

Meeting of the working group on euro risk-free rates

held in Frankfurt am Main on Friday, 20 April 2018, 11:00-16:00 CET

SUMMARY

1. Approval of the agenda, introductory remarks and brief summary of the mandate and organisation of the working group

Mr Timmermans (Chair) welcomed the meeting participants and recalled the overall mandate of the working group as specified in the terms of reference. **Mr Kes (ING)** reminded the working group members about the organisation of the work, as agreed previously, in three work streams: work stream #1 on the selection of the risk-free rate(s) RFR(s), work stream #2 on the term structure, and work stream #3 on contractual robustness. Work stream #1 is composed only of the volunteering working group members, while for work streams #2 and #3 specific subgroups have been established, also integrating non-working group members who had flagged their interest in participating in the RFR dossier and had consequently answered the call for expressions of interest on the ECB's website.

2. Obligations of the working group members as regards competition law

Mr Alvaro Pliego Selie, from the law firm Freshfields Bruckhaus Deringer LLP, was invited by the Chair to introduce the topic of EU competition obligations applying to the working group members, as requested by the working group. He presented some suggested guidelines for the working group, and recalled the main obligations applying to the working group members, notably the "golden rule" relating to the non-exchange of competitively sensitive information. He indicated that in the case of doubt as to whether information might be competitively sensitive and could be exchanged, working group members should seek in-house legal advice prior to any disclosure. He also insisted that these guidelines could not cater for all possible situations but should be seen as general guidelines, while working group members had to be responsible for their own behaviour.

In the subsequent discussions, the working group agreed that:

- these guidelines would be immediately published on the ECB's website as a systematic reference for the forthcoming meetings of the working group;
- in the event that some members would like to comment on the guidelines, they could be revised and endorsed at the next meeting of the working group;
- the guidelines would be transmitted to the substructures where such obligations also apply; and
- the possibility of a legal counsel attending the working group meetings on a systematic basis and/or checking the meeting document against elements of competition law would be considered by the Chair's team.

The European Commission representative stated that the Commission agreed with the Freshfields analysis that working groups and subgroups should not be engaged in the exchange of information on rates, prices or margins, especially in the context of phasing in new benchmarks that might yield reference rates different from the predecessor versions. The Commission representative also clarified that the presence of Commission staff at meetings of working groups or any other formations formed by the working groups does not amount to the approval or endorsement of any exchange of information on rates, prices or margins or any agreement to coordinate pricing or margins that participants may explicitly or implicitly arrive at.

3. Brief overview of relevant developments in benchmark reforms

Ms Holthausen (ECB) recalled the latest developments in the benchmark reforms since the last meeting of the working group: the publication of the Secured Overnight Financing Rate (SOFR) by the Federal Reserve Bank of New York, the forthcoming publication of the Sterling Overnight Index Average (SONIA) by the Bank of England under its new methodology, and the second public consultation on the ECB overnight rate. **Ms De Deyne**

(European Money Markets Institute) informed the working group about the first public consultation on the new hybrid methodology for EURIBOR in order to bring it into compliance with the EU Benchmarks Regulation.

4. First deliverables of work stream #1

4.1. Mapping exercise: update on the estimation of the usage of EONIA and EURIBOR

Mr Neuhaus (ECB) presented tentative results gauging the (maximum) amounts outstanding of financial instruments linked to variable rates in general, among which EONIA and EURIBOR reference rates in particular. The results were derived using data collected under the ECB Money Market Statistical Regulation (MMSR)¹, ECB MFI interest rate statistics, as well as Dealogic data. The focus of the exercise was to assess the share of current amounts outstanding by asset class maturing after 2019. According to this preliminary assessment using end-2017 data, EUR 2.9 trillion of EONIA-linked and EUR 3.4 trillion of EURIBOR-linked financial transactions would remain outstanding on 1 January 2020. Mr Neuhaus stressed that these results were preliminary and that additional efforts were ongoing to broaden the coverage of the estimates to include derivatives markets. A more elaborate update would be provided at the May 2018 working group meeting.

4.2. Mapping exercise: summary of the legal frameworks applicable in the euro area countries

Ms De Jong (ING) presented a high-level summary of the compilation made by the work stream #1 members of the legal frameworks applicable in the euro area for all financial products indexed to EONIA and EURIBOR. She recalled that under Article 28.2 of the EU Benchmarks Regulation, benchmark users should provide fallback provisions and alternative benchmarks for the case of the cessation of a benchmark. Market practice shows that these provisions are not always in place, and that those which are included in contracts are only well-suited for use on a temporary basis. This means that associations and institutions will have to update their contract standards and written arrangements to embed EONIA replacement, EONIA fallback and EURIBOR fallback arrangements in new contracts, as well as renegotiating their existing contracts. Also, beyond the identification of the legal frameworks applicable in euro area countries, this first exercise also allowed for an initial assessment of the level of standardisation and consumer protection attached to financial products, as well as a first estimation of the time required for the implementation of fallback arrangements in new and legacy contracts. A preliminary estimation indicated that for the new contracts, estimations ranged from 1 to 18 months; for legacy contracts, they ranged from 6 months to 3 years, and in some cases such changes were deemed impossible.

The working group agreed that the compilation of legal frameworks established by work stream #1 would be transmitted to work stream #3 on contractual robustness to support its own studies.

4.3. Selecting the risk-free rate(s)

4.3.1. Presentation of the selection criteria as agreed by work stream #1, discussion and adoption by the working group

Mr Giannopoulos (Barclays) recalled that the main task of work stream #1, i.e. preparing the selection of euro RFR(s) by the working group, stemmed from the Financial Stability Board's 2014 report recommending the use of RFRs whenever suitable. He informed the working group members about the process which led to the list of criteria submitted for the approval of the working group, and notably that work stream #1 members collectively proposed the criteria and discussed each one extensively. He noted that the criteria were agreed by consensus in the work stream. He recalled that this list should be seen as the minimum criteria the RFR(s) should fulfil in order to be selected by the working group, and that the RFR candidates should be assessed against these criteria. The working group discussed some additional suggestions and alternative wording and enquired about some criteria. The list presented was approved by the working group by consensus and would be made available on the ECB's website.

4.3.2. First suggestions on the possible RFR candidates matching the list of criteria

Mr Weil (Barclays) indicated that work stream #1 members were in the process of listing each potential euro RFR, and invited all working group members to suggest any additional RFR candidates for consideration. A complete review of the potential RFRs against the agreed criteria would be made in the next weeks by work stream #1 members. In this context, some benchmark providers had already been approached to provide additional

¹ https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/money_market/html/index.en.html

information about their RFRs in order to support and inform the selection process. Both secured and unsecured RFRs are being considered. In the subsequent discussions, the ECB confirmed that its overnight rate based on the MMSR would be based on the unsecured market, and that no additional secured rate was under consideration.

For the next working group meeting, work stream #1 members would draft an analysis of a shortlist of candidate euro RFRs, with a first assessment of each candidate against the agreed criteria. This analysis would be discussed at the next meeting of the working group on 17 May. The final analysis would be included in a public consultation, to be published on the ECB's website.

4.3.3. Information on the internal voting procedure for the working group members for the choice of the RFR(s)

Ms Holthausen (ECB) recalled that the work programme of the working group foresaw a vote on the selected euro RFR(s) by September 2018. As mentioned in the terms of reference, each member firm will have one vote. Each voting member of the working group should hence be able to vote on behalf of his/her own institution, as per the terms of reference of the working group. In this context, ensuring that information flows correctly internally ahead of the vote, and that on the day of the vote each member can reply in a way reflecting a widely supported position of the institution represented, was important. For this reason, a short survey would be circulated to the voting members of the working group by the ECB secretariat to assess whether an internal consultation mechanism is put in place. At this stage, no follow-up was foreseen beyond this survey, unless the exercise proved it necessary to put forward some best practices. It was clarified that the voting procedure itself would also need to be clarified in the next months.

5. Establishing work stream #2 and subgroup #2 on the term structure

For this work stream, a subgroup was established, under the lead of BNP.

5.1. Approval of the composition of subgroup #2 and the terms of reference

Mr Chauvet (BNP) presented the terms of reference for subgroup #2 and the expected deliverables: exploring the fallback arrangements for EURIBOR and recommending a term structure methodology on RFR(s) as a fallback in EURIBOR-linked contracts.

The composition of subgroup #2 was also presented, as put forward by the ECB and the Chair's team, in cooperation with the other public institutions and BNP (as Chair of subgroup #2). Overall, 38 institutions would take part in this subgroup, among which credit institutions, but also asset managers, associations, clearers, benchmark providers and other institutions. The ECB also noted that the call for expressions of interest on its website was still open to market participants not represented in the working group, providing an opportunity to get involved at subgroup level.

The working group approved both the composition and terms of reference of subgroup #2; both documents would be published on the ECB's website in the coming weeks.

5.2. Organisation of subgroup #2 and roadmap

Mr Chauvet (BNP) put forward the following organisation for subgroup #2, as mentioned in the terms of reference of the subgroup:

- subgroup 2A should be tasked with assessing available methodological approaches to constructing term rates for the selected RFR(s);
- subgroup 2B should be tasked with evaluating the legal and compliance implications of the assessed methodologies including their compliance with IOSCO principles and the provisions of the EU Benchmarks Regulation; and
- subgroup 2C should be tasked with identifying requirements that enable a broad-based adoption of a new term structure and with working out framework proposals ensuring their implementation; the group would also look at issues related to the potential spread adjustment.

He also informed participants that Neil McLeod (Erste), Carlos Infesta (Santander) and Alberto Covin (Unicredit) had kindly agreed to coordinate the subgroups 2A, 2B and 2C respectively.

In addition, a tentative roadmap was presented to the working group members. BNP had identified six main deliverables, to be closely coordinated among the subgroups 2A, 2B and 2C, as well as a preliminary timing associated with them. As chair of subgroup #2, BNP indicated its willingness to start work as soon as possible,

notably regarding the stocktaking exercise regarding the work already done by the other working groups as well as by International Swaps and Derivatives Association currency groups.

At the next meeting, subgroup #2 would update the working group with: (i) an allocation of the institutions to each of the subgroups 2A, 2B and 2C; and (ii) a more detailed roadmap and timeline of deliverables, including the interactions with the other subgroups.

6. Establishing work stream #3 and subgroup #3 on contractual robustness

For this work stream, a subgroup was established, under the lead of BBVA. The European Securities and Markets Authority (ESMA) would provide the secretariat for this subgroup.

6.1. Approval of the composition of subgroup #3 and the terms of reference

Mr Steven Maijor (ESMA) presented the proposed composition of subgroup #3 to the working group, as put forward by ESMA and BBVA (as Chair of subgroup #3), and after consulting the other public institutions (notably the ECB) and the Chair. Mr Maijor explained that the choice of candidates had been made to ensure the necessary knowledge and expertise in the group. He also referred to some members' request to engage external legal counsel and pointed out, as also supported by the other public institutions, that matters should be addressed within the subgroup first. The subsequent discussions showed that additional applications were still taking place or needed to be further reviewed. It was agreed that all the interested working group members not taken on board so far in subgroup #3 should flag their interest to the ECB secretariat in the coming days.

Mr Feldkamp (ESMA) presented the terms of reference for subgroup #3, which aim at identifying the best practices for contractual robustness and at developing an adoption plan for legacy contracts referencing existing benchmarks. Following remarks by the European Commission and subsequent discussions, it was agreed that the subgroup's deliverable referring to possible amendments to existing legal frameworks should be further clarified.

The composition of subgroup #3 as well as the terms of reference should be approved at the next meeting of the working group, once amended. Both documents would be published on the ECB's website.

6.2. Organisation of subgroup #3 and roadmap

Mr Aldofo Fraguas (BBVA) presented the objectives of subgroup #3, as well as a detailed timeline of the deliverables and their interactions with the other work streams. Deliverables would include: (i) a preliminary draft report by mid-July with the complete legal analysis by asset class and country to be presented by the end of Q3; (ii) an action plan for the EONIA replacement and EURIBOR fallback by the end of 2018; and (iii) an approach for the EONIA replacement and EURIBOR fallback after analysing the different options available, such as the amendment of contracts, protocols and regulatory amendments, by the end of 2018. This recommendation would be reviewed once the selection of the RFR(s) is final.

At the next meeting, subgroup #3 would update the working group with: (i) a more detailed organisation of each of the subgroups 3A and 3B; and (ii) an update of the deliverables already identified.

7. 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 Thursday, 17 May 2018.

List of meeting participants

Participant's organisation

Name of participant

Chairperson

ING

Mr Koos Timmermans

Ms Johanneke Weijtjens

Voting members

Bank of Ireland

Mr Barry Moran

Barclays

Mr Sascha Weil

Barclays

Mr Andreas Giannopoulos

Bayerische Landesbank

Mr Harald Endres

BBVA

Mr Adolfo Fraguas

BBVA

Mr Fernando Soriano Palacios

BBVA

Mr José Carlos Pardo

BNP

Mr Patrick Chauvet

BPCE/Natixis

Mr Olivier Hubert

BPCE/Natixis

Ms Sophie Asselot

CaixaBank, S.A.

Mr Sergio Castella

CaixaBank, S.A.

Mr Juan Cebrian

Crédit Agricole

Mr Carlos Molinas

Crédit Agricole

Ms Florence Mariotti

Deutsche Bank

Mr Juergen Sklarczyk

DZ Bank

Ms Cornelia Gericke

DZ Bank

Mr Michael Schneider

Erste Group Bank AG

Mr Rene Brunner

Eurobank - Ergasias SA

Mr Theodoros Stamatiou

HSBC

Mr Pierre Jenft

ING Bank

Mr Jaap Kes

ING Bank

Ms Marjolein De Jong

Intesa Sanpaolo

Mr Marco Antonio Bertotti

KfW Bankengruppe

Mr Markus Schmidtchen

KfW Bankengruppe

Mr Ingo Ostermann

LBBW

Mr Jan Misch

Nordea

(excused)

Santander

Mr Jose Manuel Campa

Société Générale

Mr Stéphane Cuny

Société Générale

Mr Frédéric Pailloux

Unicredit

Mr Alberto Covin

Non-voting members

European Money Markets Institute

Ms Petra De Deyne

European Money Markets Institute	Mr Alberto Lopez Martin
European Fund and Asset Management Association	Ms Agathi Pafili
European Fund and Asset Management Association	Mr Peter De Proft
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 Steven Maijoor
European Securities and Markets Authority	Mr Jakobus Feldkamp
Financial Services and Markets Authority	Mr Rik Hansen
European Commission	Mr Tilman Lueder
European Commission	Ms Alessandra Atripaldi

Other (item 2 only)

Freshfields Bruckhaus Deringer LLP	Mr Alvaro Pliego Selie
------------------------------------	------------------------

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	Ms Sarah Jane Hlaskova Murphy