EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC
17 April 2020

Teleconference of the working group on euro risk-free rates

Tuesday, 7 April 2020, 13:00-13:45 CET

SUMMARY

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

This interim teleconference of the working group on euro risk-free rates was organised to discuss the potential impact of the coronavirus (COVID-19) pandemic on the working group's timelines and upcoming deliverables.

Steven van Rijswijk (Chair) opened the teleconference and explained that the purpose of the call was to present and discuss the outcome of an informal survey of subgroup 5 and the working group on (i) a possible postponement, from 22 June to early September 2020, of the date of central counterparty clearing houses' (CCPs) discounting switch from the euro overnight index average (EONIA) to the euro short-term rate (€STR); and (ii) the delay of the upcoming working group deliverables owing to the COVID-19 crisis.

He reminded the members of the working group on euro risk-free rates 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. Presentation of the results of an informal survey of subgroup 5 and the working group on the possible postponement of CCPs' discounting switch from June to September 2020

In August 2019 the working group on euro risk-free rates had recommended that it would be preferable for central counterparty clearing houses (CCPs) discounting switch dates to coalesce as much as possible in the transition from an EONIA discounting regime to a €STR discounting regime, so as to create a "big bang" approach for cleared markets. It had also been recommended that the discounting switch date be set as early as possible, preferably towards the end of the second quarter of 2020. Several European clearing houses had announced that their discounting switch dates would be on or around 22 June 2020[1], following their own governance and operational processes and discussions with their clearing members and users.

However, given the COVID-19 pandemic, the chair of the working group on euro risk-free rates and related subgroups opened a discussion on whether or not there was a need to postpone CCPs' discounting switch date from EONIA to the €STR, while keeping the final publication date for EONIA unchanged on 3 January 2022. In order to gather some meaningful feedback, an informal survey had been conducted among the members of the working group and subgroup 5 on cash and derivative products.

The **ECB secretariat (Anne-Lise Nguyen)** presented the informal survey results. She recalled: (i) that this informal survey of the members of the working group and subgroup 5 had been conducted between Friday, 27 March and Wednesday, 1 April, by the ECB Secretariat; (ii) that the purpose of the survey was to discuss a potential request by the working group for a postponement of CCPs' discounting switch date from EONIA to the €STR by 2.5 months to early September 2020, as a result of the COVID-19 crisis; and (iii) that these results had already been presented to subgroup 5 on 6 April for discussion and feedback.

The survey results showed that there was no consensus in the working group on whether or not there was a need to request the postponement of the discounting switch date from EONIA to the €STR from 22 June 2020 to September 2020. There was also a divergence of views between the members of the working group and the members of subgroup 5: a majority of respondents at the level of the working group were in favour of postponing the discounting switch date for CCPs, while a slight majority of respondents from subgroup 5 expressed the opposite preference (see the annex).

The ECB secretariat advised that, on the basis of the survey results, there was neither a consensus nor a two-thirds majority. The working group was therefore unable to recommend a postponement of CCPs' discounting switch date

[1] LCH Circular No 4052, 27 September 2019.
Eurex Clearing Circular 096/2019, 23 October 2019.
CME announcement~~–~~, 31 January 2020.

from June to September 2020. The ECB secretariat suggested that this outcome and the feedback received should be shared with the relevant CCPs as soon as possible for information purposes.

Mr Van Rijswijk (Chair) noted that, according to its terms of reference, the working group could only issue recommendations if a consensus or alternatively a two-thirds majority agreement was reached.[2] Given the outcome of this survey, the working group was not in a position to provide the CCPs with a recommendation on whether or not to postpone their discounting switch date.

However, he also underlined that a majority of survey respondents would prefer the switch date to be postponed given the current unprecedented circumstances, in which the required resources, infrastructure and expertise may not be guaranteed. This would increase the likelihood of the wider market being ready and would reduce potential operational risks.

He therefore proposed that the working group provide the European Association of CCPs Clearing Houses (EACH) and its CCP members with a precautionary message based on the survey outcome. A "big bang" discounting switch date was still recommended for cleared markets. However, given that the majority of survey respondents had expressed concerns that a discounting switch in the second quarter of 2020 might not be achievable for all users, he suggested asking EACH and its members to duly consider the survey outcome in close contact with their members, either through their readiness tests planned for later in April or by investigating the issues in advance.

He noted that both the working group and subgroup 5 would be informed about any follow-up accordingly, possibly at the next teleconference of the working group on 21 April.

Mr Van Rijswijk invited working group members to express their views on his proposal. The main observations and questions were as follows.

- The length of the suggested postponement (approximately 2.5 months, from around 22 June 2020 to early September 2020) had been calculated to allow for a reasonable delay, while ensuring a minimum time buffer of six weeks before the US dollar discounting switch planned for 16-17 October 2020. A longer delay would need to take place well after that US dollar discounting switch date, which was not a preferred option as it could potentially delay the entire EONIA-€STR transition.
- A few working group members stressed that the operational risks associated with keeping the discounting switch in June should not be underestimated. Given the ongoing COVID-19 crisis, this would have operational implications for customers and market participants. Postponing the EONIA-€STR CCP discounting switch to early September 2020 would therefore be a more cautious and prudent approach.
- A few working group members underlined the need for this important feedback to be shared with and considered by the CCPs. This was confirmed by the chair of the working group.

3. Results of the survey on the delay of upcoming working group deliverables owing to COVID-19

In the survey conducted between 27 March and 1 April, working group members had also been asked to provide their opinion on potential delays of the working group deliverables owing to the COVID-19 crisis, namely:
(i) postponing the finalisation of the consultations on Euribor fallbacks by subgroup 3 (contract robustness) and subgroup 5 until the working group meeting on 2 September 2020 (instead of April 2020); and
(ii) extending the deadline for responses by between one and two months to give market participants sufficient time to respond.

The final recommendations on Euribor fallback measures and the guidelines for Euribor fallback measures for legacy contracts would therefore be published between mid-December 2020 and January 2021, instead of during the summer of 2020 as initially planned.

The ECB secretariat indicated that, out of the 28 working group members, 11 were in favour of the suggested delay of the deliverables, 3 members had no opinion, no members were against the delay, and the remaining 14 members did not reply to the survey. This seemed to suggest that there was no opposition to delaying the consultations by subgroup 3 and subgroup 5, but this interpretation would need to be confirmed by the working group members.

Mr Van Rijswijk noted that there did not appear to be any strong arguments against postponing these working group deliverables, and therefore suggested that the working group approve the updated timeline during the upcoming teleconference on 21 April.

7. Any other business

The next teleconference of the working group will take place on 21 April 2020, from 13:00 to 15:00 CET.

[2] https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/2017_11_29_terms_of_reference.pdf

Annex – Summary of the survey of the working group and subgroup 5

- **42 of the 67** institutions surveyed (63%) provided responses or comments. **31%** of the institutions surveyed considered the postponement to be required, **27%** considered it not to be required, **4%** did not have a strong preference and **38% did not respond to the survey.**

- In terms of the responses received, **50%** of the respondents considered the postponement to be required, **43%** considered it not to be required and **7%** did not have a strong preference.

- **21 of the 28 working group members** replied to the survey. **21 of the remaining 39 members of subgroup 5** (excluding those who are also members of the working group) replied.

Arguments in favour of the postponement:

- The most common arguments in favour of the postponement were the impact of the pandemic on the workload of the institutions and the requirement for staff to work remotely, increasing operational and financial risks associated with the transition that may jeopardise the industry's ability to proceed with the switch in an orderly manner.

- Other arguments were that: (i) introducing additional changes/complexity in the current market situation would potentially increase the illiquidity in the swap market ahead of the switch; (ii) the renegotiation of bilateral Credit Support Annex (CSAs) may also prove very difficult under current market conditions; and (iii) preparations for the CCP-settled swaptions were likely to be delayed.

- Finally, there were some remarks on the proposed new date and its proximity to the US dollar transition date. There were also some general concerns on the interbank overnight rate transition deadlines.

Arguments in favour of no postponement:

- It was mentioned that any delay would be a significant hurdle for those market participants that were on track with their preparations in line with CCPs' officially communicated roadmaps.

- Some respondents noted that: (i) the majority of the work had already been completed; (ii) their planning for the changes in June was not affected by this crisis; or (iii) their planning was complete, and there would be process complications if the date were to be postponed.

- Some market participants mentioned that it would be a struggle to execute all of the expected euro and US dollar bilateral CSA changes before the end of this year if the switch from EONIA to the €STR was delayed until September.

- There would be a risk to the congruence of the euro derivatives markets if a common CCP switch date was no longer possible.

- The build-up of €STR liquidity would be delayed.

- Bilateral and cleared trades had already been negotiated and CCPs were reported to be confident and comfortable about proceeding with the current agreed switch date on or around 22 June 2020.

List of participants

Participant's organisation	Name of participant
Chairperson	Mr Steven van Rijswijk
ING	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 Patrick Chauvet
BNP Paribas	Mr David Gorans
BPCE/Natixis	Ms Sophie Asselot
BPCE/Natixis	Mr Olivier Hubert
CaixaBank, S.A.	Mr Francesc Xavier Combis Comas
Crédit Agricole	Mr Carlos Molinas
Deutsche Bank	Mr Christian Gau
DZ Bank	Mr Michael Schneider
DZ Bank	Mr Philipp Nordloh
Erste	Mr Neil Mcleod
Eurobank-Ergasias SA	Mr Theodoros Stamatiou
HSBC	Mr Pierre Jenft
HSBC	Ms Nathalie Gay Guggenheim
ING Bank	Mr Jaap Kes
Intesa Sanpaolo	Ms Maria Cristina Lege
KfW Bankengruppe	Mr Markus Schmidtchen
LBBW	Mr Jan Misch
Nordea	Not represented
Santander	Mr Javier Pareja
Société Générale	Mr Olivier Balpe
UniCredit Bank	Mr Umberto Crespi
Non-voting members	
European Money Markets Institute	Ms Petra de Deyne
European Money Markets Institute	Mr Alberto Lopez
EFAMA	Ms Agathi Pafili
International Capital Market Association	Not represented
International Swaps and Derivatives Association	Mr Graham Bryant
Loan Market Association	Not represented

Invited institutions

European Investment Bank	Mr Thomas Schröder
Generali	Not represented

Observers

European Central Bank	Ms Cornelia Holthausen
European Central Bank	Mr Helmut Wacket
European Commission	Mr Tilman Lueder
European Commission	Ms Alessandra Atripaldi
European Securities and Markets Authority	Mr Michele Mazzoni
Financial Services and Markets Authority	Not represented

Secretariat

European Central Bank	Ms Anne-Lise Nguyen
European Central Bank	Mr Pascal Nicoloso
European Central Bank	Mr Armin Greif