

Working Group on euro risk-free rates

Newsletter October 2020



This newsletter provides an update on the work of the working group on euro risk-free rates (hereafter the working group or WG), and also refers to developments in international markets. If you have questions about the content or would like to subscribe, please contact CommunicationsEuroRFR@ecb.europa.eu. Feel free to share this newsletter with others!

Working Group developments

Non-euro working

- **October 2020:** Minutes of the Working Group meeting of 10 September 2020 [published](#).
- **November 2020:** The WG expects to publish two public consultations on (1) EURIBOR fallback triggers events and (2) EURIBOR fallback rates based on €STR for cash products. The due date for responses will be 8 January 2021.

Given that the public consultations cover EURIBOR fallback measures for all EURIBOR-linked financial products, the Working Group would appreciate response from the wider market, i.e. from as broad a range of respondents as possible, including all types of market participants, organisations representing these market participants and other interested stakeholders from different sectors and product categories.

The final recommendations by the Working Group on EURIBOR fallback measures are expected by the end of Q1 2021.

Market developments

- **16 October 2020:** [LCH](#), [CME](#), [Eurex](#) have transitioned from the FedFunds to SOFR as Price Alignment Interest (PAI) and

groups status

- **September 2020:** The Alternative Reference Rates Committee (ARRC) released an RFP seeking a potential administrator to publish forward-looking Secured Overnight Financing Rate (SOFR) term rates. Responses to the RFP will be used by the ARRC to identify an administrator who could be responsible for the calculation and publication of forward-looking SOFR term rates.
- **September 2020:**

discounting rate, becoming life as of 19 October 2020.

- **7 October 2020:** The ECB [published](#) the summary of feedback on the public consultation regarding compounded €STR rates. This consultation received a significant number of replies coming from a broad range of market participants across different countries. The replies were supportive of the main parameters and elements of the envisaged methodology, and contained some suggestions. This feedback will be useful for the ECB to finalise the methodology.
- **2 October 2020:** LCH launched a consultation to their SwapClear users (members and clients) with deadline Friday, 30 October 2020 regarding how to manage the closure of the EONIA outstanding contracts before EONIA's discontinuation at the end of 2021.
- **30 September 2020:** The ECB [published](#) a statement of compliance of €STR with IOSCO (International Organization of Securities Commissions) Principles for Financial Benchmarks. This statement shows how the ECB complies with these principles, and

Additionally, the ARRC also released an RFP seeking firm(s) to publish daily indicative spreads and, after a trigger event has occurred, static spreads and spread-adjusted SOFR fallback rates for cash products that transition away from U.S. dollar (USD) LIBOR. The ARRC will use responses to the RFP to identify administrator(s) who will be responsible for calculating and publishing the spreads and the resulting interest rates based on the ARRC's

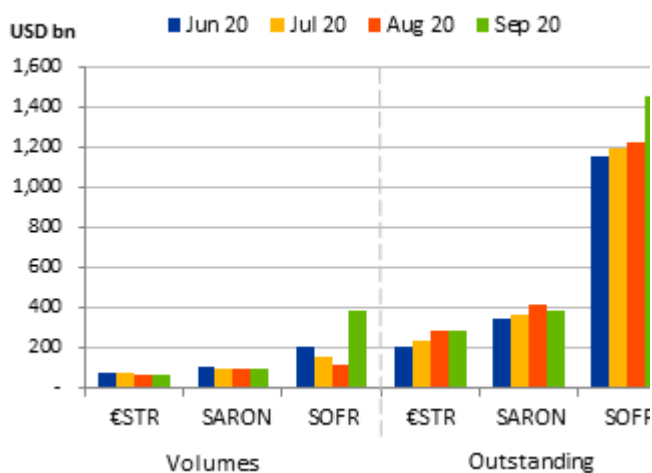
therefore with international best practice, in its administration of the €STR.

- **29 September 2020:** ESMA published its [final report](#) containing new sets of draft regulatory technical standards (RTS) under the Benchmarks Regulation (BMR). These contain additional detailed rules to implement the European regulatory framework aimed at ensuring the accuracy and integrity of benchmarks across the European Union.
- **28 July 2020:** ISDA [launched](#) a new indicator to monitor the adoption of alternative RFRs in derivatives trading. The indicator will provide a monthly snapshot of RFR trading activity in interest rate derivatives (IRD) markets.
- **24 July 2020:** The European Commission issued its [proposal](#) to amend the EU Benchmark Regulation to help prevent disruption caused by the cessation of LIBOR. The amendments proposed would empower the Commission to designate a replacement benchmark to cover all references to a critical benchmark, such as LIBOR, when such a benchmark ceases to be published and could result in significant disruption to EU financial markets.

recommended fallback adjustment methodology.

- **September 2020:** The Sterling RFR Working Group [published](#) a statement with recommendations on conventions for referencing compounding in arrears SONIA in the sterling Loan Market, Their recommended convention is the Five Banking days Lookback without an observation shift.
- **September 2020:** The Sterling RFR Working Group [updated](#) and revised its priorities and roadmap for

- **23 July 2020:** ECB Banking Supervision [published](#) the results of its industry-wide assessment of banks' preparedness for the benchmark interest rate reforms (i.e. the results of the "Dear CEO letters" sent in Q3 2019). To assist banks in their preparation, the ECB has published a set of good practices outlining how banks can best structure their programmes, identify benchmark-rate related risks and create action plans and documentation in relation to the reforms.
- LCH [published](#) their monthly swap clearing data for September. Since the last newsletter both cleared volumes and outstanding amounts of EUR OIS contracts linked to €STR remained overall stable with a slight increase compared to the previous month.



2020-2021. This update reflected progress made since the previous roadmap was published in January 2020, and included more granular milestones to manage the transition away from Sterling LIBOR-linked products by end-2021.

- **27 August 2020:** The ARRC [released](#) updated recommended contractual fallback language for new originations of USD LIBOR bilateral business loans. Term SOFR continue to be the first level

of the waterfall but the updated fallback included a recommendation to use the Daily Simple SOFR as part of the second step of the waterfall to make it aligned with syndicated loans. The ARRC updated its recommendations that new bilateral loans should incorporate Hardwired or Hedge fallback by 31 October 2020.

- **19 August 2020:** The ARRC [published](#) an update on their recommended Best Practices in anticipation of the ISDA

IBOR Fallback Protocol, to reflect its current understanding of the timing of the ISDA protocol process, recommending that other market participants “should adhere to the ISDA’ Fallback Protocol for Interbank Offered Rates within the 3-4 months period after its publication, before the amendments to the fallbacks in legacy transactions take effect”.

- **3 August 2020:** The Bank of England began [publishing](#) the

SONIA
Compounded
Index from 3
August 2020.
This simplified
the calculation
of
compounded
interest rates
and in doing
so provided a
standardized
basis through
its publication
as an official
source. The
BoE is not
going to
publish
SONIA
averages
given that
there wasn't
enough
consensus
between the
consultation
participants,
although it's
open to its
publication in
the future if
market views
change.

- **July 2020:**
ICE, FTSE
Russell and

Refinitiv have started to publish the Term SONIA Reference Rate (Beta Version) in tenors from one to twelve months, using SONIA overnight index swap (OIS) quotes to construct their term rates.

The working group on euro risk-free rates was established in February 2018 to identify and recommend risk-free rates that could serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area, such as the euro overnight index average (EONIA) and the euro interbank offered rate (EURIBOR).

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