

Subgroup 2

on term rates methodologies

Status update by Subgroup 2A

on overview of backward-looking
methodologies and
credit spread calculation methodologies

SG2A deliverables for 2019

Status overview

Deliverable	Status
<p>1. Analysis of the various methodologies to calculate a fixed spread, representing the difference between EURIBOR and the €STR-based term structure methodologies.</p>	<p>in progress</p>
<p>2a Review of the various backward-looking methodologies that would be possible providing a summary of Pros and Cons to be used by SG5 in their assessment by asset class.</p>	<p>in progress</p>
<p>2b. A short technical analysis of the potential co existence with the proposed forward looking methodology - i.e. describing the interaction between forward- and backward-looking methodologies</p>	<p>to start once other tasks completed</p>

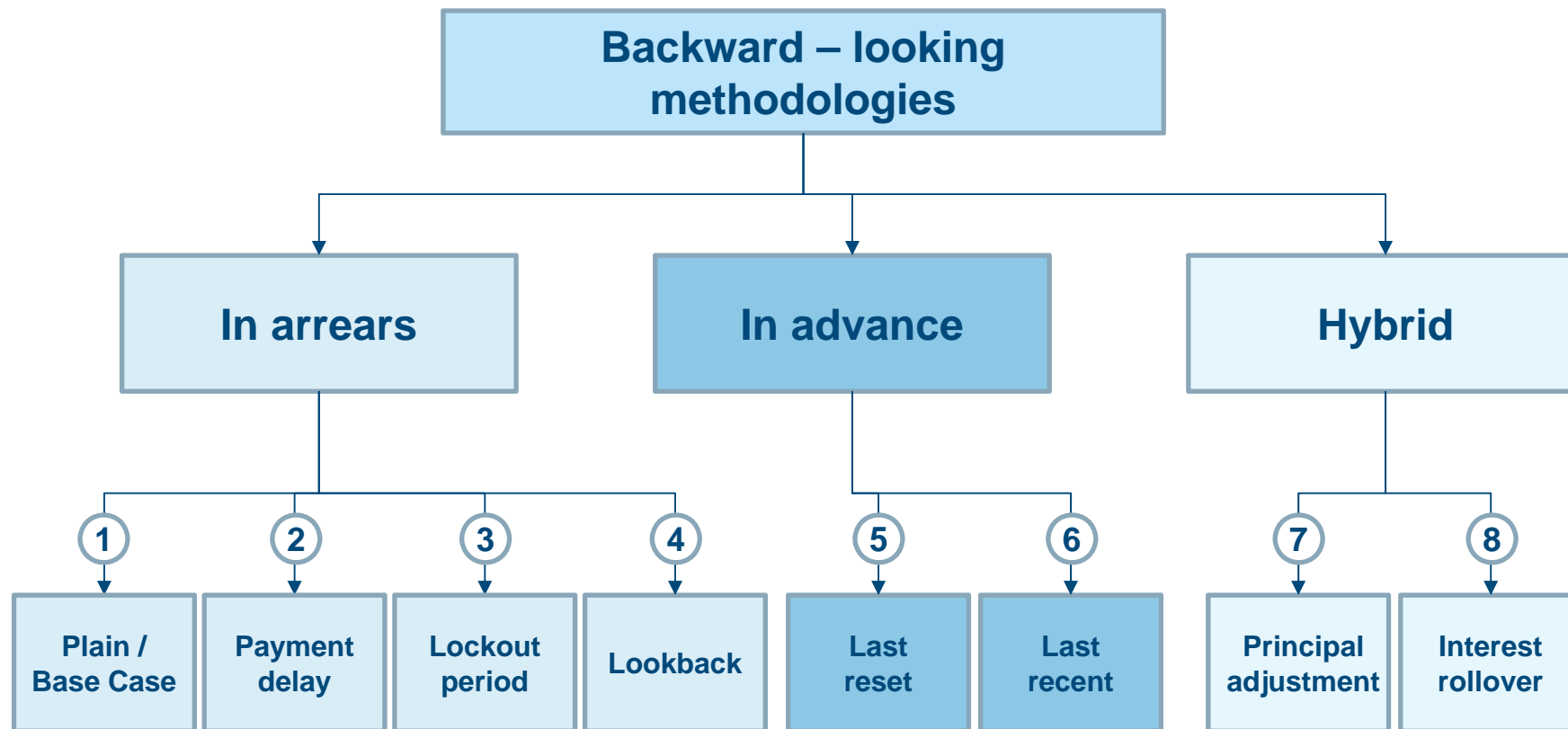
1. Credit spread methodologies

Status update

	Historic Credit spread methodology	Forward Credit spread methodology	Dynamic Credit spread methodology
High level description	Historical difference between EURIBOR and €STR/EONIA	Simplification of €STR/EURIBOR forward derivative curve	Replication of the credit/liquidity risk in another index
Fixed or variable	Fixed at point of benchmark cessation	Fixed at point of benchmark cessation	Remains variable over the life of the contract
Key issues	What historic period to reference?	Reference data at point of cessation	Potentially similar challenges to IBOR benchmarks

2a. Backward-looking methodologies

Overview



- Clear agreement among SG2A members, that the FSB risk free rate user guide* provides a definitive list of backward-looking methodologies
- Each of the above methodologies to be assessed by SG2A

*<https://www.fsb.org/2019/06/overnight-risk-free-rates-a-users-guide/>

Status update by Subgroup 2B

on call for interest to administrators
on publishing €STR-based forward-
looking term rates as possible fallback
for Euribor

SG2B roadmap & deliverables for 2019

presented at WG plenary on 10th May

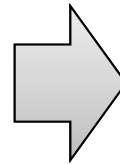
1. Identifying the administrator's requirements for a benchmark
 - Check with SG3 for compliance and conflict of interest issues
 - Propose a procedure for a call for information to interested administrators → Liaise with the Sonia Group
 - Call could be based on the consultation. Open question: shall it be published on the ECB website?
 - Contact the interested administrators separately and work with each of them on the features of the benchmark
 - Contact the trading venues and market participants to understand their constraints for using their quotes for the fall-back with the administrators
 - Collaborate with SG5 both in work with Administrator and Venues

2. Propose a process to facilitate that a benchmark administrator effectively produce these rates (linked to SG5 deliverable to “establish liquid derivatives markets on €STR”)

3. Define with the WG who will chose the administrator
 - Aim at a single benchmark or let competition do the work?
 - Other groups?

SG2B posed four questions to the legal firms

1. WG members and individual's conflict of interest issues
2. Call for interest to administrators
3. Interaction with administrators
4. Final outcome of the WG



Main guiding principles

- information which is competitively sensitive as between the potential service providers ("**PSPs**") may not be shared either directly or indirectly (for example, via the WG, SG2 or its members);
- information which is competitively sensitive as between the members of the WG or SG2 may not be shared in the course of meetings with the PSPs;
- PSPs will be treated in an open, transparent, fair and non-discriminatory manner. Any qualification on participation must be uniform, non-discriminatory and must serve a legitimate purpose. These qualifications should be as narrowly drawn and objective as possible and should not leave room for arbitrary discretion in their application.

Conduct of meetings

Conduct of meetings

- Each of the PSPs should present at separate slots at the meeting (they should not be in the room at the same time). PSPs should each be given a fair and equal opportunity to make any presentation and provide supporting materials.
- All participants should be reminded of their competition law obligations at the commencement of the meeting. The representative of any WG and/or SG2 member affiliated to a PSP should not participate.
- Each of the PSPs should be invited to present materials on the understanding that they will be published on the WG website and should not therefore contain any competitively sensitive information.
- As regards the content of discussion at the meeting:
 - WG and/or SG2 members may engage in a general discussion covering perspectives on the sector's common needs in the development and application of open and objective minimum standards. This may include matters related to how requirements could best be met (covering areas such as experience, scope and functionality, technology, resilience, audit, and governance etc).
 - While the WG and/or SG2 may evaluate PSPs against agreed objective standards they must not discuss, recommend or agree to refuse to deal with any PSP.
 - WG and/or SG2 members must respect the confidentiality of all PSPs and, in particular, must not pass on any competitively sensitive information received from another PSP.
 - WG and /or SG2 members must not do anything which suggests that a party is receiving special treatment.
 - WG and/or SG2 members should not discuss exclusions of future technological or market developments that might be aided by the services under discussion.
 - Accurate minutes should be recorded and published.

SG2 proposals to the WG

Following our consultation with the SWG and legal advice as per the previous slides, our proposed path for finding administrators is more restricted than previously envisaged due to Conflict of Interest issues and competition concerns.

Proposals

- approve the Call for Interest wording
- publish on the ECB website an open call for interest
- receive applications by the 30th September and invite the applicants to present their proposals at the WG October plenary session
- publish all available information, including a Q&A paper if this would be helpful in clarifying any issues
- refrain from choosing or recommending a specific administrator at the end of the process