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Introducing the mandate of the working group

First meeting of the Euro Risk Free Rate Working Group – Frankfurt

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Ladies and gentlemen,

As chair of the FSMA, one of the four institutions behind the creation of this working group, please allow me too to welcome you all to its inaugural meeting. I would like to thank the ECB for hosting us today and for providing invaluable support to the working group by ensuring its secretariat. All of you, I would like to thank for your willingness to engage yourselves and your institutions in this important process.

In particular, I would like to extend thanks to Koos Timmermans of ING for accepting the chairmanship of the working group.

At the start of this working group, I would like to share with you a few thoughts, first on our own experiences in benchmark reform, later on our expectations and initial thoughts on the functioning of the working group, and finally on the involvement of the public sector in this process moving forward.

Experiences in Benchmark Reform – and Supervision

First, I would like to give you an idea of our experiences at the FSMA in benchmark reform and supervision until today. As will become apparent, we have been involved in benchmark reform for quite some time.



The reason for this is of course partly coincidental – that the administrator of two of the most important euro area benchmarks is located in Brussels. Since the publication of the EC's proposal for the Benchmark Regulation back in 2013, we have known that the responsibility for supervising benchmark administrators would rest on local authorities. Coincidental or not, the FSMA has taken up this responsibility and has invested a great deal of time and effort in benchmark reform. To quote but a few examples:

- We participated in the drafting of the IOSCO principles and in the review of EMMI in accordance with those principles;
- On behalf of Belgium, we participated in the trilogue leading to the adoption of the text of the BMR;
- We were designated national competent authority for benchmarks in Belgium already in December of 2015 – even before the Benchmark Regulation was published;
- We participated in the drafting of the Regulatory Technical Standards for the Benchmark Regulation via ESMA;
- We set up a college for the supervision of Euribor in the summer of 2016, and for EONIA in the summer of 2017, and the two colleges have since been merged.

This last example shows that we have not only been working on benchmarks from a regulatory or policy angle, but increasingly also as the supervisor of EMMI, the administrator of Euribor and EONIA. Indeed, as the Benchmark Regulation provisions on critical benchmarks became applicable immediately after publication, and as the European Commission nominated Euribor first and later also EONIA as critical benchmarks, the FSMA has been exercising certain supervisory competences since the summer of 2016.

This is not to say that EMMI is currently under full supervision by the FSMA – this will only be the case once they obtain authorisation, and they have until the end of next year to apply.



From this experience, we have learned that benchmark reform is a difficult process, and one that has required almost all of the actors involved to change their approach at some point.

It is this element of unpredictability that led us, in May of last year, to call a first meeting with the four public institutions behind the creation of this working group. Together with the Euribor college, we had just witnessed the failure of the project for a transaction-based Euribor following tests run by EMMI. Conscious of the importance of the project, we followed it very closely, conducting our own analyses on the basis of a much broader data set that was provided by the ECB. Our findings corroborated EMMI's findings. Moreover, we found that the failure was not due to certain methodological choices or to the size of the panel; there simply was not enough activity in the money market to compute a suitable Euribor analogue based on transactions alone.

Besides discussing these findings with the Euribor college, we thought it was time, at that point, to commence fundamental reflections on benchmark reform in the euro area, and so we had a first meeting between the EC, ESMA, the ECB and the FSMA.

Later, in the summer of 2017, the issue was compounded when our attention turned to EONIA, when it too was declared a critical benchmark. It appeared EONIA – considered the logical RFR for the euro area for a long time – was not immune to the much wider issues plaguing the unsecured money market: illiquidity and concentration of activity with just a handful of actors. This hampered its robustness and meant that a far-reaching reform was needed if EONIA was to meet the criteria of the benchmark regulation.

Knowing this, the four public institutions met again and a plan was developed: a private sector working group should to be set up, and the euro area should commence the formal process for designating a preferred risk-free rate. In addition, this working group should consider issues around contract robustness and develop an adoption plan, and – if necessary, a transition plan for legacy contracts.



Finally, the ECB also announced in September 2017 that it would develop an overnight unsecured rate as an ultimate backstop, to cover for the eventuality that the private sector should prove unable to produce even an overnight rate.

Hopes for the working group on euro risk-free rates

This brings us to today's meeting, and to my hopes for this working group – which I'm confident are shared among the public institutions in this room. Although it is easy at the outset to have high hopes, I am convinced expressing these hopes and referring back to them throughout the life of the working group may provide useful context and may benefit the Group's sense of purpose.

- First, it is important that the **private sector take ownership of the process**. The answers and results the working group comes up with will be the results the private sector itself has chosen. This is why the membership of the working group was determined on the basis of objective criteria and after a public call for expression of interest, which was very successful, with around 60 applications. Overall, the quality of applications was good, and we are confident that we have the right institutions and associations and the right people on board. By doing so, we hope that the working group can federate broad support for the decisions it takes, not only among benchmark contributors, but also among the various communities of benchmark users. This is a clear example of a goal of the working group that can only be reached by the private sector – not by any amount regulatory or supervisory action. This means that the working group, also through its sub-groups, should be an inclusive process, and further highlights the role sector associations have to play.

- Secondly, it is imperative that the working group **show a significant degree of independence** from the current situation of Euribor and EONIA. I see a couple of ways in which this is relevant:
 - o The working group should not involve itself in ongoing reform efforts for Euribor, or predicate its results on their successful outcome. Precisely because we all



agree that the world is a different place if the Euribor reform is successful, we should give it every chance to succeed;

- The working group should moreover be independent from certain dynamics around the Euribor, whereby banks would rather use the benchmark without contributing to it. This is not the way forward when it comes to reforming benchmarks. What is at stake here is far more important and far less petty: determining which benchmark best responds to the market's requirements and adopting it, while arranging for the smoothest possible trajectory from here to there;
- Finally, the working group should not be bound by the degree of inertia we observe with benchmark users in adapting their usage to the representativeness and soundness of benchmarks. We expect especially of the institutions represented here that they lead the way in examining fitness for purpose of the benchmarks they use and robustness of contracts they are party to.

In short, the working group should have at the center of its mandate the common interest, not the particular interest of each of the institutions that make it up.

- Finally, and I am certain this does not come as a surprise to anyone today, I would like to stress the importance for the **working group to deliver its work in a timely fashion**. EMMI, has until 1 January 2020 to apply for authorisation for Euribor and EONIA. If they do not, or if authorisation is refused, Euribor and EONIA can at the most be used for existing contracts – no longer for new ones. Later today, there will be a presentation on this topic to further highlight the extreme urgency of this work.

As you see, my hopes for the working group are indeed high.



Role and attitude of public institutions moving forward

I would like to conclude with a couple of thoughts on the role and attitude of the public institutions moving forward.

From the side of the public institutions, there is a strong consensus that the private sector should take the lead in this process. The public sector therefore holds the responsibility to afford the working group the necessary independence to carry out its work, but still to support it in any way it can. Said differently, the public sector will take a back seat, but should not become a backseat driver.

What the public sector will do, is try to create the circumstances in which the working group can be successful, either through its involvement in the working group as observers, where you can count on us to provide open and frank challenge, but also outside it.

ESMA has graciously accepted to chair a specific sub-group that will deal with legacy contracts – on which I'm sure you will hear more later today.

The ECB from its side has work to do in designing and producing its overnight unsecured benchmark.

From the side of the FSMA, we will of course take up our supervisory responsibility with regard to Euribor and EONIA. We owe it to the market and to the working group to ensure the orderly provision of these benchmarks for the time required. We will also ensure the smooth flow of information between the Euribor and EONIA College and this working group.

One final aspect the public sector will work on, is international coordination of benchmark reform processes with IOSCO, the OSSG and other currency-specific working groups around the world.

I thank you for your attention.