ECB-PUBLIC
24 March 2020

Meeting of the working group on euro risk-free rates

held in Frankfurt am Main on Thursday, 27 February 2020, 11:00 to 16:00 CET, also via Teleconference

SUMMARY

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

Steven van Rijswijk (Chair) opened the meeting and recalled that the working group had its first meeting exactly two years ago. He took the opportunity to thank the group for their achievements over the last two years.
He asked the members of the working group on euro risk-free rates to approve the agenda for the meeting and reminded them 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 on competition law issues by Clifford Chance

Greg Olsen (Clifford Chance) presented, to the working group, two internal documents relating to competition law: a meeting Protocol and a Practical Guidance. The two documents are intended to complement the public Guidelines on competition law – they aim to better guide the working group and subgroup members by offering practical examples, and describing, for instance, items that may or may not be discussed, as well as precautionary rules to be observed when chairing or participating in the meetings. Mr Olsen recalled that any questions about compliance with competition law should be raised by the working group or subgroup participants with their own legal advisers in the first instance, and concerns should also be brought to the attention of the working group at the earliest opportunity.

Steven van Rijswijk (Chair) explained that the Protocol and Practical Guidance on Competition Law will be circulated to all subgroup members after this meeting, with the request to the subgroup chairs that they brief their members at the next opportunity. He also recalled that every working group or subgroup participant bears the responsibility for their own compliance with applicable competition laws when participating in meetings or calls. It is therefore important to stay in contact with their compliance or legal department, and to keep them informed about the topics discussed, taking into account the various roles and responsibilities that each working group member, or the represented institution, may have. He advised each working group member to consider registering on an "insider list" to document their specific knowledge on the benchmark topic. He also indicated that the Chair's team and the ECB Secretariat would establish a list of potentially sensitive topics to anticipate the upcoming sensitive discussions.

Petra de Deyne (EMMI) announced EMMI's decision to withdraw their participation from Subgroup 5 on cash and derivative products, so as to avoid any perception of possible conflict of interest given their role as potential administrator of EURIBOR fallbacks. EMMI representatives will also recuse themselves from any working group discussions in relation to Subgroup 5 items.

3. Updates from Subgroup 7 on the communication actions

3.1. On the Subgroup 7 governance model

Maria Teresa Bermudez (Santander) stated that the work of the working group ambassador framework of Subgroup 7 will start soon (see below). Against this background, **Maria Teresa Bermudez Tejero (Santander)** proposed: i) to discontinue the three former work streams (on EONIA transition, EURIBOR fallbacks and retail communication); and (ii) to establish a steering group comprising Santander as Chair, with ING and the ECB serving as observer and secretariat, respectively. Next to the ambassador framework, Subgroup 7 would continue in its current composition as a sounding board for any future communication activities. The working group agreed to this proposal.

3.2. Update on communication materials (updated and new materials) and unified plan

Maria Teresa Bermudez and Javier Pareja (Santander) presented a communication plan containing: deliverables and timelines for 2020; an updated version of the Q&A; and three different fact sheets. If approved via Subgroup 7, and working group written procedures that are to follow, the fact sheets would be used as part of the communication toolkit.

Furthermore, she introduced a new release of the working group newsletter. The newsletter would be published on the ECB website in the near future and also distributed to, for example, ambassadors and banking and market associations.

3.3. On the ambassador programme (framework and appointments)[1]

Maria Teresa Bermudez and Javier Pareja (Santander) flagged that the working group ambassadors are to start contacting various national user associations, trade associations and the relevant national authorities; a meeting of ambassadors had already taken place to provide guidance and coordinate actions.
Steven van Rijswijk (Chair) welcomed the ongoing positive developments and encouraged **Maria Teresa Bermudez (Santander)** to find additional ambassadors for the remaining jurisdictions (Baltic region, Cyprus and the United States).

4. Update by Subgroup 6 on IASB-EFRAG discussion regarding phase 2 amendments in IFRS9 and IAS39

Markus Schmidtchen (KfW) recalled that the International Accounting Standards Board (IASB) is having a phased approach to address interbank offered rate (IBOR) reform accounting issues. IASB phase 1 amendments to IFRS 9 and IAS 39 (dealing with "pre-replacement" issues related to the IBOR reform)[2] were endorsed[3] by the European Commission at the beginning of this year, although these amendments are also applicable to the 2019 financial year. The IASB is now working on phase 2 related issues[4], i.e. replacement issues related to the IBOR reform. **Markus Schmidtchen (KfW)** pointed out that many of these topics were already highlighted by the working group in the letter addressed to the IASB in July 2019[5] and in the financial accounting report[6] published in November 2019.

The timing for the required phase 2 amendments will be very tight in Europe: the IASB is planning to publish its proposal for the phase 2 amendments to IFRS 9 and IAS 39 in an Exposure Draft at the beginning of April 2020, with a comment period of 45 days. Final amendments are expected at the beginning of August 2020. However, the European authorities would need to endorse the final IASB amendments before these are applicable to European market participants.

The uncertainty around these accounting issues could slow down the development of the €STR derivative market. Some market participants might wait until the endorsement of phase 2 IASB amendments by the European authorities, so as to be certain on the accounting treatment of the new transactions, even if the IASB provides a retrospective application. For this reason, the optimal endorsement process should take place as soon as possible and, at least, before the end of 2020.

In the subsequent discussion, one working group member asked to what extent a harmonised approach between jurisdictions was possible on these accounting standard issues, and stressed the need to maintain a level playing field. It was clarified that coordination among public institutions was already in place through a technical subgroup of the Financial Stability Board (OSSG). The working group concluded that market participants and the institutions in charge of facilitating the endorsement process on this topic should be made aware of the time pressure.

5. Updates by Subgroup 5 on cash products and derivatives

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1 See https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/20191204/2019_12_04_WG_on_euro_RFR_meeting_Item_5_Presentation_Subgroup_7.pdf

2 IASB phase 1 amendments address the financial reporting consequences of the interest rate benchmark reform in the period before the replacement of an existing interest rate benchmark with an alternative reference rate. They **provide temporary and narrow exemptions to the hedge accounting requirements of IAS 39, IFRS 9 and IFRS 7** so that companies can continue to meet the requirements, assuming that the existing interest rate benchmarks are not altered because of the interbank offered rate reform.

3 See Commission Regulation (EU) 2020/34 of 15 January 2020 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 39, International Financial Reporting Standards 7 and 9 (Text with EEA relevance) (OJ L 12, 16.1.2020, p. 5).

4 IASB phase 2 IBOR reform project include: the classification and measurement of financial instruments, hedge accounting, the end of application of phase 1 amendments, the impact of the IBOR reform on other IFRS standards, disclosures, sweep issue, risk components, end of phase 2 proposed amendments, voluntary vs. mandatory application, effective date and transition and due process steps.

5 See the letter from the working group on euro risk-free rates, 16 July 2019.

6 See the report by the working group on euro risk-free rates on financial accounting implications of the transition from EONIA to the €STR and the introduction of €STR-based fallbacks to Euribor, 5 November 2019.

Cornelia Holthausen (ECB) presented the development of the overnight interest swap (OIS) €STR market since the launch of the new risk-free rate in October 2019. Based on publically available data from the London Clearing House (LCH), around 4% of new EUR OIS trades were referenced to the €STR and around 1.5% of the stock of EUR OIS outstanding is referenced to the €STR. These figures are broadly comparable to the volumes and outstanding stock of other developing risk-free rates markets (SARON, SOFR).

5.1. Update from ISDA on their various consultations

Rick Sandilands (ISDA) informed the working group on several developments:

- The publication of the results of the EURIBOR and EUR LIBOR consultation on 24 February[7]: based on the respondents' feedback, ISDA expects to proceed with development of fallbacks for inclusion in its standard definitions based on the compounded setting in arrears with a backward shift and the five-year historical median approach to the spread adjustment both for EUR LIBOR and the EURIBOR. Subgroup 5 will take this result into account for its proposals on EURIBOR fallbacks.
- The publication of a new consultation on the pre-cessation trigger on 25 February[8], following statements, from the UK Financial Conduct Authority, ICE Benchmark Administration and LCH, that provided additional information on this topic. The new consultation asks whether the 2006 ISDA Definitions should be amended to include fallbacks that would apply to all covered derivatives following the permanent cessation of an IBOR or a 'non-representative' pre-cessation event, whichever occurs first. Working group members were encouraged to reply to this consultation before 25 March 2020.
- Finally, ISDA informed the working group about an FAQ published on their website regarding the IBOR fallback rates adjustments published by Bloomberg[9]. He recalled that Bloomberg Index Services Limited had been selected as the vendor to calculate and distribute these adjustments rates as fallbacks, including for EUR LIBOR and the EURIBOR. These ISDA fallback rates would require a Bloomberg licence but no end-user subscription fees would be applicable for receipt of the data.

5.2. On the consultation on swaptions

Christian Gau (DB) recalled that, as a follow up of recommendation number 7 included in the report on the transfer of EONIA's cash and derivatives markets liquidity to the €STR published on 19 February 2020, the working group will launch a public consultation on swaptions impacted by the CCP discounting transition from EONIA to the €STR in June 2020. This public consultation will be published at the beginning of March, after the approval by the working group on euro risk-free rates. Based on the feedback received, the working group could possibly issue recommendations around the end of April. The public consultation is largely aligned with the ARRC consultation on Swaptions published on the 7 February 2020. The similarity of statements and questions included in both public consultations is intentional to allow market participants to respond consistently.

5.3. On the consultation on EURIBOR fallbacks for cash and derivative products

Anna Kozhevnikova (Generali) and Christian Gau (DB) updated the working group about the state of play of the next two Subgroup 5 deliverables, i.e. (i) the most suitable EURIBOR fallback methodology for each financial product and (ii) how the €STR-based forward-looking and backward-looking term structures can coexist as potential fallbacks to EURIBOR. These two deliverables will be covered in a public consultation to be launched in May together with the Subgroup 3 public consultation on EURIBOR fallback triggers (see item 6). The Subgroup 5 public consultation will focus on the most appropriate EURIBOR fallback rate(s) per asset class and on the spread adjustment to add, so as to avoid potential value transfers upon the fallback activation. Subgroup 5 has identified the asset classes covered in the public consultation and a short list of viable methodologies[10], and has started analysing the pros and cons of each methodology to identify the most appropriate. Subgroup 5 also identified a set of criteria to support the selection process. The Subgroup seemed to agree on a consistent credit spread methodology across products, keeping in mind the broad market preference expressed in the ISDA consultation for a five-year historical median adjustment.

For derivative products, Subgroup 5 will take the work already conducted by ISDA on EURIBOR fallbacks as a starting point. The general consensus is to follow the recommendations provided by ISDA and assess whether the ISDA fallbacks could also work for derivative products beyond the ISDA scope. Subgroup 5 regularly consults

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[7] See https://www.isda.org/a/MioTE/Statement-Regarding-Results-of-December-2019-Supplemental-Consultation.pdf
[8] See https://www.isda.org/2020/02/25/isda-launches-new-consultation-on-pre-cessation-fallbacks/
[9] See http://assets.isda.org/media/ddcb20e0/76dd3ab8-pdf/

[10] Three backward-looking methodologies are classified as viable, i.e. (i) payment delay, (ii) lookback/ shift and (iii) last reset and the forward-looking methodology.

Subgroup 3 and Subgroup 6 to clarify possible legal, financial accounting and risk management implications of the different methodologies.

In the subsequent discussion, the working group agreed to ask administrators interested in producing term rates based on €STR forward-looking rates whether, at the next working group meeting, they could share any updates on their plans. The modalities of approaching these administrators would also need to be considered in the light of competition law constraints. The working group also noted that such an update would allow for a clearer view of the feasibility of the forward-looking term rates.

Finally, Subgroup 5 highlighted the advantages of a trusted authority as a source for the publication of the €STR compounded rate instead of institutions calculating the rate themselves. As with the recently published initiatives by the Bank of England and the FED, the publication by one ''golden" and trusted free source that is available every business day would be very beneficial as (i) it would provide transparency to the market and encourage acceptance of the rate; (ii) it would avoid confusion or discrepancies related to the calculation of the rate, and facilitate its adoption in systems and documentation; and (iii) it would reduce conduct and litigation risks. In the subsequent discussion, **Cornelia Holthausen (ECB)** explained that ECB is supporting the usage of backward-looking methodologies as EURIBOR fallbacks, in line with the FSB guidance. She also indicated that ECB was contemplating the possibility of producing backward-looking rates based on the €STR. The ECB will therefore consider the arguments listed above.

6. Update by Subgroup 3 on the EURIBOR legal action plan

6.1. Public consultation on the EURIBOR fallback trigger

José Carlos Pardo (BBVA) updated the working group on the draft public consultation on the identification and formulation of events that will trigger the activation of the fallback rate (trigger events). He recalled that the working group already agreed that the consultation paper would propose the same trigger events for all asset classes. The consultation report on trigger events should be finalised for adoption at the 21 April meeting of the working group, and subsequently launched, together with the public consultation on the EURIBOR fallback rate and adjustment spread under preparation by Subgroup 5.

Tilman Lueder (European Commission) pointed out that the Benchmark Regulation (BMR) does not contain a pre-cessation trigger as currently consulted by ISDA for LIBOR and is currently under discussion by Subgroup 3. The way the BMR is constructed implies that competent authorities can only contemplate withdrawing the authorisation granted to the administrator of critical benchmarks after deployment of remedial measures, in accordance with Article 35 BMR. Mr Lueder stated that the competent authority should, before withdrawing the authorisation of a critical benchmark, assess how this would affect tough legacy contracts (defined as contracts that could not be re-negotiated before the benchmark cessation date), in particular whether there is an agreed fallback that will be published during the remaining maturity of the legacy portfolio.

6.2. Market-based solutions to amend legacy contracts and instruments referencing the EURIBOR to embed fallback provisions

José Carlos Pardo (BBVA) presented an analysis on how to amend legacy contracts and existing financial instruments by private, contractual means. Subgroup 3 has worked with the relevant trade associations on how to amend legacy contracts for floating rate notes, syndicated loans, derivative transactions, mortgage loans and business loans. Subgroup 3 will prepare a short paper providing descriptive and factual guidance explaining the steps to take to amend existing documentation for different asset classes, as well as the main challenges and considerations. The analysis should not cover the requirements in all geographies, but highlight the key characteristics in some countries. The objective is to publish a neutral and legally accurate high-level step-by-step description of how to amend the respective legacy contracts and other existing documentation for each of the various asset classes. In the subsequent discussion, one working group member expressed concerns regarding the time needed for analysing the amendment of EURIBOR legacy contracts, and regarding the difficulty of this analysis; these issues result from the variety of usage, complexity and specific features of EURIBOR legacy contracts. Such analysis was seen as a task to be undertaken at local level by each EURIBOR user.

6.3. Update on the compounded €STR and civil law

José Carlos Pardo (BBVA) also presented a draft note analysing the compounding methodologies used in the calculation of backward-looking rates against Civil Law. In some EU Member States, the civil code prohibits compounding over-due interest to protect consumers. Subgroup 3 is assessing whether the development of a compounded €STR may be affected by this prohibition, as it is not related to any delayed interest payment, but is a mathematical formula applied before the relevant interest is due. Any conclusion must be read as subject to confirmation by courts in national case-law.

The working group on euro risk-free rates subsequently requested that Subgroup 3 should provide more details on the reasons and motivations of the prohibition of compounded interest rates in the relevant EU Member States. Once completed, the legal assessment, as requested by the working group, would be shared with Subgroup 5 as input for their discussion on backward-looking methodologies as EURIBOR fallbacks.

7. Other business

The next meeting of the working group is scheduled on 21 April 2020, from 11:00 to 16:00 CET, and may take place via teleconference.

List of meeting 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 Andreas Giannopoulos
Bayerische Landesbank	Mr Harald Endres
BBVA	Mr José Manuel González-Páramo
BBVA	Mr José Carlos Pardo
BNP Paribas	Mr David Gorans
BNP Paribas	Mr Xavier Aublin
BPCE/Natixis	Ms Sophie Asselot
BPCE/Natixis	Mr Olivier Hubert
CaixaBank, S.A.	Mr Xavier Combis Comas
Crédit Agricole	Mr Carlos Molinas
Crédit Agricole	Ms Florence Mariotti
Deutsche Bank	Mr Christian Gau
DZ Bank	Mr Philipp Nordloh
DZ Bank	Mr Michael Schneider
Erste Group Bank AG	Mr Neil Mcleod
HSBC	Ms Nathalie Gay Guggenheim
ING Bank	Mr Jaap Kes
Intesa Sanpaolo	Ms Maria Cristina Lege (via telco)
KfW Bankengruppe	Mr Markus Schmidtchen
KfW Bankengruppe	Mr Ingo Ostermann
LBBW	Mr Jan Misch (via telco)
Santander	Ms Maria Teresa Bermudez
Santander	Mr Javier Pareja
Santander	Ms Monica Lopez-Monis
Société Générale	Mr Olivier Balpe
Société Générale	Mr Stephane Cuny (via telco)
UniCredit Bank	Mr Umberto Crespi (via telco)

Non-voting members

European Money Markets Institute	Ms Petra De Deyne (except Item 5)
European Money Markets Institute	Mr Jakobus Feldkamp (except Item 5)
European Fund and Asset Management Association	Ms Agathi Pafili
International Capital Market Association	Mr David Hiscock (via telco)
International Swaps and Derivatives Association	Mr Richard Sandilands
International Swaps and Derivatives Association	Mr Graham Bryant
Loan Market Association	Ms Kam Mahil

Invited institutions

European Investment Bank	Mr Thomas Schröder
European Investment Bank	Mr Nikolaos Tzoldos
Generali	Ms Anna Kozhevnikova (via telco)

Invited institution on an ad hoc basis

Clifford Chance	Mr Greg Olsen

Observers

European Central Bank	Ms Cornelia Holthausen
European Securities and Markets Authority	Mr Michele Mazzoni
Financial Services and Markets Authority	Mr Randy Priem
European Commission	Mr Tilman Lueder

Secretariat

European Central Bank	Ms Anne-Lise Nguyen
European Central Bank	Mr Mikael Stenström
European Central Bank	Mr Armin Greif
European Central Bank	Ms Yasmina Santalla
European Central Bank	Mr Marek Svoboda