



EUROPEAN CENTRAL BANK

EUROSYSTEM

Stephanie Broks

ECB secretariat to the
working group on euro risk-free rates

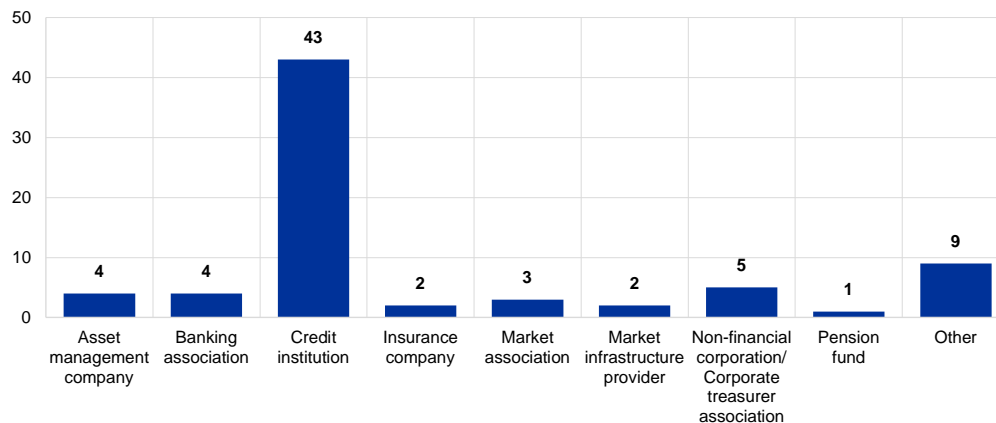
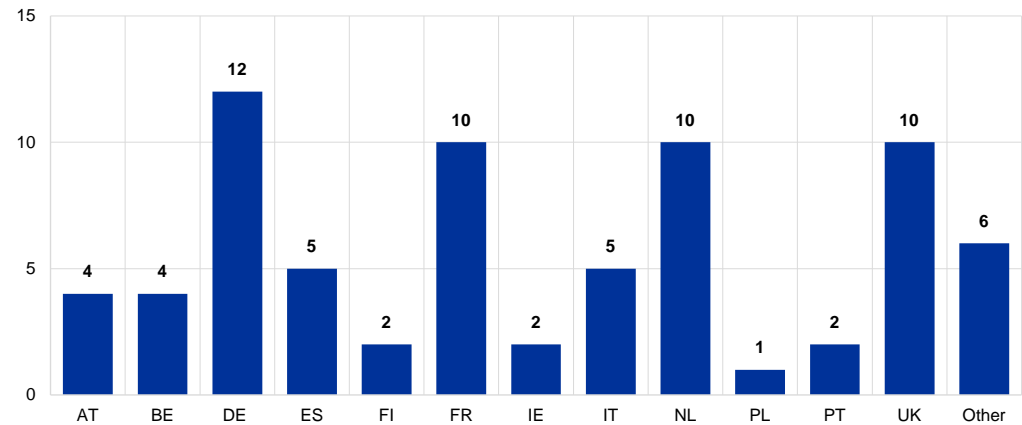
Item 4.1

Summary of responses – Public consultation on determining an ESTER-based term structure

Working group on euro risk-free rates
Frankfurt, 27 February 2019

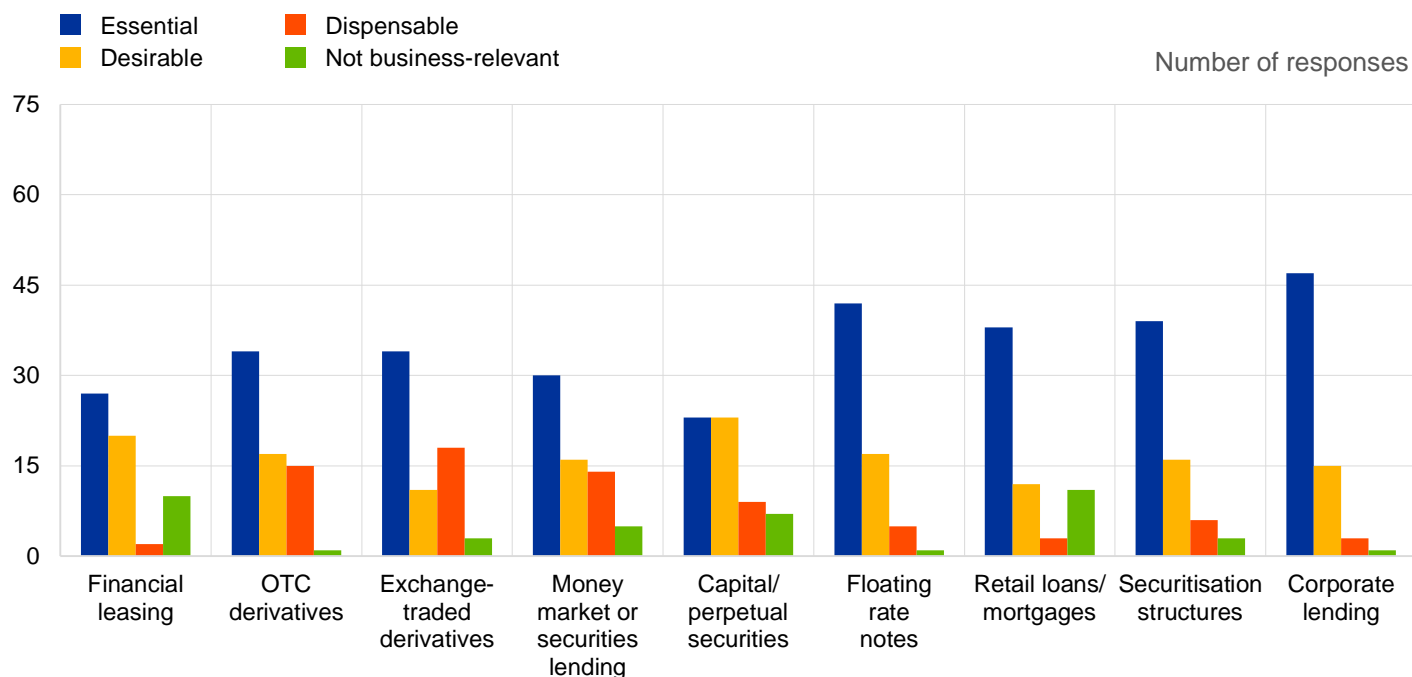
73 respondents: appropriate geographic coverage and reflecting relevant sector and sub-sector views

Number of respondents by geographic area



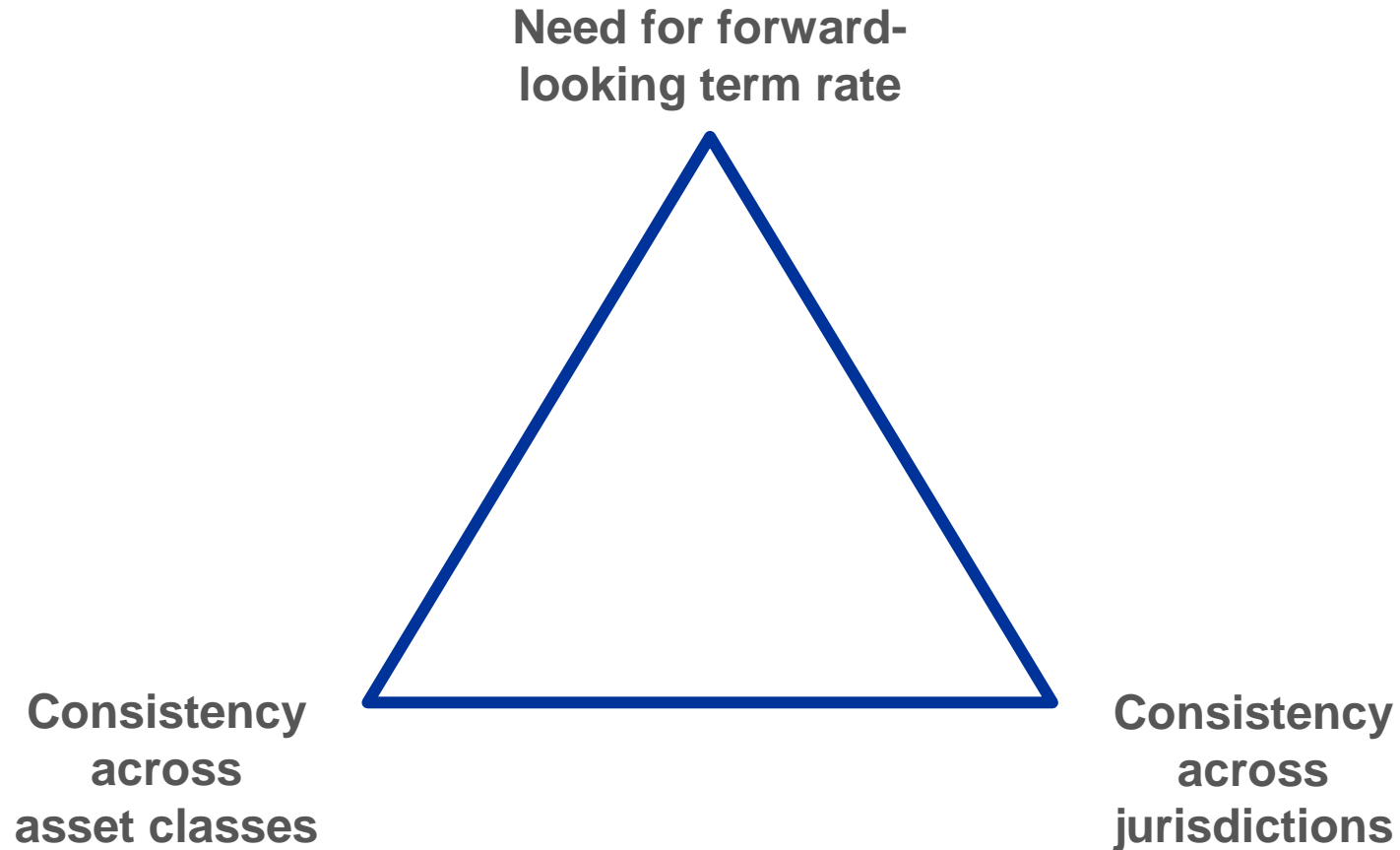
Number of respondents by sector

Majority of respondents viewed forward-looking term rate to be essential or desirable

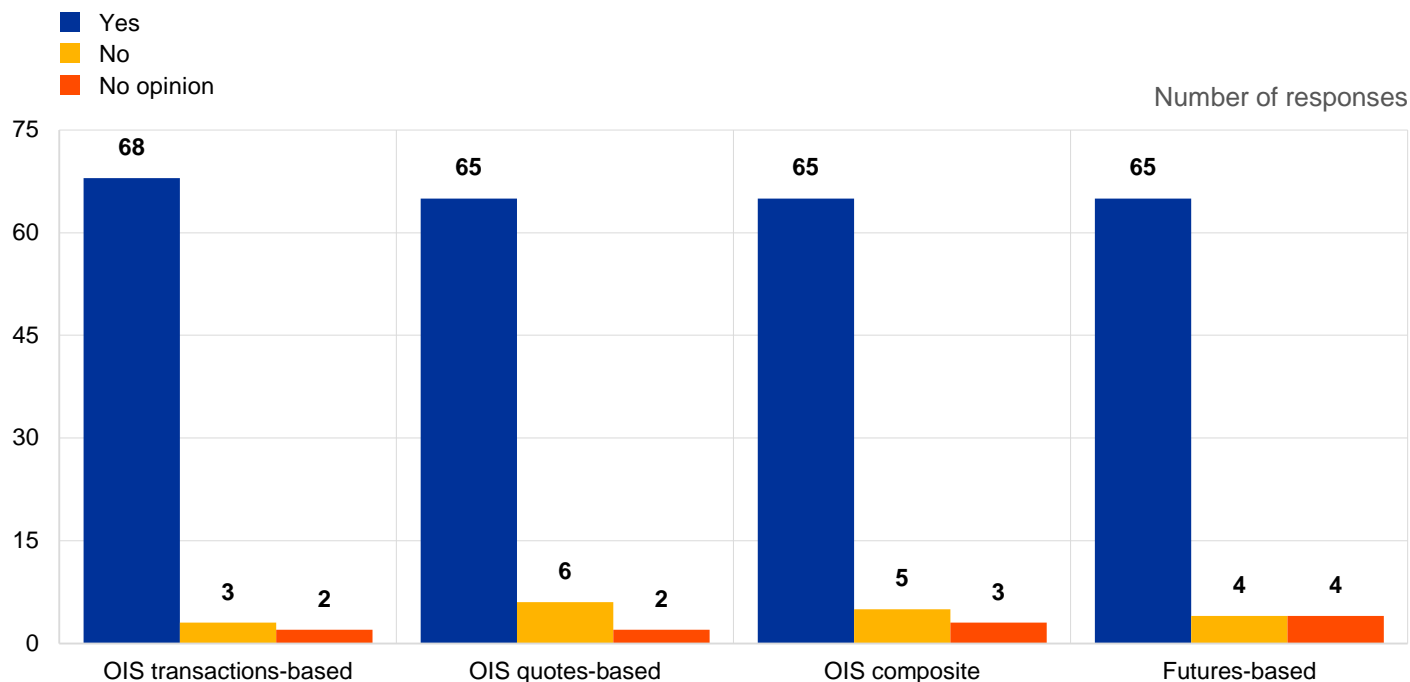


- In particular for corporate / retail / FRN / securitisations
- Many respondents: for all asset classes (in line with EURIBOR, interconnectedness b/w asset classes: e.g. hedging)

How to square this?

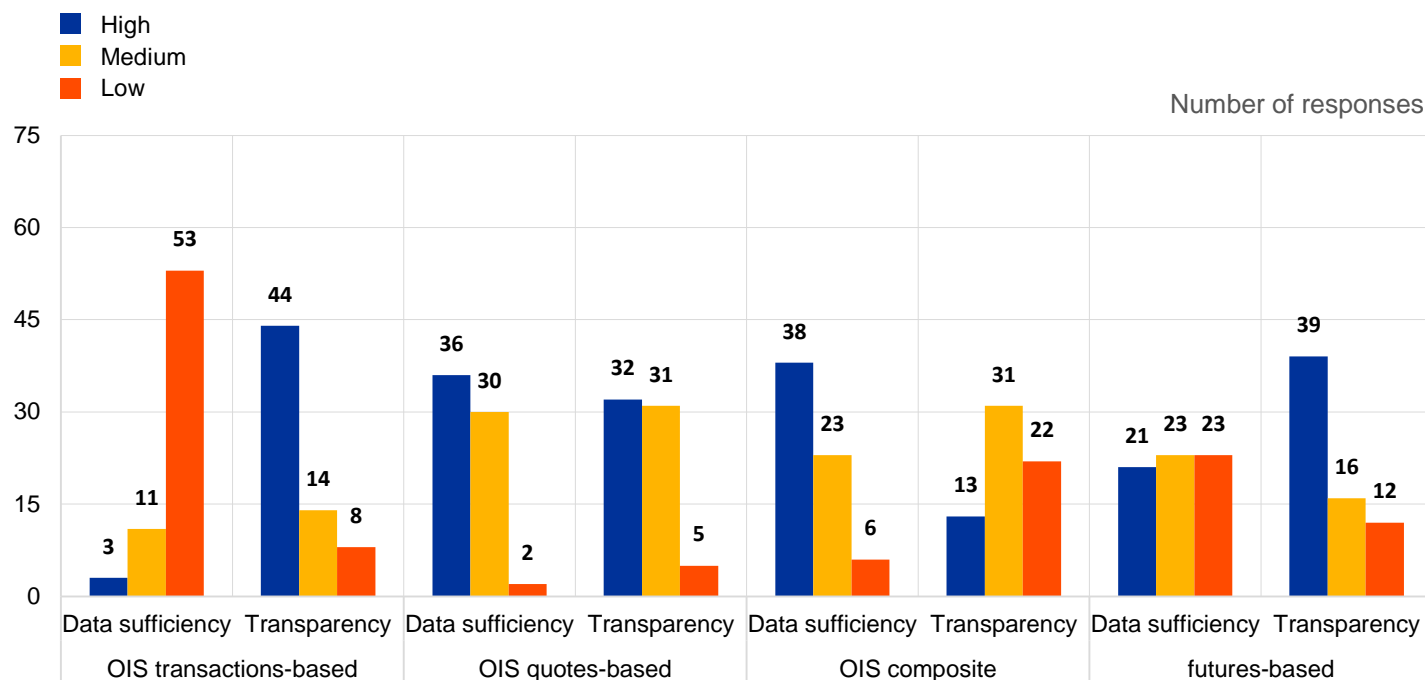


Broad agreement with the WG's analysis of the four forward-looking methodologies considered



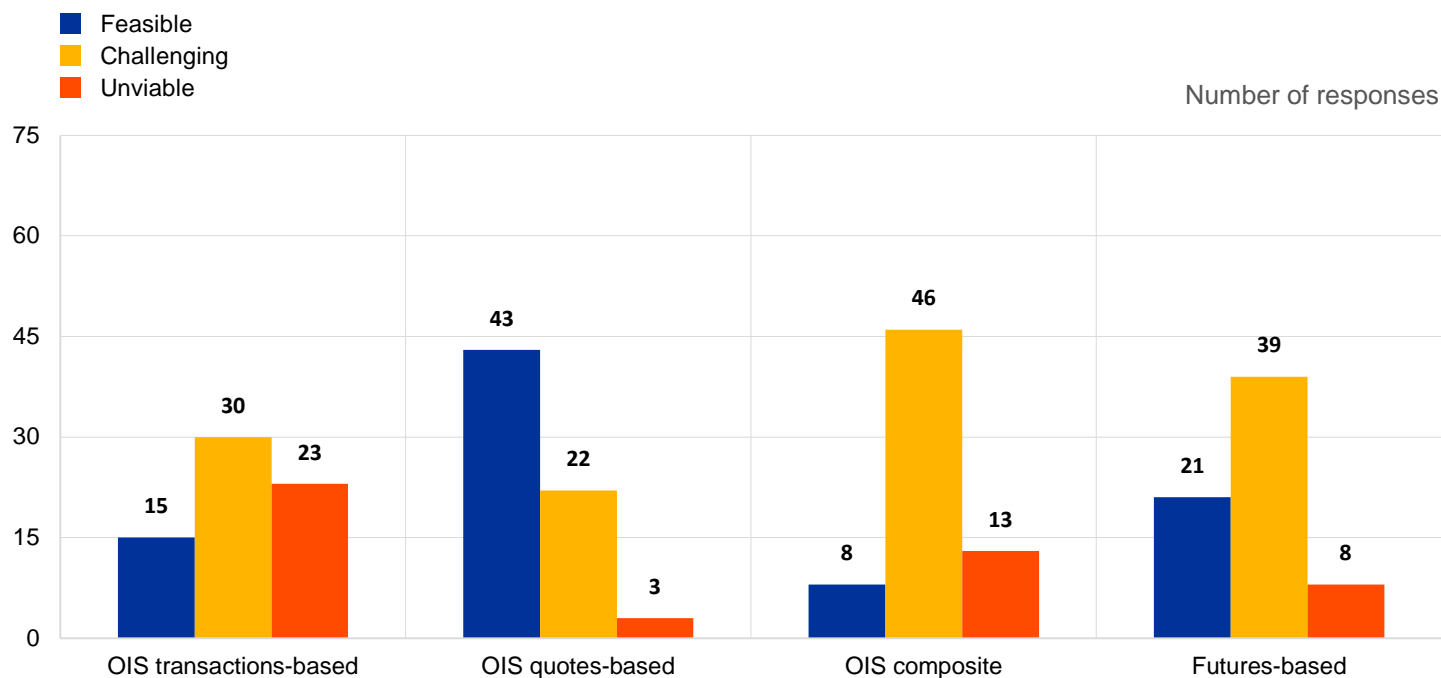
- Highlighted that analysis depended on assumptions about future liquidity conditions of not-yet-existent ESTER derivatives markets
- Minority views: too early to conclude, term structure not required

Assessing data sufficiency and transparency...



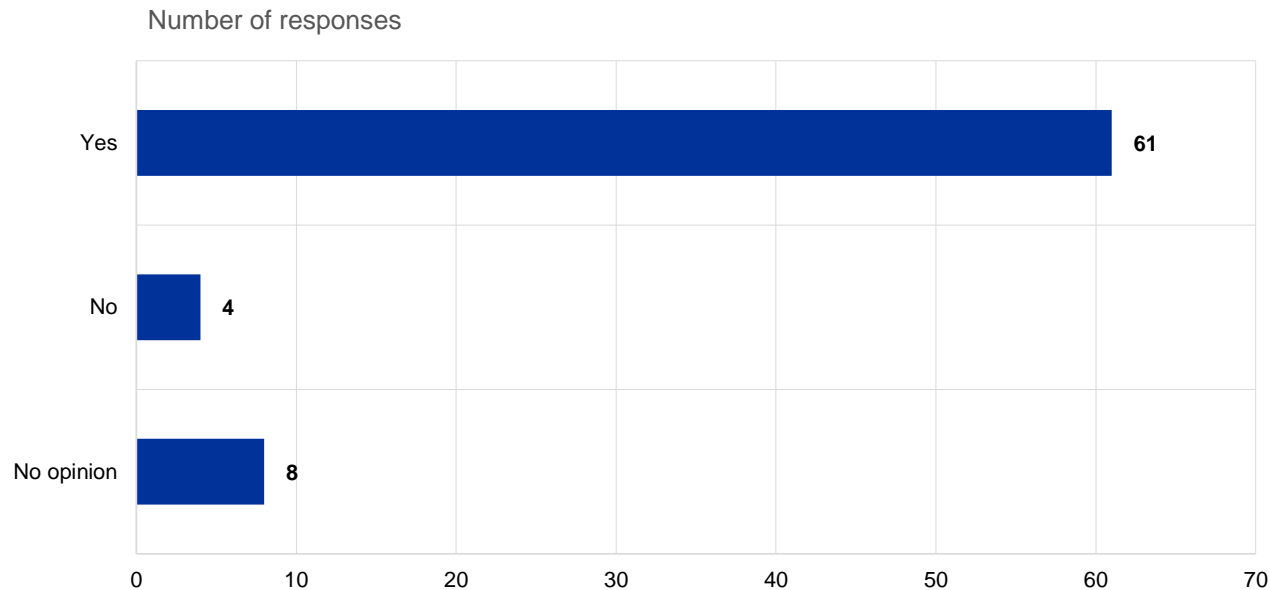
- Data sufficiency: transactions vs. quotes, depending on market conditions and assumptions on future market liquidity
- Transparency: availability of data, governance, complexity of methodology

...and overall feasibility



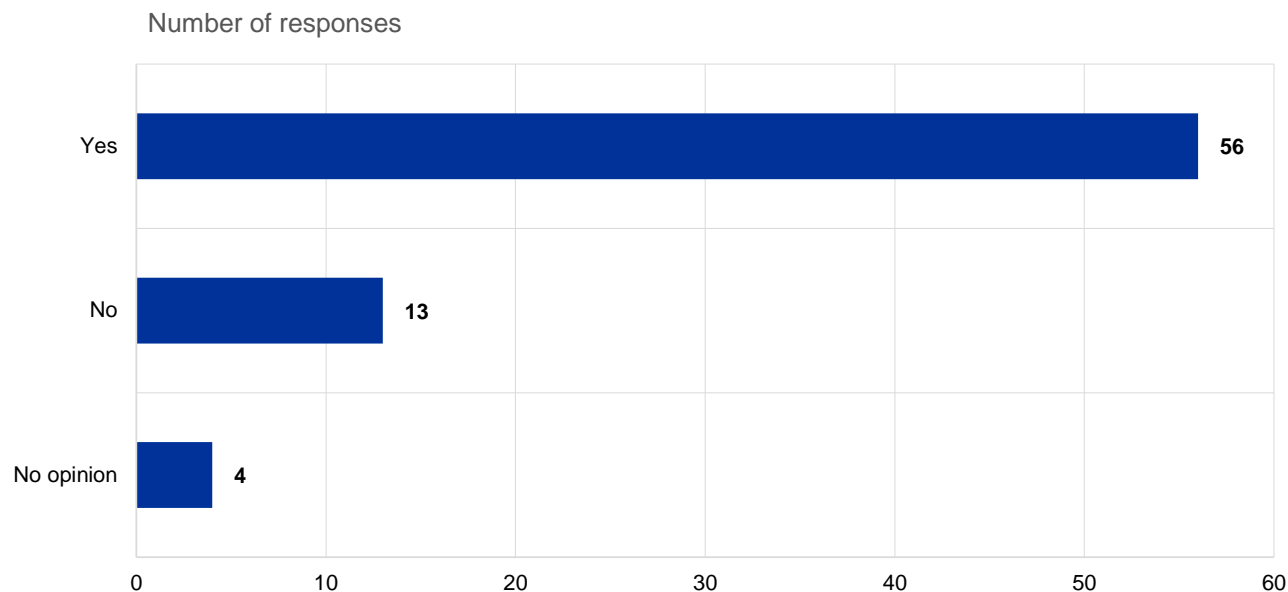
- Compliance with IOSCO principles
- Necessary conditions for OIS quotes-based methodology:
 - Development of electronic trading, change in market behaviour
 - Sufficient number of market participants providing tradeable quotes
 - Minimisation of manipulation risk
 - Administrator: data access, methodological details incl. definition of quotes

Broad agreement with the WG's conclusions regarding a point-in-time fixing



- Advantage for hedging purposes – balance against reduced volumes, perceived higher manipulation risk
- Open questions: length and timing of observation window, randomised snapshots, treatment of outliers

77% agreement with the WG's assessment that the OIS quotes-based methodology offered the best prospect of producing a viable fallback rate



- OIS quotes preferred or “best compromise”
- Minority views divided: OIS composite, futures-based, backward-looking only, too early, reassess in the future