

## Public consultation by the working group on €STR-based EURIBOR fallback rates

### Response form

Please enter all your feedback in the grey coloured cells of this form using the drop-down menus where appropriate (i.e. where choices are provided and highlighted in the question in bold).

Please send your response to [EuroRFR@ecb.europa.eu](mailto:EuroRFR@ecb.europa.eu) by 17:00 CET on 15 January 2021.

Institution/Company name:	Loan Market Association (LMA)
Type of respondent:	Market association
Country code:	UK

**Please note that the European Central Bank (ECB) and the European Commission (EC) will evaluate all the responses and prepare an anonymised summary of the feedback.**  
Individual feedback will not be published, and will only be shared between the ECB, as secretariat of the working group on euro risk-free rates, and the EC, as secretariat to the subgroup on cash and derivative products.

Question number	Question	Reply
<b>Criteria used in the analysis of EURIBOR fallbacks rates (see Section 5.2)</b>		
1	<p>Can you identify any additional criteria that should be taken into account? (yes / no / no opinion)</p> <p>Criteria used in the analysis of EURIBOR fallbacks rates (see Section 5.2)</p> <ul style="list-style-type: none"> <li>• Robustness/availability</li> <li>• Operational ease</li> <li>• Client acceptance</li> <li>• Hedging ease and hedge accounting impacts</li> <li>• Other accounting impacts</li> <li>• Risk management impacts</li> <li>• Consistency with other jurisdictions across asset classes</li> </ul>	No
	<b>Please elaborate</b> on the reasons for your answer.	We think that the criteria encompass the core considerations to be taken into account.
2	<p>Do you agree with the analysis conducted in Section 5.2.1 and the conclusions of the working group presented in Section 5.2.2 with regard to the evaluation of the €STR-based term structure methodologies on the basis of the selection criteria? (yes / no / no opinion)</p>	Yes
	<b>Please elaborate</b> on the reasons for your answer.	Overall we agree, however, we think that the acceptance of the last reset by professional market players and corporates should be yellow rather than green. Whilst it gives certainty of the rate at the start of the interest period, this is the sole benefit of this methodology. Given the mismatch of the observation and interest periods, and the difficulty of hedging, this method has not been selected for products other than retail products in the US and Switzerland because it was not deemed acceptable by lenders or corporates.
<b>Use cases analysis (see Section 5.3)</b>		
<b>Corporate lending (Section 5.3.1)</b>		
	<p>Do you agree with the working group's conclusion that the backward-looking lookback period methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for most, by value, of the corporate lending linked to EURIBOR? (yes / no / no opinion)</p>	Yes
3	<p><b>If not</b>, what alternative methodology would you propose?</p> <p>(Forward-looking / Backward-looking payment delay / Backward-looking last reset / Another alternative)</p>	

	<p><b>Please elaborate</b> on the reasons for your answer, also taking into account the possible interactions between asset classes and related instruments.</p>	<p>We agree with the analysis in the consultation paper. In particular, the use of the backward-looking lookback period methodology would be in line with the recommendations of the Sterling and Swiss Working Groups and the ARRC for loans (albeit the ARRC approach to fallbacks is different to new loans). There may be cases where a forward-looking term rate is required given that the loan market is not a one-size-fits-all market, and these have broadly been identified in the consultation paper. In addition, given potential legal complications in some jurisdictions on compounding, the use of the forward-looking method should be permitted for those jurisdictions where it is not legally possible to use a backward-looking rate.</p>
<b>Mortgages, consumer loans and SME loans (Section 5.3.2)</b>		
4.1	<p>Do you agree with the working group's conclusion that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for retail mortgages, consumer loans and SME loans linked to EURIBOR ? (yes / no / no opinion)</p>	No opinion
	<p><b>If not</b>, what alternative methodology would you propose? (Backward-looking payment delay / Backward-looking lookback period / Backward-looking last reset / Another alternative)</p>	
	<p><b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	
4.2	<p>If your reply to Question 4.1 was affirmative, would you agree with the proposal to include a term structure built using a forward-looking methodology on the first level of the waterfall structure and, on the second level of the waterfall structure, to include as a backstop, in case a forward-looking term structure methodology is not available, either:</p> <p>a) a term structure built using the backward-looking last reset methodology (up to three-month tenors) or, alternatively;</p> <p>b) a term structure built using the backward-looking lookback period methodology? (a / b / neither)</p>	
	<p><b>If neither</b>, what alternative would you propose for the second level of the waterfall? (Backward-looking payment delay / Another alternative)</p>	Another alternative
	<p><b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	<p>If it has been determined that a forward-looking term rate is needed for the reasons outlined in the paper, we query whether a backward-looking lookback period methodology could apply as a fallback. For example, it is noted that in respect of SMEs knowing the rate in advance is fundamental for invoice discounting/factoring and that an in arrears rate would not work for this purpose. As a result, the last reset methodology would appear to be the most viable solution. Appropriate central banks rates <u>could be considered as an alternative (particularly for SME loans).</u></p>
4.3	<p>Would you expect your institution to have to cope with any impediments in the case of a rate calculated using the backward-looking lookback period methodology for retail mortgages, consumer loans and SME loans? (yes / no / no opinion)</p>	No opinion
	<p>Please indicate whether you are (representing) a lender or a borrower. (Lender/borrower)</p>	
	<p><b>Please elaborate</b> on the reasons for your answer and, if your reply was affirmative, please specify what those impediments could be, and whether/how these impediments could be addressed.</p>	
4.4	<p>Would you expect your institution to have to cope with any impediments in the case of a rate calculated using the backward-looking last reset methodology for retail mortgages, consumer loans and SME loans? (yes / no / no opinion)</p>	No opinion
	<p>Please indicate whether you are (representing) a lender or a borrower. (Lender/borrower)</p>	

	<p><b>Please elaborate</b> on the reasons for your answer and, if your reply was affirmative, please specify what those impediments could be, and whether/how these impediments could be addressed.</p>	
<b>Current accounts (Section 5.3.3)</b>		
5	<p>Do you agree that the backward-looking payment delay methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for EURIBOR for current accounts linked to EURIBOR? (yes / no / no opinion)</p>	No opinion
	<p><b>If not</b>, what alternative methodology would you propose? (Forward-looking / Backward-looking lookback period / Backward-looking last reset / Another alternative)</p>	
	<p><b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	
<b>Trade finance (Section 5.3.4)</b>		
6.1	<p>Do you agree with the working group's conclusion that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for trade finance? (yes / no / no opinion)</p>	Yes
	<p><b>If not</b>, what alternative methodology would you propose? (Backward-looking payment delay / Backward-looking lookback period / Backward-looking last reset / Another alternative)</p>	
	<p><b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	We agree with the analysis in the consultation paper. Backward-looking methodologies are not compatible with the upfront discounting of interest which is an essential requirement for trade finance.
6.2	<p>If your reply to Question 6.1 was affirmative, would you agree with the proposal to include: (i) a term structure built using a forward-looking methodology on the first level of the waterfall structure and (ii) a term structure built using the backward-looking last reset methodology on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (yes / no / no opinion)</p>	Yes
	<p><b>If not</b>, what alternative methodology would you propose for the second level of the waterfall? (Backward-looking payment delay / Backward-looking lookback period / Another alternative)</p>	
	<p><b>Please elaborate</b> on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.</p>	As trade finance transactions tend to be short in tenor, use of the last reset methodology would seem appropriate as a second level of the waterfall. Market participants should also be given the option to use one of the other potential alternatives as identified by the ICC workgroup (e.g. central bank / policy rates).
<b>Export and emerging markets finance products (Section 5.3.5)</b>		
7.1	<p>Do you agree with the working group's conclusion that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for the majority of EURIBOR-linked products used for export and emerging markets finance products? (yes / no / no opinion)</p>	Yes
	<p><b>If not</b>, what alternative methodology would you propose? (Backward-looking lookback period / Backward-looking payment delay / Backward-looking last reset / Another alternative)</p>	

	<b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	We agree with the analysis in the consultation paper. In particular, in export finance and emerging market deals, borrowers typically require more than 30 days to make payments of interest and principal (for example, due to approvals needed for payments).
7.2	Do you agree with the working group's conclusion that for some export and emerging markets finance products – those involving sophisticated counterparties and developed markets – an in arrears methodology might be preferable and, in that case, a backward-looking lookback period methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for such export and emerging markets finance products? (yes / no / no opinion)	Yes
	<b>If not</b> , what alternative methodology would you propose?  (Forward-looking / Backward-looking payment delay / Backward-looking last reset / Another alternative)	
	<b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	We agree with the analysis in the consultation paper. There may indeed be borrowers that are sizeable and sophisticated organisations and operating in developed markets who may prefer, when operating in developed markets, to adopt the backward-looking lookback-period methodology to align with their corporate loans and derivatives. This will depend on the circumstances and other counterparties involved (as there can be a number of counterparties to consider in export finance transactions).
7.3	If your reply to Question 7.1 was affirmative (and/or your response to Question 7.2 was negative), would you agree with the proposal to include (i) a term structure built using a forward-looking methodology on the first level of the waterfall structure and (ii) a term structure built using the backward-looking last reset methodology (up to three-month tenors) on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (yes / no / no opinion)	Yes
	<b>If not</b> , what alternative methodology would you propose for the second level of the waterfall?  (Backward-looking payment delay / Backward-looking lookback period / Another alternative)	Another alternative
	<b>Please elaborate</b> on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.	Whilst we broadly agree with the proposal, there should be flexibility to use another robust alternative (such as a central bank rate). This is because six-month tenors can be common in emerging market/export finance transactions (for example, to align with principal repayments which are often set at six months due to the OECD consensus on export credits or to give sufficient time for payments). As there are issues with using a six-month tenor with the last reset methodology, it is important to have an additional alternative for parties needing a six-month tenor.
<b>Debt securities (Section 5.3.6)</b>		
8	Do you agree that the backward-looking lookback period would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for EURIBOR-linked debt securities? (yes / no / no opinion)	No opinion
	<b>If not</b> , what alternative methodology would you propose?  (Forward-looking / Backward-looking payment delay / Backward-looking last reset / Another alternative)	
	<b>Please elaborate</b> on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	
<b>Securitisations (Section 5.4.7)</b>		
	Do you agree that for those securitisations that will include underlying assets for which the working group has identified the backward-looking lookback period as the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback (e.g. syndicated loans, business loans and debt securities), it would be advisable to include the same EURIBOR fallback measure? (yes / no / no opinion)	Yes

9.1	<p>If not, what alternative methodology would you propose?</p> <p>(Backward-looking payment delay / Backward-looking lookback period / Backward-looking last reset / Another alternative)</p>	
	<p>Please elaborate on the reasons underlying your answer, also taking into account possible interactions among asset classes and related instruments.</p>	<p>We agree with the analysis in the consultation paper. In particular, due to the inherent interrelationship with underlying assets it would be advisable to include the same EURIBOR fallback measure as the underlying asset to avoid mismatches and basis risk.</p>
9.2	<p>Do you agree that for those securitisations that will include underlying assets for which the working group has identified the forward-looking methodology as the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback (e.g. mortgages and SME loans), it would be advisable to include the same waterfall structure as a EURIBOR fallback measure?</p> <p>(yes / no / no opinion)</p>	<p>Yes</p>
	<p>If not, what alternative methodology would you propose?</p> <p>(Backward-looking payment delay / Backward-looking lookback period / Backward-looking last reset / Another alternative)</p> <p>Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	<p>We agree with the analysis in the consultation paper. In particular, due to the inherent interrelationship with underlying assets it would be advisable to include the same EURIBOR fallback measure as the underlying asset to avoid mismatches and basis risk.</p>
<b>Transfer pricing models (Section 5.3.9)</b>		
10.1	<p>Do you agree with the working group's conclusions that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for transfer pricing models for non-financial companies?</p> <p>(yes / no / no opinion)</p>	<p>No opinion</p>
	<p>If not, what alternative methodology would you propose?</p> <p>(Backward-looking payment delay / Backward-looking lookback period / Backward-looking last reset / Another alternative)</p>	
	<p>Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	
10.2	<p>Do you think that the backward-looking lookback period would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for transfer pricing models for financial companies?</p> <p>(yes / no / no opinion)</p>	
	<p>If not, what alternative methodology would you propose?</p> <p>(Backward-looking payment delay / Backward-looking last reset / Another alternative)</p>	
	<p>Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.</p>	
	<p>If your reply to Question 10.1 was affirmative (and/or your response to Question 10.2 was negative), would you agree with the proposal to include (i) a forward-looking term structure methodology on the first level of the waterfall structure and (ii) the backward-looking last reset term structure methodology on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available?</p> <p>(yes / no / no opinion)</p>	

10.3	<p>If not, what alternative methodology would you propose for the second level of the waterfall? (Backward-looking payment delay / Backward-looking lookback / Another alternative)</p>	
	<p>Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.</p>	
<b>Investment funds (Section 5.3.10)</b>		
11.1	<p>Which methodology – forward-looking or backward-looking lookback period – would be most appropriate for building a €STR-based term structure that could function as a EURIBOR fallback provision for benchmarking purposes for investment fund? (Forward-looking / Backward-looking lookback period / Another alternative)</p>	
	<p>Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.</p>	
11.2	<p>If you indicated the forward-looking methodology in Question 11.1, would you agree with the proposal to include (i) a forward-looking term structure methodology on the first level of the waterfall structure and (ii) the backward-looking lookback period term structure methodology on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (yes / no / no opinion)</p>	
	<p>If not, what alternative methodology would you propose for the second level of the waterfall? (Backward-looking payment delay / Backward-looking last reset / Another alternative)</p>	
	<p>Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.</p>	
<b>Asset classes and use cases</b>		
12	<p>Are there any other asset classes or use cases that have not been covered by this consultation paper that you think should be considered by the working group? (yes / no / no opinion)</p>	Yes
	<p>If the answer is “yes”, please elaborate on the reasons for your answer and what €STR-based term structure methodology you would recommend as a potential EURIBOR fallback measure.</p>	<p>A use case should be considered for those products which are not able to use a backward-looking rate due to legal restrictions (e.g. on compounding). Islamic finance is another asset class to be considered and also as a use case for a forward-looking term rate. This is because the principle of "gharar" (uncertainty) requires the interest rate to be known at the outset.</p>
<b>Spread adjustment (see Chapter 6)</b>		
13	<p>Please indicate whether you agree with the conclusion of the working group that the historical mean/median spread adjustment methodology should be the preferred approach for cash products. (yes / no / no opinion)</p>	Yes
	<p>If not, please rank the approaches discussed in Section 6.2. (dynamic spread adjustment methodology / forward spread adjustment methodology / spot spread adjustment methodology)</p>	
	<p>Please explain why you prefer one methodology to another and what you think the main drawbacks are for the less preferred methodologies.</p>	

14	Do you believe that having the same spread adjustment methodology for EURIBOR-linked cash products and other IBOR-linked cash products (the ISDA five-year historical median recommended by the ARRC and by the working group on sterling risk-free reference rates) is: a) essential; b) highly desirable; c) useful; d) unimportant.	a)
	Please elaborate on the reasons for your answer.	The ISDA five-year historical median methodology has had clear support, both across jurisdictions and asset classes, as being a fair way of determining a spread adjustment for fallbacks and is well understood. Alignment between jurisdictions and asset classes is essential to avoid any claims of unfair treatment of customers and differing approaches to spread adjustments in multicurrency contracts.
15	Some cash products may fall back on backward-looking term rates fixing in arrears, while others may fall back on a forward-looking term rate or a backward-looking term rate fixing in advance. Therefore, do you agree that the spread adjustment value for each tenor should be the same, irrespective of whether the products fall back on a forward-looking or a backward-looking rate? (yes / no / no opinion)	Yes
	Please elaborate on the reasons for your answer.	This is consistent with the approach of the ARRC and Sterling Working Group. As noted above, we think that consistency is essential. In addition, in the long run, differences between expected and realised rates can be expected to balance out. Trying to calculate a different spread adjustment value for forward-looking term rates would add additional complexity to the calculation of the historic median. It is also unlikely that a long history of compliant forward-looking OIS term rates could be produced for this type of calculation.
16	With regard to whether the historical €STR market data are sufficient to compute any adjustment spread, do you agree that, even though there might not be sufficient €STR historical market data, data can be obtained by using historical EONIA market data with a fixed spread of 8.5 bps between the two indices, given that EONIA has been recalibrated to €STR + 8.5 bps? (yes / no / no opinion)	Yes
	Please elaborate on the reasons for your answer.	Given the fixed spread between EONIA and €STR (which itself was based on historical data, is calculated and published by the ECB based on Working Group recommendations and also adopted by EMMI), we agree that historical EONIA market data can be used for this purpose.
17	Do you think it is useful that for some cash products a one-year period would be applied for transition to the historic mean/median spread adjustment methodology? (yes / no / no opinion)	No
	Please give the reasons for your answer, and explain for which cash products the above might, or might not be, useful.	This would be inconsistent with the approach of ISDA, the ARRC (except for US consumer products) and the Sterling Working Group. This would not be useful for syndicated loans given the need for consistency (particularly for multicurrency products). We would note that respondents to the ISDA consultation cited operational difficulty and complexity associated with a transitional period, that any costs would outweigh any benefits, and that it would not help insulate against any potential value transfer. Whilst the ARRC has selected a one-year transition period for US consumer products, it has not yet determined whether an administrator is able to produce this spread.
<b>Calculation methodologies and conventions (see Chapter 7)</b>		
18	Do you agree with the working group's conclusion that it would be useful for market participants to have access to a publication of the spread adjustment and/or an all-in rate that consists of (i) compounded €STR rates with an observation shift as proposed in Chapter 5, and (ii) a spread adjustment as proposed in Chapter 6? (yes / no / no opinion)	Yes
	Please elaborate on the reasons for your answer.	The publication of the spread adjustment will be important for market participants to have transparency of the spread levels. The all-in rate would not be so useful for syndicated loans (given the preference for the use of the lag methodology and daily calculations), but we recognise that this would be helpful for other end users (particularly retail consumers).
19	Do you agree with the working group's view that if a floor were included, it should be on the sum of the €STR compounded rate plus the spread adjustment? (yes / no / no opinion)	Yes
	Please elaborate on the reasons for your answer.	Whilst we agree that this approach is appropriate for the majority of asset classes, it is important to retain flexibility for the application of daily floors for certain products. This is noted in the consultation paper, but should be stated within any recommendation itself (e.g. "It is recognised that certain market participants or asset classes may decide to use a daily floor"). <u>This would help minimise confusion amongst loan market participants or a perception that the Working Group proposals are not</u>
	Do you agree that, in general, compounding the rate is the best calculation methodology? (yes / no / no opinion)	Yes

20	Please elaborate on the reasons for your answer.	Compounding the rate is the method that has been used to date in the loan market for RFR loans. It is also consistent with the derivatives market and the methodology for the proposed publication of compounded €STR. Compounding the balance raises concerns in respect of restrictions on compounding of interest in certain jurisdictions.
21	Do you agree that the backward-looking lookback period term structure methodology with an observational shift is the preferable calculation methodology? (yes / no / no opinion)	No opinion
	Do you agree that the lag approach is a viable and robust alternative to the observation shift? (yes / no / no opinion)	Yes
	Please elaborate on the reasons for your answer.	It is important that both approaches are recognised for the reasons stated in the consultation paper. Observation shift is consistent with derivatives and the methodology for the proposed publication of compounded €STR, so would allow consumers to use a published compounded rate or index. However, the lag needs to be a recognised alternative for international consistency as this is the preferred methodology in the US and UK for loans.