

Working Group on Euro Risk Free Rates

Determine mandate and governance

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Frankfurt • 26 February 2018

Background on why the market needs alternative RFRs

FSB recommendations on 'Reforming major interest rate benchmarks':

- Strengthen existing benchmarks by underpinning them to the greatest extent possible with transaction data
- Developing alternative nearly risk-free reference rates

Lack of transactions makes search for alternative RFRs more important

EU Benchmark Regulation article 28.2 on 'Changes to and cessation of a benchmark':

*Supervised entities other than an administrator as referred to in paragraph 1 that use a benchmark shall produce and maintain robust written plans setting out the actions that they would take in the event that a benchmark materially changes or ceases to be provided. Where feasible and appropriate, such plans shall nominate **one or several alternative benchmarks** that could be referenced to substitute the benchmarks no longer provided, indicating why such benchmarks would be suitable alternatives. The supervised entities shall, upon request, provide the relevant competent authority with those plans and any updates and shall reflect them in the contractual relationship with clients.*

→ BMR requirement is effective for new contracts as of 1 January 2018

Scope and mandate of Working Group

Type	Current Euro rates	Replacement	Fallback (BMR art 28.2)
O/N	EONIA	RFR	Alternative RFR
Term	EURIBOR		RFR + term structure

- EONIA reform stopped as compliance with the BMR by 1 January 2020 cannot be warranted, therefore EONIA can not be offered in new contracts as of that date
- In any event, the Working Group needs to recommend on a fallback for EURIBOR
- Deliverables Working Group:
 1. Identify and recommend alternative RFRs
 2. Identify and recommend term structure on RFR(s)
 3. Contractual robustness legacy and new contracts
- Deliverables will be picked up in work streams as presented in slides 4 and 5.

Objectives work streams (1/2)

Work stream #1 – Identify and recommend alternative RFRs:

Type	Current Euro rates	Replacement	Fallback (BMR art 28.2)
O/N	EONIA	RFR	Alternative RFR

- Set up mapping of usage of existing benchmarks EONIA and EURIBOR on e.g. quantitative usage, legal framework, end-users
- Define RFR selection criteria
- Select and recommend (alternative) RFR candidates
- Determine if recommended (alternative) RFR candidates are valid for all products

Work stream #2 – Identify and recommend term structure on RFR(s):

Type	Current Euro rates	Replacement	Fallback (BMR art 28.2)
Term	EURIBOR		RFR + term structure

- Explore possible fallback arrangements for EURIBOR
- Determine and recommend term structure methodology on RFR(s) as fall back in Euribor-linked contracts
- The term structure will be a benchmark in itself, therefore the methodology needs to be BMR compliant
- The methodology needs to be re-usable for alternative RFRs in case EURIBOR will not become registered at ESMA by end 2019
- Scope is **all products**

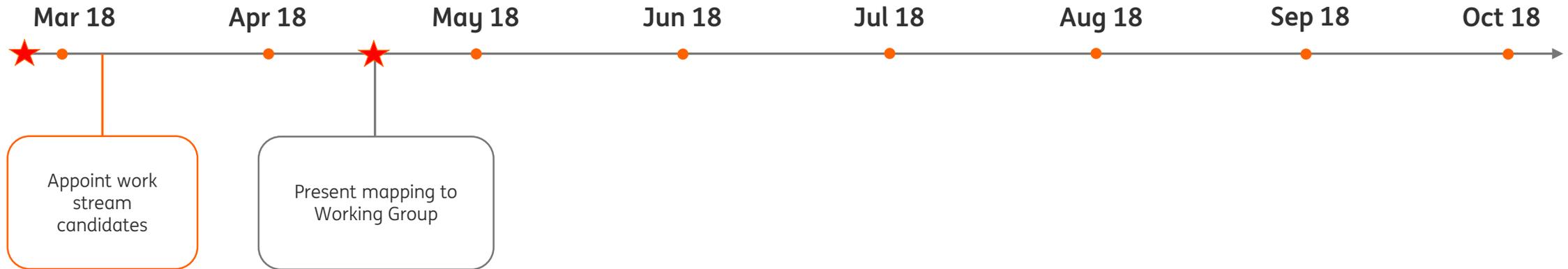
Objectives work streams (2/2)

Work stream #3 – Contractual robustness legacy contracts:

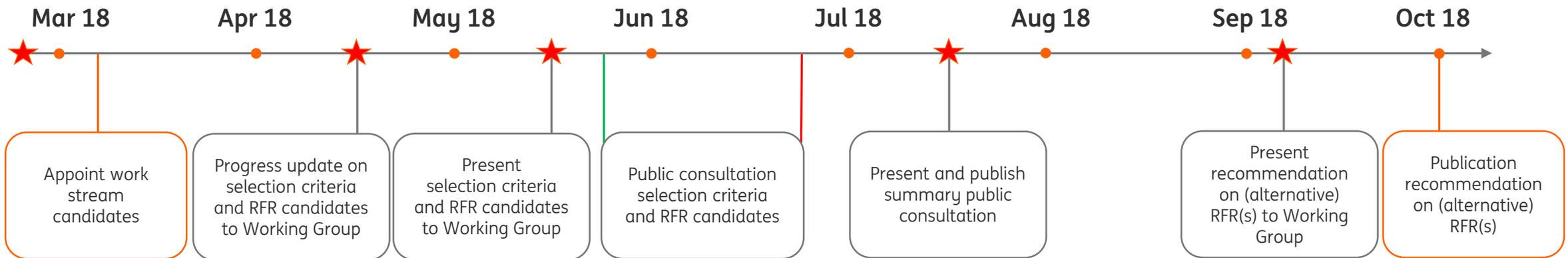
- Determine legal impact to embed RFR (+ term structure) in legacy and new contracts, based on legal framework identified in work stream #1
- For EONIA linked contracts:
 - Develop contingency plans to mitigate the risk of EONIA discontinuation in legacy contracts
 - Propose necessary documentation amendments to embed EONIA replacement and fallback in legacy contracts
 - For O/N rate contracts: Develop templates for new contracts referencing a RFR and alternative RFR as fallback
- For EURIBOR linked contracts:
 - Develop contingency plans to embed EURIBOR fallback in legacy contracts
 - Propose necessary documentation amendments to embed EURIBOR fallback in legacy contracts
 - For term rate contracts: Develop templates for new contracts referencing EURIBOR and RFR + term structure as fallback
- Develop adoption plans to promote usage of recommended documentation amendments to legacy contracts
- Develop adoption plans to promote usage of new contract templates
- Scope is **all products**

Roadmap work stream #1 – Identify alternative RFRs

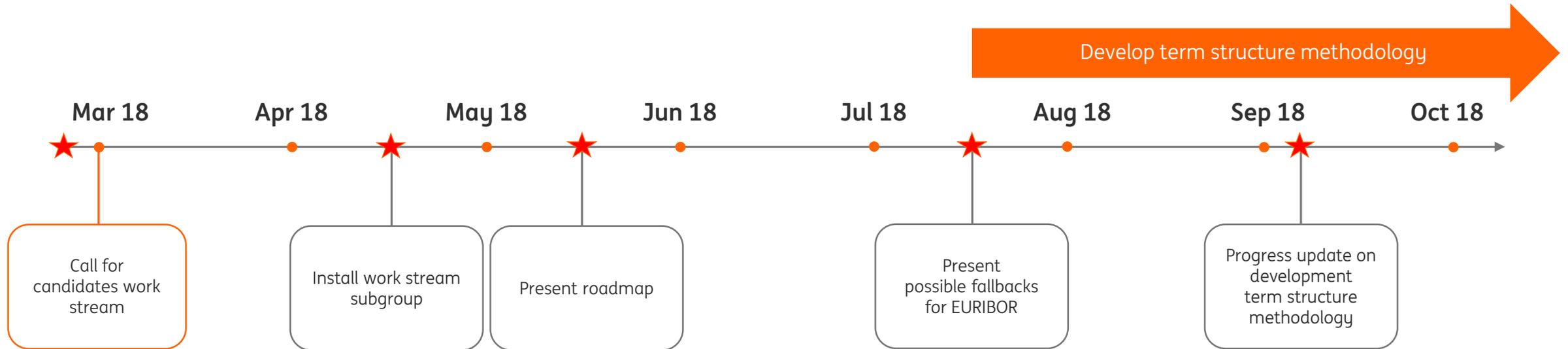
Work stream #1A - Set up mapping of usage of existing benchmarks



Work stream #1B - Select and recommend (alternative) RFR candidates

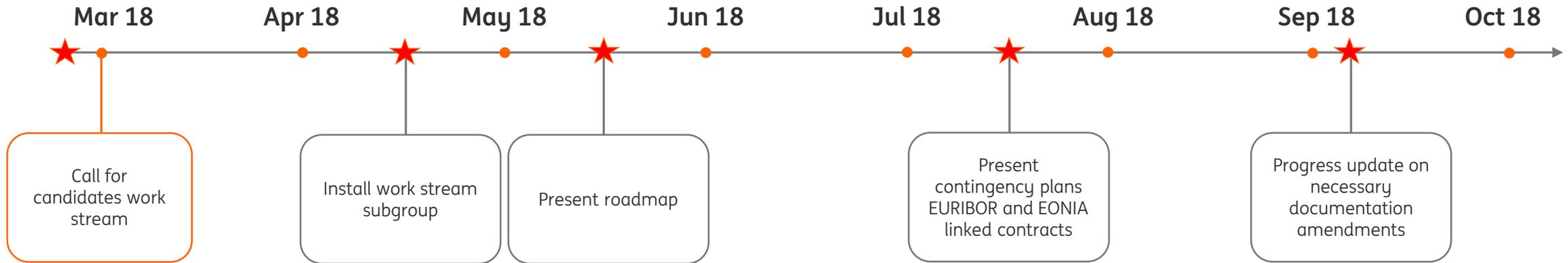


Proposed roadmap work stream #2 – Identify term structure on RFR(s)

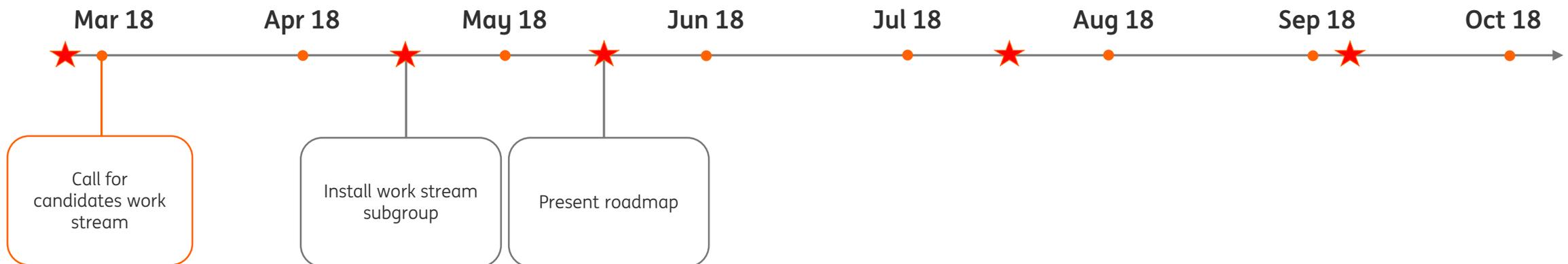


Proposed roadmap work stream #3 – Contractual robustness legacy and new contracts

Work stream #3A – Contractual robustness legacy contracts



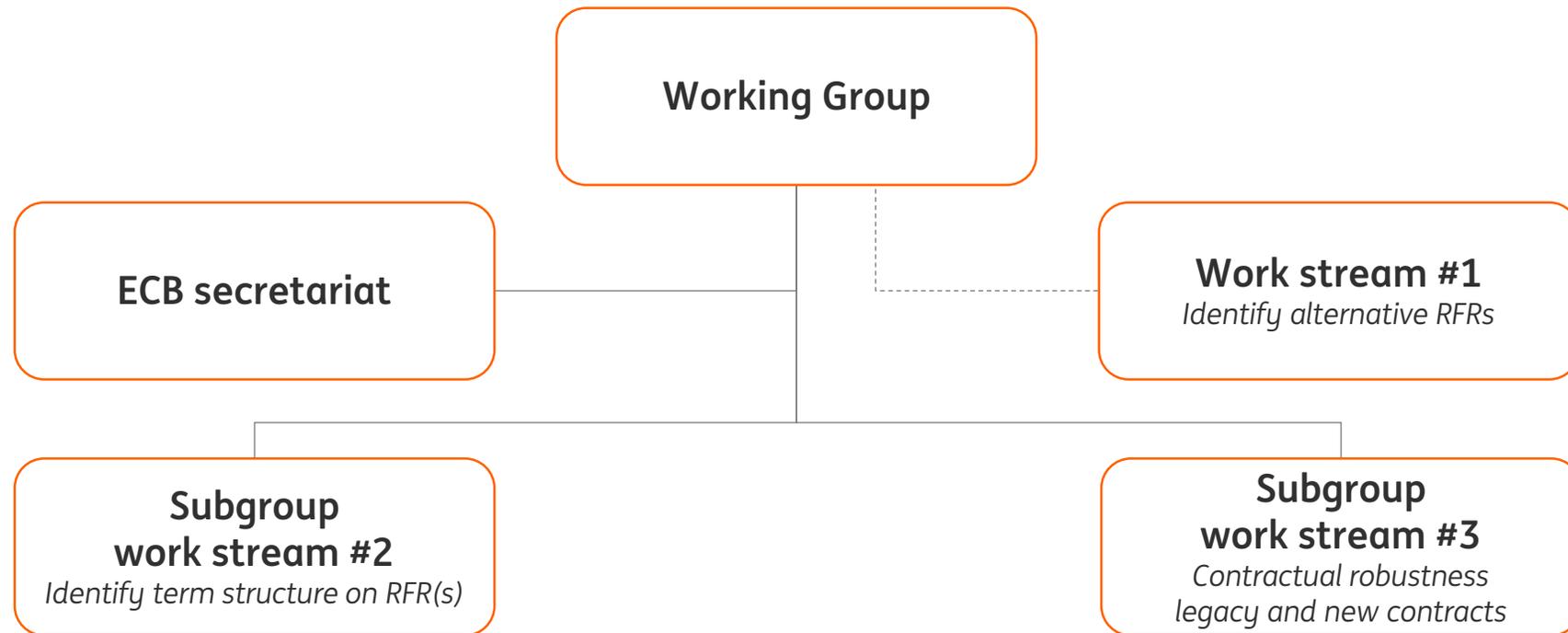
Work stream #3B – Contractual robustness new contracts



Summary proposed timelines

Date	Action	In charge
End February	Call for candidates work streams	ECB
Beginning March	Appoint candidates work stream #1	Observers/chair
Mid-April	Agenda items 2nd Working Group meeting: <ol style="list-style-type: none"> 1. Discuss mapping on usage existing benchmark 2. Progress update on selection criteria and RFR candidates 3. Install work stream subgroups #2 and #3 	Work stream #1 Work stream #1 Working Group
Mid-May	Agenda items 3rd Working Group meeting: <ol style="list-style-type: none"> 1. Present selection criteria and RFR candidates 2. Present public consultation selection criteria and RFR candidates 3. Present roadmaps work stream subgroups #2 and #3 	Work stream #1 Work stream #1/ECB Work streams #2 and #3
End May-End June	Public consultation selection criteria and RFR candidates	ECB
Mid-July	Agenda items 4th Working Group meeting: <ol style="list-style-type: none"> 1. Present summary public consultation 2. Present possible fallback arrangements for EURIBOR 3. Present contingency plans for legacy contracts 	Work stream #1/ECB Work stream #2 Work stream #3
Mid-September	Agenda items 5th Working Group meeting: <ol style="list-style-type: none"> 1. Present recommendation on (alternative) RFRs 2. Progress update on development term structure methodology 3. Progress update on necessary documentation amendments legacy contracts 	Work stream #1 Work stream #2 Work stream #3
Beginning October	Publication recommendation on (alternative) RFRs	Observers

Organisational chart Working Group



- Membership for the Working Group can only be granted by the ECB, ESMA, FSMA and EC
- Subgroups will be chaired by one of the members of the Working Group, but membership is open for other participants: call for expressions of interest is available on the ECB website
- Membership for subgroups will be granted by the Working Group
- Subgroups will report their findings to the Working Group
- The ECB, chair of the Working Group and chairs of the subgroups will have regular update calls

Call for expressions of interest for work streams

- This week, the ECB will circulate a call for expressions of interest for the work streams:
 1. Identify and recommend alternative RFRs
 2. Identify and recommend term structure on RFR(s)
 3. Contractual robustness legacy and new contracts
- Please indicate if your firm is interested to participate in a specific work stream and if your firm is interested in chairmanship of a specific subgroup
- In the next meeting on 20 April (location tbd), the subgroups will be announced and installed