



EUROPEAN CENTRAL BANK

EUROSYSTEM

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risk-free rates

Update on the working group on euro risk-free rates

Operations Managers Group, ECB
Frankfurt am Main, 6 March 2019

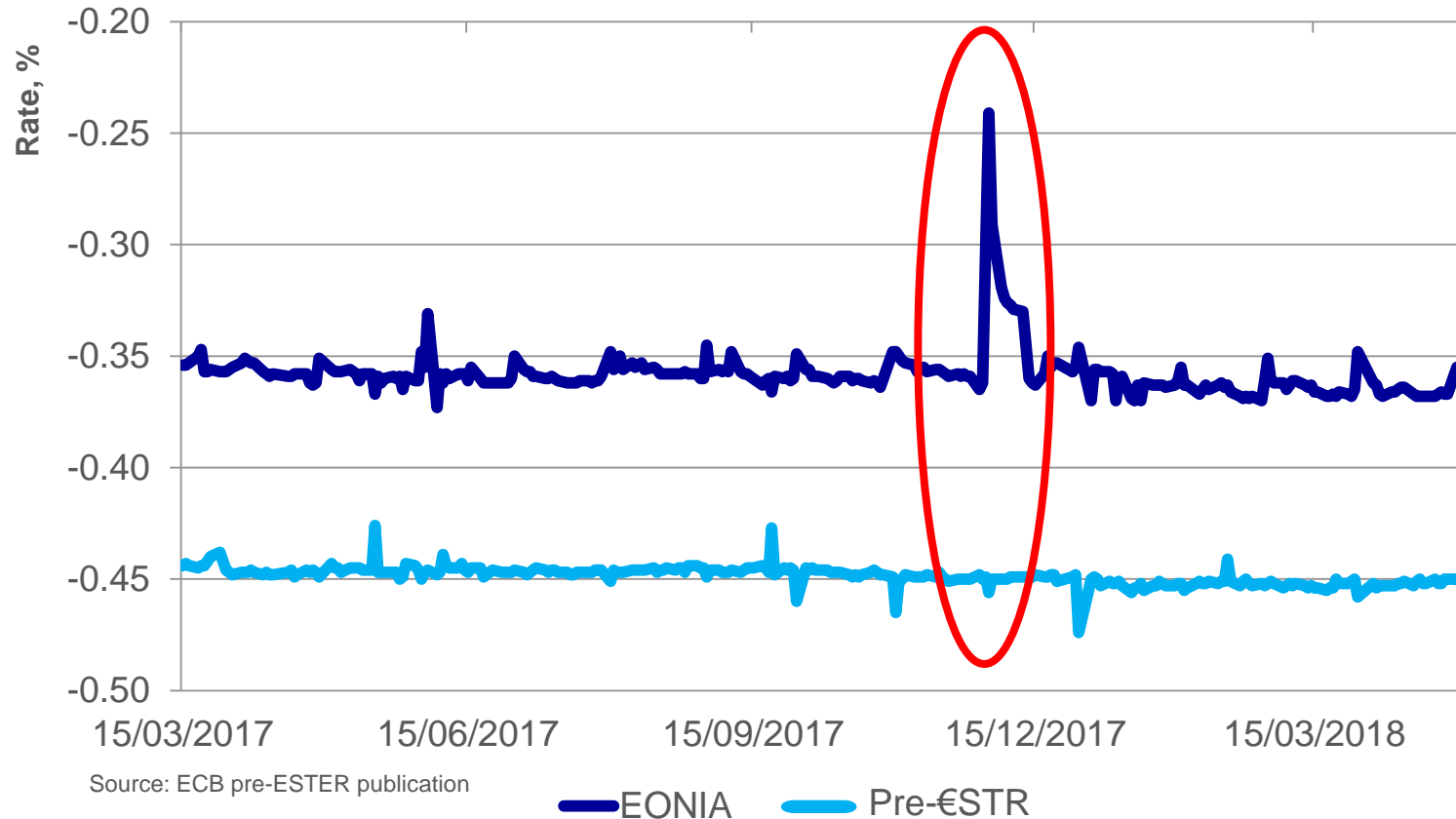
- In early 2018, [EMMI announced the end of their reform efforts](#) regarding **EONIA** (low underlying volumes; high panel concentration)

- 13 Sep 2018**, the working group, following [public consultation](#), [recommended the euro short-term rate as the new euro RFR](#):

- Replacement for EONIA
- Basis for fallback rate for EURIBOR

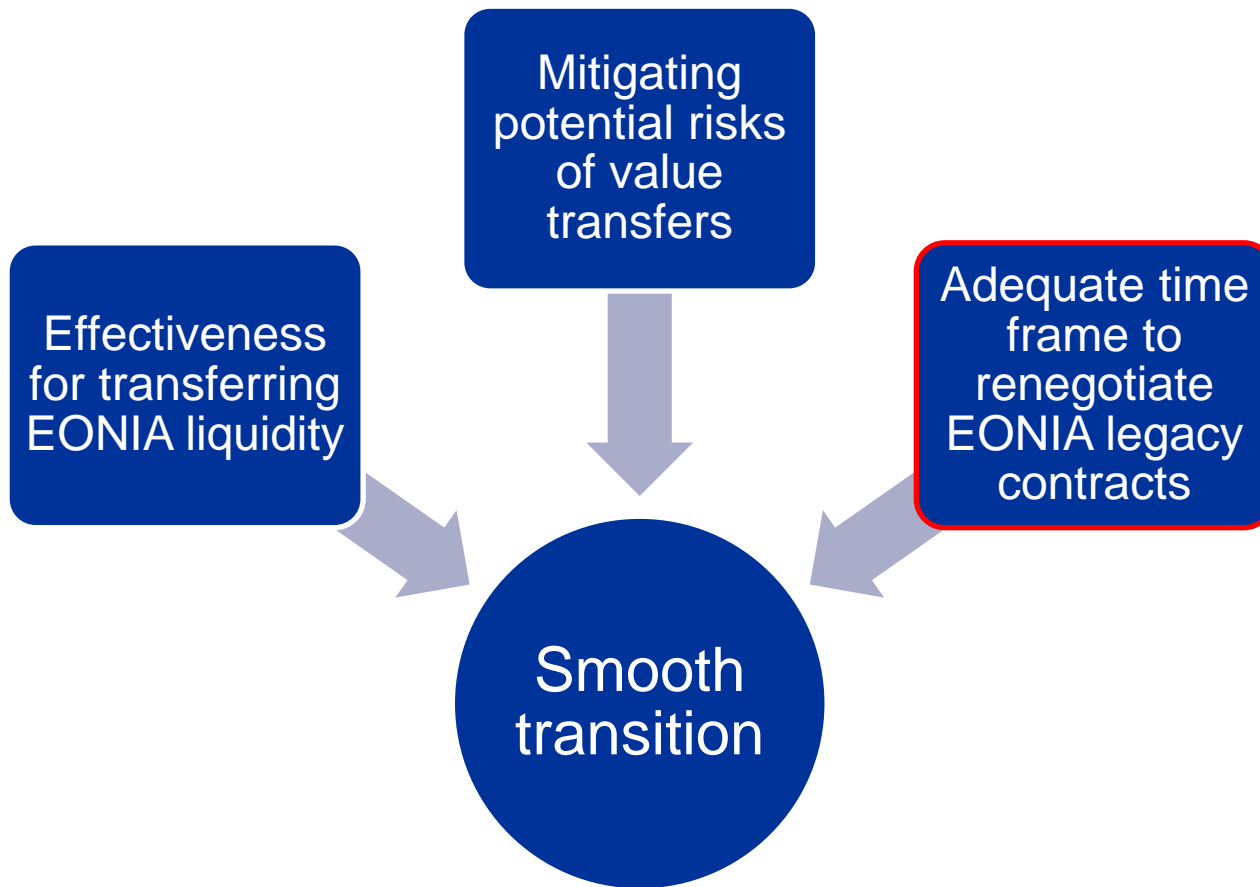
EONIA	Euro short term rate
EUR	EUR
Overnight	Overnight
Unsecured	Unsecured
Transaction Based	Transaction Based
Unstable Panel	Stable Panel
Interbank	Wholesale
Bank Lending	Bank Borrowing
Published on T	Published on T+1

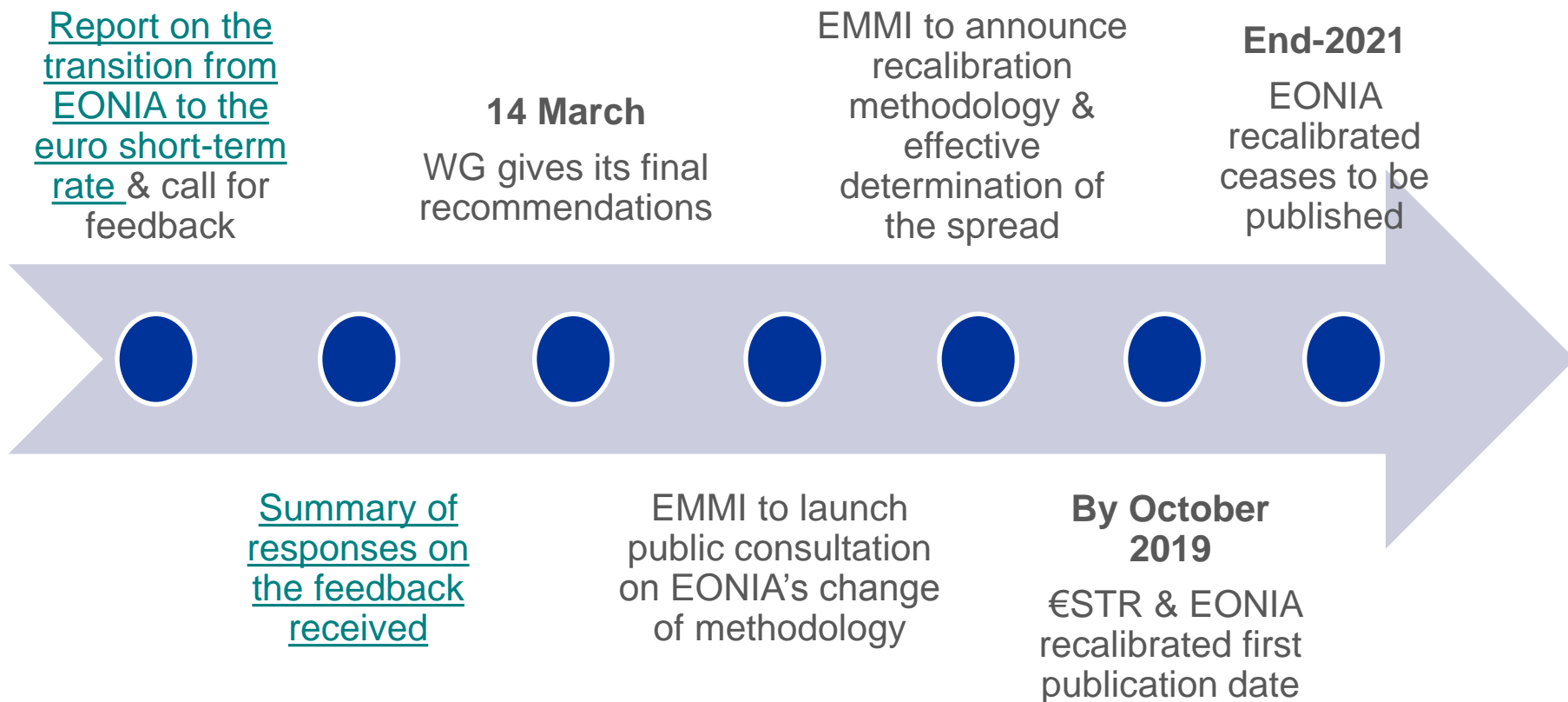
€STR is quite stable



- Rate reacts to market factors (excess liquidity, rate falls at quarter-ends)
- While being less vulnerable to outliers
- Pre-€STR (post corrections) very similar to €STR (based on 7:00 data)

- The WG analysed possible transition paths and recommended:
 - To use an evolved EONIA methodology, i.e. $\text{EONIA} = \text{euro short term rate} + \text{Spread}$, until December 2021
 - To replace EONIA with euro short term rate for new and legacy trades





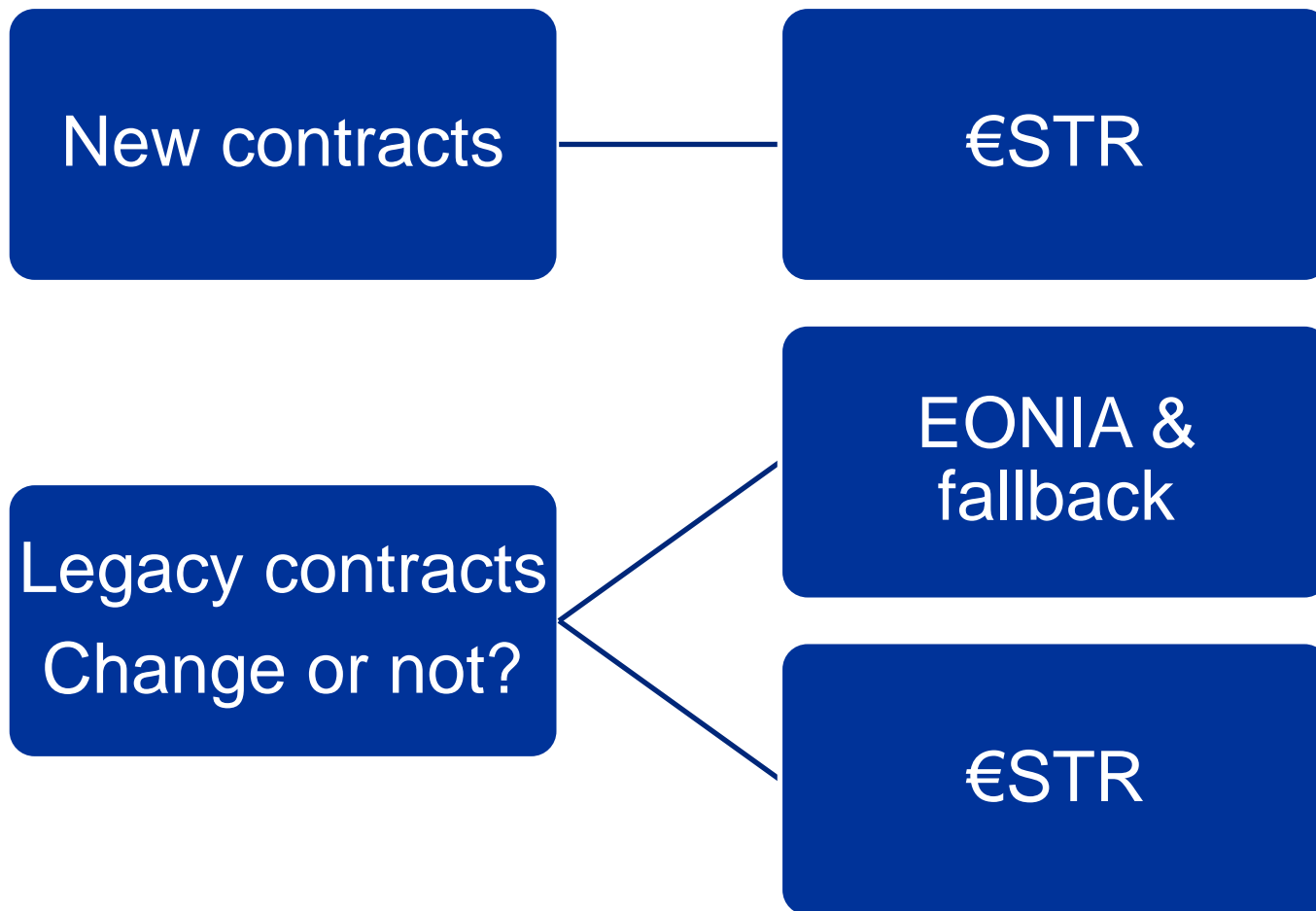
- The WG recommended that market participants:

Gradually replace EONIA with the euro short-term rate as a reference for all products and contracts and make all necessary adjustments for using the euro short-term rate as their standard benchmark after the transition period

- Since 1 Jan 2018, supervised entities using benchmarks are required to fulfil [Article 28\(2\) of the EU BMR](#):

*Supervised entities [...] shall produce and maintain **robust written plans** setting out the actions that they would take in the event that a **benchmark materially changes or ceases to be provided***

- The WG published a [paper](#) in Jan 2019 on **guiding principles for fallback provisions** and intends to recommend more detailed fallback language for legacy and new euro-denominated contracts



EURIBOR and euro short term rate-based fallbacks

- Base case for the WG: EURIBOR to become BMR compliant

EMMI

(EURIBOR's administrator)

- Ongoing reform of EURIBOR to move to hybrid methodology
- Q2 2019: apply for authorisation to FSMA, phasing in of hybrid methodology

FSMA

(EMMI's supervisory authority)

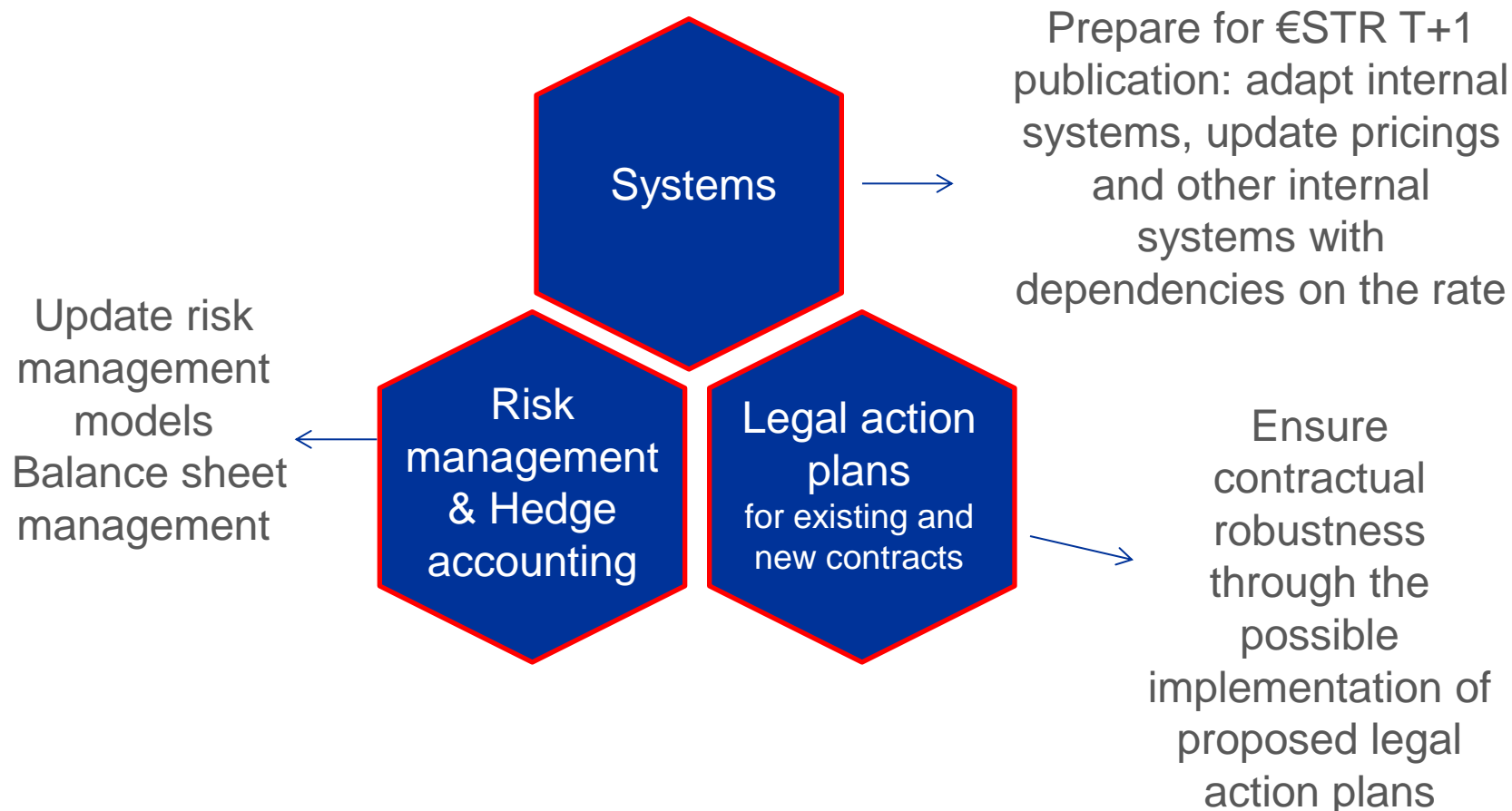
- “represents a significant step towards a BMR-compliant Euribor”
- “FSMA will make an effort to expedite the authorisation process”

- WG to identify euro short term-based fallbacks for EURIBOR
- Public consultation on term structure methodologies based on euro short-term rate derivatives markets recently closed:
 - Based on tradeable OIS quotes offers the best prospect of producing a viable fallback
 - Challenges: consistency across asset classes, jurisdictions

Issues to be addressed by the WG in 2019 ... and relevant also for market participants



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Questions & Answers

Global reform of benchmarks in progress

- New international standards (IOSCO principles), owing to
 - past incidents of manipulation and
 - decline in underlying volumes (unsecured interbank market)→ Robust benchmarks to be transactions-based, reflecting active market
- FSB recommendation: Identifying alternative risk-free rates (RFRs)

Euro area

- EU Benchmarks Regulation (EU BMR): As of 1 January 2020, non-compliant benchmarks cannot be used in new contracts *however deadline postponement is highly likely ([political agreement](#))*
- ECB involvement as of Sep 2017:

Euro short-term rate:

Production of an overnight unsecured rate by October 2019

Working group on euro risk-free rates (WG):

Set up with ESMA/FSMA/EC, ECB providing the secretariat

How to square this?

