

# **Working Group on Euro Risk-Free Rates**

## **Subgroup 2 update**

# Subgroup 2

## Governance

### Governance structure objectives

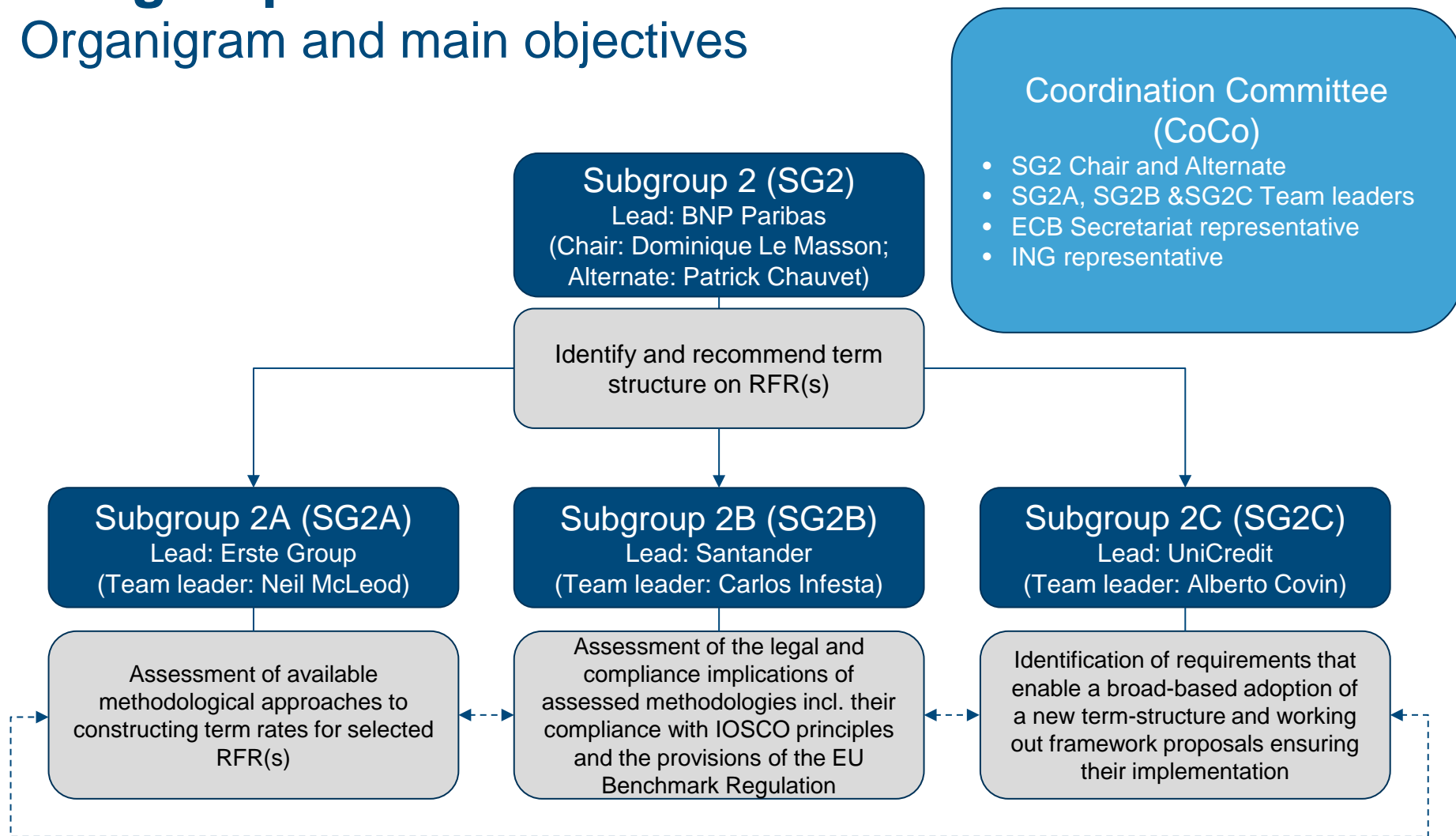
- Account for very large membership and subject complexity.
- Allocate members to subgroups based on expertise of the principle member and country or geographic area representation.
- Ensure
  - participation of all member institutions
  - flexibility
  - information sharing and
  - full transparency on work done

### Coordinating committee(CoCo)

- Ensures
  - roadmap is followed,
  - deliverables are produced on time and in required quality.
- Assesses the need for
  - additional deliverables,
  - reorganizing the work plan
  - reallocating members / resources among subgroups.

# Subgroup 2

## Organigram and main objectives



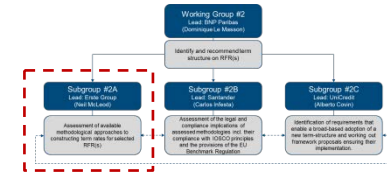
# Subgroup 2

## Representation of institutions in SG2A, SG2B and SG2C

	SG2	SG2A	SG2B	SG2C		SG2	SG2A	SG2B	SG2C
<b>Credit institutions</b>					<b>Asset managers</b>				
Bayerische LB	x	x			BMO Global asset management	x			x
BBVA	x			x	Cardano Risk management	x			x
BNP	x	x			<b>Benchmark providers</b>				
BPCE Natixis	x	x	x		EMMI	x	x	x	
Caixabank	x			x	NEX DATA	x			x
Crédit Agricole	x		x		<b>Clearing institutions</b>				
Dekabank	x		x		Eurex Clearing AG	x			x
Deutsche Bank	x	x			ICE Futures	x	x		
DZ Bank	x	x			London Stock exchange Group/ LCH	x			x
Erste Bank	x	x			<b>User associations</b>				
Eurobank	x	x			AFME	x		x	
ING	x	x			EACT	x			x
Intesa	x			x	EFAMA	x	x		
JP Morgan	x	x			ISDA	x	x	x	
KfW Bankengruppe	x	x			LMA	x		x	x
LBBW	x			x	<b>Other institutions</b>				
Morgan Stanley	x			x	EIB	x			x
National Bank of Greece	x			x	EIOPA	x		x	
Norddeutsche Landesbank	x	x			ESM	x	x		
Nordea	x			x	<b>Grand Total</b>	<b>39</b>	<b>18</b>	<b>10</b>	<b>16</b>
Sabadell	x	x							
Santander	x	x	x		<b>Public authorities</b>				
Société Générale	x		x		ECB	x	x	x	x
Unicredit	x			x	European Commission	x	x	x	x
					ESMA	x	x	x	x
					Belgian FSMA	x	x	x	x

# Subgroup 2A

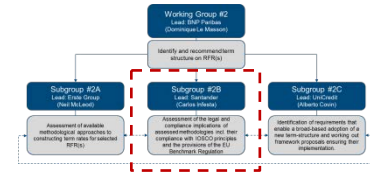
## High level objectives and deliverables



Objective	Deliverables	Start Date*	Due Date*
<b>(O1) Outlining the prerequisites and a roadmap for the development of both a liquid futures market and derivatives market on the new RFR</b>	a. Summary of all requirements for <b>liquid Futures market</b> including roadmap, technical features, involved institutions, operational issues	May 2018	TBC
	b. Summary of all requirements for <b>liquid OIS market</b> including roadmap, technical features, involved institutions, operational issues	May 2018	TBC
	c. Summary of all requirements for <b>liquid centrally cleared derivatives market</b> including roadmap, technical features, involved institutions	May 2018	TBC
<b>(O2) Identification and Proposals for alternative term structure methodologies in order to extract multiple rate fixings based on the RFR from WG1, not incorporating any credit spread methodology</b>	a. Backward looking index methodology (in Arrears fixing)	May 2018	Jul. 2018
	b. Forward looking index methodology	May 2018	Sep. 2018
	▪ Maturity profile covered	May 2018	Jun. 2018
	▪ Technical feature and data input (fixing, transaction based etc)	May 2018	Sep. 2018
	▪ Calculation methodology and fallback procedures	May 2018	Sep. 2018
▪ Infrastructure necessary and institutions involved (e.g. benchmark administrator)	May 2018	Sep. 2018	
<b>(O3) Identification and proposals for various credit/basis spread methodologies to be incorporated into the term structure methodology, considering both requirements for legacy contracts and new business</b>	a. Historical rate based methodologies	Jul. 2018	Dec. 2018
	b. Current fixing/forward rate approach at single point of time methodologies	Jul. 2018	Dec. 2018
	c. Dynamic future credit spread imbedded methodology	Jul. 2018	Dec. 2018
<b>(O4) Analysis of basis risk</b>	a. Analysis of above methodologies vs Current EURIBOR	Sept. 2018	Dec. 2018
	b. Analysis of above methodologies if different solutions are implemented by different user groups	Sept. 2018	Dec. 2018

# Subgroup 2B

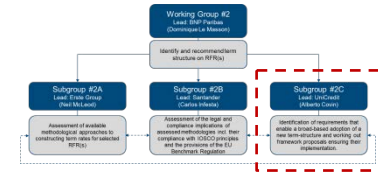
## High level objectives and deliverables



Objective	Deliverables	Start Date*	Due Date*
<b>(O1) Interaction with other jurisdiction: Coordinate with the works done in the US and UK on term structure</b>	a. Establish communication channel with US and UK working groups	May 2018	Dec 2018
	b. Initial Document comparing roadmaps	May 2018	June 2018
	c. Updates on document	As needed	
<b>(O2) Evaluate options of WG2A against BMR &amp; IOSCO principles</b>	a. Scorecard	May 2018	Dec 2018
	b. Evaluation proposals template	May 2018	Dec 2018
<b>(O3) Propose implementation options for fallback</b>	a. Proposal to define triggers for fallbacks	Sept 2018	Dec 2018
	b. Evaluation of legal issues regarding fallbacks	Sept 2018	Dec 2018
	c. Design of mechanisms that would allow market participants to efficiently incorporate the fallbacks into existing contracts that reference IBORs	Sept 2018	Dec 2018
<b>(O4) Communication &amp; Education plan</b>	a. Stakeholder list (banks, corporates, AMs, retail, ...) and issues affecting each one. Understand different country implications	TBC	Dec 2018
	b. Legal issues around communication	TBC	Dec 2018
	c. Contact Trade Associations, NCAs,.... around communication issues	TBC	Dec 2018
	b. Prepare the implementation plan	TBC	Dec 2018

# Subgroup 2C

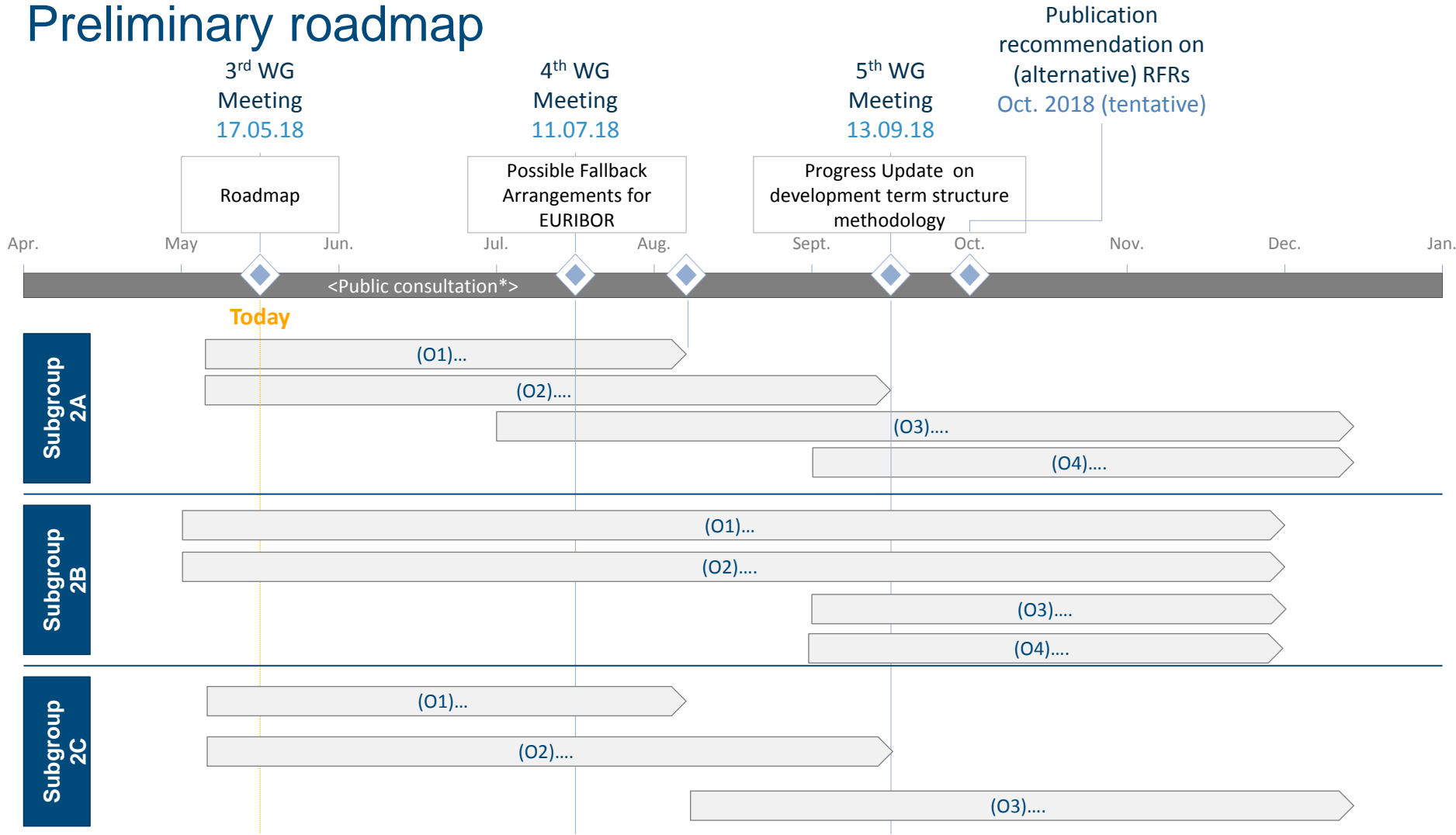
## High level objectives and deliverables



Objective	Deliverables	Start Date*	Due Date*
<b>(O1) Mapping a list of challenges/requests by market users, market infrastructures</b>	a. A survey has been prepared and will be circulated shortly among members of all Working and Sub-groups. Outcome to be presented at July plenary session, and distributed beforehand.	May 18	Jun 18
	b. By engaging a wide range of stakeholders, deliver a list of products that might be moved to an O/N RFR, and others that most likely cannot	May 18	Jul 18
	c. Listing critical issues that may impede the adoption of a given solution	Jun 18	Aug 18
<b>(O2) Agree on design criteria for potential administrators and data providers</b>	a. In conjunction with Objective 2 of WS2A, identify the list of essential requirements that will encourage adoption by the various stakeholders (potential administrators, contributors / users, infrastructure providers) and satisfy the technical requirement of the associated derivatives.	May 18	Sep 18
<b>O3) Implementation Plan</b>	a. Liaise with WS3 and WG3 in order to refine details in light of proposed instruments and methodology	Aug 18	Dec 18
	b. How to foster broad based acceptance of the new RFR, i.e. whether it can be made compulsory (or not) and "big bang" approach (or not).	Aug 18	Dec 18
	c. Identify possible solutions for legacy contracts . Possible P/L and MtM assessment.		
	d. List of critical issues with existing derivatives contracts	Aug 18	Dec 18

# Subgroup 2

## Preliminary roadmap





## Subgroup 2

### Key issues emerging in preliminary discussions

#### Coordination => essential

- Internally with WS1 and SG3
  - Interconnectedness of issues addressed by SG2, WS1 and SG3
  - Need of a stronger coordination and information sharing with WS1 and SG3
- Externally with other international fora dealing with RFR term structures:
  - Central Bank Working Groups: the Sterling Working Group / BoE and the ARRC / FRBNY
  - ISDA

#### EONIA

- Stronger awareness of scope of transition challenges due to EONIA not being EU BMR compliant after 2019.

#### Timing => tight

- Mandate to work on a Euribor fallback or alternative in the absence of information about the EU BMR compliance of the new Euribor methodology

**=> We need transparency, coordination, involvement and collaboration!**