on the working group's recommended changes to settlement conventions.

3. Update by subgroup 2 on term rates methodologies

Neil McLeod (Erste Group) presented the results of subgroup 2A's analysis of backward-looking methodologies for calculating a €STR-based term structure, and gave a status update on subgroup 2A's analysis of credit spread calculation methodologies.

Regarding the backward-looking methodologies for calculating a €STR-based term structure, McLeod noted that the options analysed by subgroup 2A were based on the user guide on risk-free rates recently published by the Financial Stability Board (FSB). He briefly explained the different options and gave an overview of the pros and cons of each methodology as identified by subgroup 2A. He indicated which options subgroup 2A considered to be most feasible, notably option 2 "payment delay" (interest payment delayed by some days), option 4 "lookback period" (observation period starts a few days before the interest period, applied in the SONIA FRN market) and option 5 "last reset" (observation period ends at the beginning of the interest period). The analysis made by subgroup 2A would serve as input to subgroup 5 to support their work on identifying fallbacks for EURIBOR for each financial product, once an analysis of the different options from an accounting perspective is finalised by subgroup 6. Working group members commended Neil McLeod on the comprehensive work done by the subgroup and supported the transfer of the analysis to subgroup 5. In addition, working group members noted that the publication of backward-looking rates by an administrator, or the public availability of a rate calculator, would facilitate market acceptance.

Regarding the credit spread calculation methodologies, McLeod explained that subgroup 2A had discussed three different methodologies for calculating a credit spread adjustment: (i) a historic mean/median approach based on the historical difference between EURIBOR and the €STR/EONIA, (ii) a forward approach based on a simplification of the €STR/EURIBOR forward derivative curve, and (iii) a dynamic approach based on the replication of the credit/liquidity risk in another index. The analysis by subgroup 2A would be the basis for a public consultation by the working group, which would be prepared taking into account the pros and cons of the different approaches. In this context, the working group discussed the need for the dynamic approach, with a number of members expressing concerns about its feasibility. The working group also discussed the need to be consistent with the ongoing work of ISDA, and ideally, with work ongoing in other jurisdictions. In this context, the ECB cautioned that the future working group recommendations should not ignore the existing initiatives from market associations, and notably in this specific case ISDA's forthcoming consultation on EURIBOR and EUR Libor fallbacks for derivatives. Furthermore, it was suggested that the working group, in considering EURIBOR fallback rates, should analyse carefully not only the workability of any rate as a fallback, but also whether such a rate is even feasible and whether it can be understood by users. In this respect, the ECB pointed out that backward-looking methodologies are certainly an option that may be considered feasible as the underlying rate, the €STR, will soon be available. The next step for subgroup 2A would be to discuss the organisation of the consultation on credit spread calculation methodology.

4. Update by subgroup 6 on report on financial accounting and risk management

Markus Schmidtchen (KfW) explained subgroup 6 developments since the last working group meeting, i.e. the publication of the letter sent by the working group on euro risk-free rates to the International Accounting Standards Board (IASB) and the action taken by the IASB since then, and presented a report on risk management implications of the transition from EONIA to the €STR and the introduction of €STR-based fallbacks for EURIBOR, intended for publication by the beginning of October 2019. In addition, he informed the working group members that a report on financial accounting implications of the transition from EONIA to the €STR and the introduction of €STR-based fallbacks for EURIBOR is being prepared and is expected to be published by the end of October 2019.

On 16 July 2019 the letter sent by the working group on euro risk-free rates to the IASB, including some requests for clarification and possible amendments of certain accounting standards, was published on the working group [webpage](#). Schmidtchen explained that since then the IASB has continued working on phase 1 of its IBOR reform project ("pre-replacement phase"). At a meeting held on 28 August 2019 the IASB discussed some issues identified while reviewing the feedback on the Exposure Draft Interest Rate Benchmark Reform published in May, which includes amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*. During this meeting, the IASB also discussed due process, including permission for balloting those amendments, and is planning to issue them in September 2019. Subsequently, an endorsement process by the relevant EU institutions would be needed. The KfW representative explained that some of the requests included in the letter sent by the working group have been taken into account by the IASB in phase 1 of its IBOR reform project and that the IASB is expected to start working on phase 2 ("replacement phase") once it finalises phase 1.

He then presented the report on risk management implications of the transition from EONIA to the €STR and the introduction of €STR-based fallbacks for EURIBOR to be published by the beginning of October 2019, highlighting its key messages. The report includes a set of recommendations addressed to market participants and a risk management impact analysis including: (i) general considerations of the transition to risk-free rates, (ii) the transition from EONIA to the €STR, (iii) the introduction of €STR-based fallbacks for EURIBOR and (iv) additional considerations for the asset management and insurance sectors.

5. Update by subgroup 3 on the legal action plan and fallback language for new and legacy contracts referencing EURIBOR

Steven van Rijswijk (Chair) thanked subgroup 3 on legal aspects and contractual robustness for the successful completion of the EONIA to €STR Legal Action Plan, the final recommendations of which were published on 16 July 2019. Then van Rijswijk gave the floor to the public sector observers to clarify their expectations when it comes to EURIBOR fallbacks. **Michele Mazzoni (ESMA)** and **Cornelia Holthausen (ECB)** explained that, now that the EONIA to €STR Legal Action Plan has been published, the work on EURIBOR fallback provisions should become the number one priority for subgroup 3. The public sector observers expect subgroup 3 and the working group to find solutions to embed EURIBOR fallbacks in contracts in accordance with the requirements of the EU Benchmarks Regulation (BMR) and best practices, statements by the FSB and IOSCO Principles. This should be done not only for new contracts, but also for legacy contracts issued since 1 January 2018, as well as ones issued before that date to the extent possible.

José Carlos Pardo (BBVA) presented the work of subgroup 3 to develop a legal action plan with regard to EURIBOR (“EURIBOR Legal Action Plan”). The situation for EURIBOR is different from EONIA as EURIBOR is not scheduled to be discontinued and the situation does not represent a transition to a new rate, but instead the introduction of robust fallback provisions.

The purpose of the EURIBOR Legal Action Plan is threefold: (i) to comply with Article 28 of the BMR; (ii) to enhance transparency and legal certainty; and (iii) to fulfil the working group mandate of identifying best practices for contract robustness. The EURIBOR Legal Action Plan will address new and legacy contracts.

Regarding new EURIBOR contracts, the output will be divided into (i) high-level recommendations for EURIBOR fallback provisions and (ii) specific fallback templates for different asset classes.

Based on the guiding principles published by the working group in January 2019, subgroup 3 will first develop high-level recommendations for EURIBOR fallback provisions for new contracts, scheduled for submission to the working group meeting on 16 October 2019. This document will be generic for all asset classes with the purpose of reminding market participants about the need to comply with the BMR (when applicable) and to enhance the robustness of fallback language used for EURIBOR despite the continuation of EURIBOR.

The proposed work with regard to specific fallback language for different asset classes is planned to start in September in order to launch one or more consultations by the end of 2019. The set of specific fallback language templates for different asset classes will be structured to take into account the differences between asset classes and cover the following main groups of asset classes: (1) floating rate notes, securitisations and covered bonds; (2) business loans; and (3) mortgages and consumer loans. This work is not intended to cover derivative transactions as these are addressed by ISDA, and will not cover syndicated loans as these are addressed by the LMA. Some working group members highlighted the need to ensure alignment between different asset classes, with the ISDA work on derivatives and the LMA work on syndicated loans, and with the initiatives carried out by working groups in other countries. In addition, some working group members highlighted the need to keep fallback language operationally acceptable in the systems and processes of the various market participants.

Regarding legacy contracts referencing EURIBOR, the guiding principles for fallback provisions for cash products published by the working group in January 2019 already analysed the main challenges that market participants face with regard to legacy contracts. In particular, it was noted that existing EURIBOR fallback provisions, where present, are often intended to address the temporary unavailability of EURIBOR and may not produce commercially acceptable results in the event of a permanent cessation of EURIBOR. In view of the scope and nature of EURIBOR contracts, amending legacy contracts for cash products in order to embed new fallback provisions in all contracts is likely to be a very challenging task.

The work by subgroup 3 with regard to amendments of legacy contracts to embed robust fallbacks for EURIBOR may take into account the following: (a) EURIBOR is not scheduled to be discontinued; (b) requirements under the BMR, IOSCO Principles and best practices for contractual robustness; (c) the possible support of European and national authorities; (d) the work of other industry working groups and authorities; (e) litigation risk and consumer protection issues. Taking these aspects into account, subgroup 3 will consider the extent to which it is necessary to amend legacy contracts and, to the extent needed, how to do so.

6. Update by subgroup 7 on communication and education

6.1. Presentation of the first initiatives by subgroup 7

Maite Bermudez (Santander) updated the working group about the state of play of the subgroup. So far subgroup 7 was working on several communication products to fit into a “communication toolkit”: (i) a roadmap summarising the deliverables and estimated timing of the working group deliverables for the information of subgroup 7 and working group members; (ii) a basic set of slides to support the institutional presentations on the topic of euro benchmarks; and (iii) a checklist to summarise the steps and processes of the EONIA to €STR transition. The last two deliverables should be published in the coming weeks on the ECB website. Several additional initiatives were also being prepared: subgroup 7 had been surveyed on the priorities for the group as well as the key messages which should be passed on. Subgroup 7 was also working on a set of standard replies to the most frequently asked questions, received primarily via the ECB.

In the subsequent discussions, several working group members emphasised the need for and urgency of harmonised and targeted communication towards the client base, especially on the EONIA to €STR transition, the beginning of which is now imminent. A specific outreach exercise towards market participants should be organised before mid-September in order to ensure that the first step of the EONIA to €STR transition is known beyond the banking industry (i.e. that actors including corporates and asset managers in every jurisdiction have been made

aware of the changes arising on 2 October 2019). It was also agreed that the relevant market associations should also be contacted by the subgroup 7 chair as soon as possible to ensure that the recommendations on the settlement changes of the report on the EONIA transition for cash and derivative products¹ had been noted.

In addition, **William Lelieveldt (ECB)** presented a proposal on how to deal with media requests addressed to the working group (questions, requests for interviews or background talks), received by the ECB and by institutions involved in the working group, and how to process them as swiftly as possible. Responsibility for the replies would basically rest with subgroup chairs, in close cooperation with the ECB Secretariat and ING. Where relevant, other subgroup chairs will also be informed of the requests to ensure better coordination.

6.2. Update on subgroup 7 governance

Maité Bermudez also reported that subgroup 7 had established three work streams: (i) the transition from EONIA to the €STR; (ii) EURIBOR fallbacks; and (iii) specific challenges as regards retail customers. Out of the current 33 institutions participating in subgroup 7, 14 institutions had volunteered to be active within the group. An action plan should be delivered by each work stream as soon as possible, with priority for the first work stream due to the upcoming publication of the €STR.

7. Other business

7.1. Update on a forward-looking €STR-based term structure that could serve as a EURIBOR fallback

This item was postponed until a future discussion due to the lack of time.

7.2. Update on the Roundtable on euro risk-free rates on 25 September

The ECB Secretariat updated the working group members on the organisation of the second roundtable on euro risk-free rates, to be hosted by the ECB on 25 September, informing members of the programme and the current status of participation. The ECB recalled that working group members were invited to help spread the word about the roundtable by pointing interested market participants towards the [ECB website](#), which includes information on how to register for the event.

7.3. Any other business

The ECB Secretariat informed the working group members of the changes to the composition of the various subgroups (Siemens and Nationale Nederlanden joining subgroup 5, BNP joining subgroup 7), and that the subgroup composition would be updated on the ECB website.

7.4. Next meeting

The next meeting of the working group will take place at the ECB on 16 October 2019, from 11:00 to 16:00 CET.

¹ See

https://www.ecb.europa.eu/pub/pdf/other/ecb.wgeurofr_impacttransitioneoniaeurostrcashderivativesproducts~d917dff84.en.pdf

List of meeting participants

Participant's organisation

Name of participant

Chairperson

ING

Mr Steven van Rijswijk

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

BNP Paribas

Ms Dominique Le Masson

BNP Paribas

Mr David Gorans

BPCE/Natixis

Mr Olivier Hubert

BPCE/Natixis

Ms Sophie Asselot

CaixaBank, S.A.

Mr Juan Cebrian

CaixaBank, S.A.

Mr Javier Pano

Crédit Agricole

Mr Florence Mariotti

Deutsche Bank

Mr Christian Gau

DZ Bank

Mr Christoph Block

Erste Group Bank AG

Mr Neil Mcleod

HSBC

Ms Nathalie Gay Guggenheim

HSBC

Mr Pierre Jenft

ING Bank

Mr Jaap Kes

Intesa Sanpaolo

Ms Maria Cristina Lege

Intesa Sanpaolo

Ms Alessandra Iuliucci

KfW Bankengruppe

Mr Markus Schmidtchen

KfW Bankengruppe

Mr Ingo Ostermann

Nordea

Ms Jaana Sulin

Santander

Mr Carlos Fernandez Infesta

Santander

Ms Maria Teresa Bemudez Tejero

Santander

Ms Monica Lopez-Monis

Société Générale

Mr Olivier Balpe

Société Générale

Mr Stephane Cuny

UniCredit Bank

Mr John O'Farrell

Non-voting members

European Money Markets Institute

Mr Alberto López Martin

European Money Markets Institute

Ms Gaelle Marques dos Santos

European Fund and Asset Management Association

Ms Agathi Pafili

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

Ms Catherine Wade
Mr Rick Sandilands
Ms Kam Mahil

Invited institution

European Investment Bank
European Investment Bank
Generali
Generali

Mr Yassine Boudghene
Mr Thomas Schröder
Ms Anna Kozhevnikova
Mr Santo Borsellino

Observers

European Central Bank
European Central Bank
European Securities and Markets Authority
Financial Services and Markets Authority
European Commission

Ms Cornelia Holthausen
Mr Holger Neuhaus
Mr Michele Mazzoni
Mr Randy Priem
Ms Alessandra Atripaldi

Secretariat

European Central Bank
European Central Bank
European Central Bank
European Central Bank
European Central Bank
European Central Bank
European Central Bank
European Central Bank

Ms Anne-Lise Nguyen
Ms Stephanie Broks
Mr Mikael Stenström
Mr Pascal Nicoloso
Mr Armin Greif
Ms Yasmína Santalla Perez
Mr Vladimir Tsonchev
Mr William Lelieveldt