



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Benchmarks reform – Update on ongoing work in the euro area

Presentation to the ICMA and SIX Joint
conference - LIBOR to SARON: are you ready?
Zurich, 1 November 2018

Disclaimer: personal views expressed in this presentation may not reflect the views of the ECB.

Why is the ECB involved in benchmark reforms?

How does ESTER look like?

Transition to ESTER and ESTER-based term rates

Divergences and similarities with UK, US and Switzerland

Legal options and main challenges - WG request for an extension of the EU Benchmark regulation

EONIA reform efforts at risk – the ECB stepped in

- EONIA low underlying volumes, high panel concentration: not compliant with the EU Benchmark Regulation (BMR).
- Banks were leaving the EONIA panel
- Given the systemic importance of benchmark rates reform, ECB announced in September 2017:
 - The production of an overnight unsecured rate by October 2019 (ESTER)
 - The setup of the Working Group on risk-Free Rates (“WG on RFR”) led by ING, with ECB in charge of Secretariat
- EMMI and the panel banks announced the end of reform efforts early 2018: **EONIA cannot be used in new contracts as of 1/1/2020.**

Main features of ESTER

Scope: unsecured overnight deposits to measure borrowing costs

Calculation: weighted average, trimming 25%

Based on ECB MMSR: daily reporting of 52 euro area banks

Governance and processes: ESTER published by 9:00 am Frankfurt time

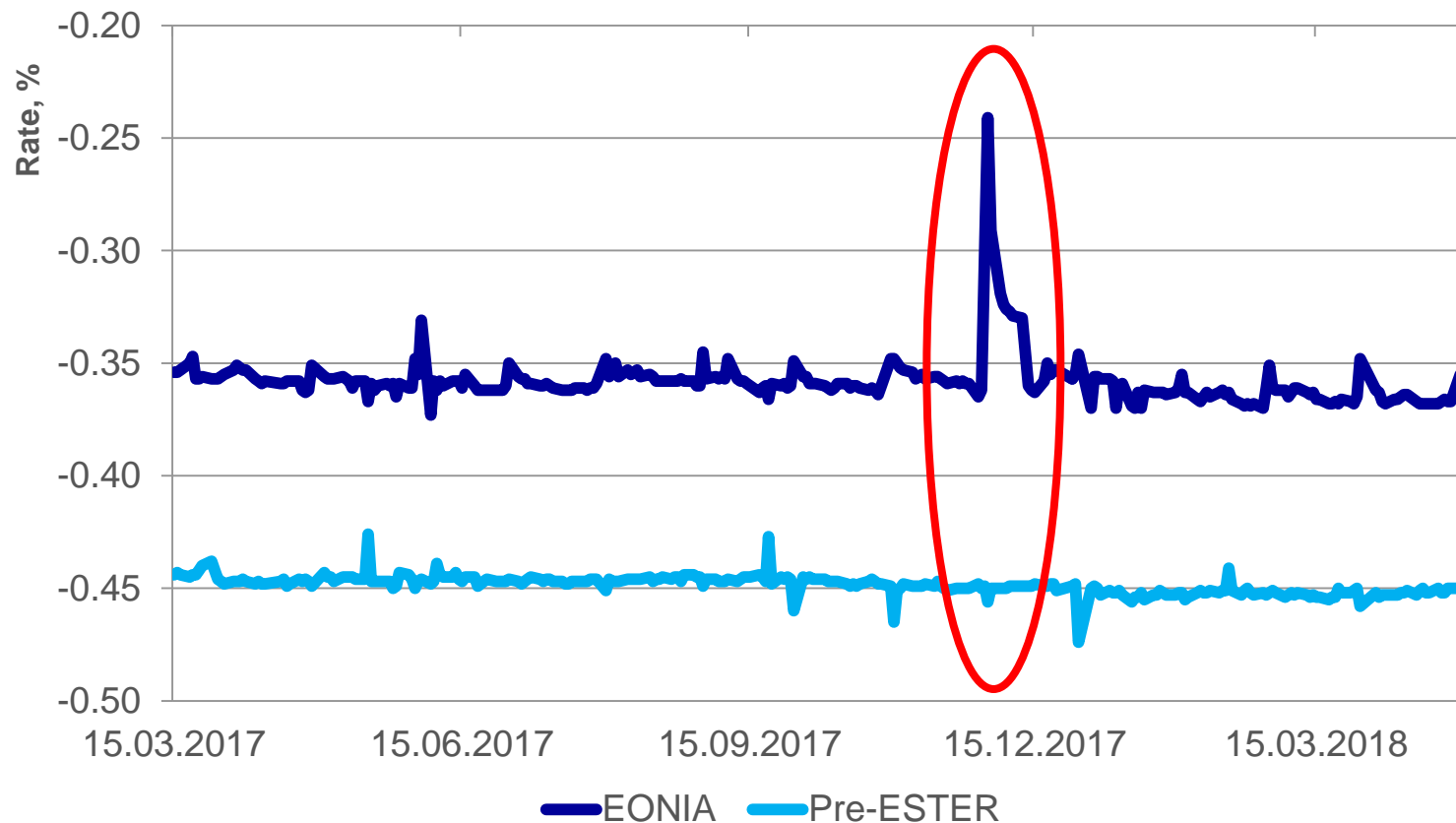
Data sufficiency policy: contingency triggers (20 banks, 75% top 5 banks' concentration ratio)

Rate published daily by October 2019
Pre-ESTER publications since 28 June

Do you want to know more?

Parameters more detailed in the statement of methodology
https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/share_d/pdf/ecb.ESTER_methodology_and_policies.en.pdf

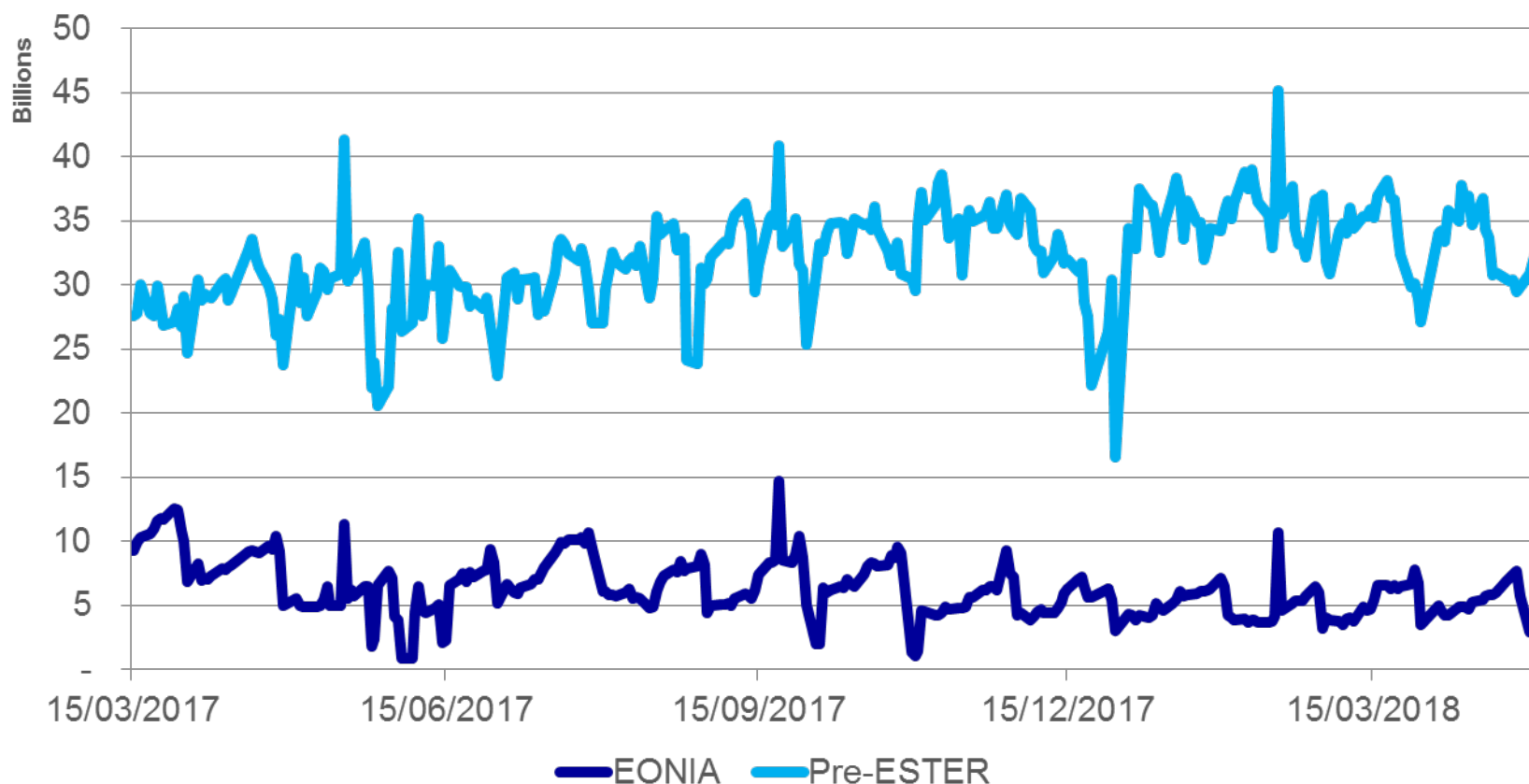
ESTER is quite stable



Source: ECB pre-ESTER publication

- Rate reacts to market factors (Excess Liquidity, rate falls at quarter-ends)
- While being less vulnerable to outliers
- Pre-ESTER (post corrections) very similar to ESTER (based on 7:00 data)

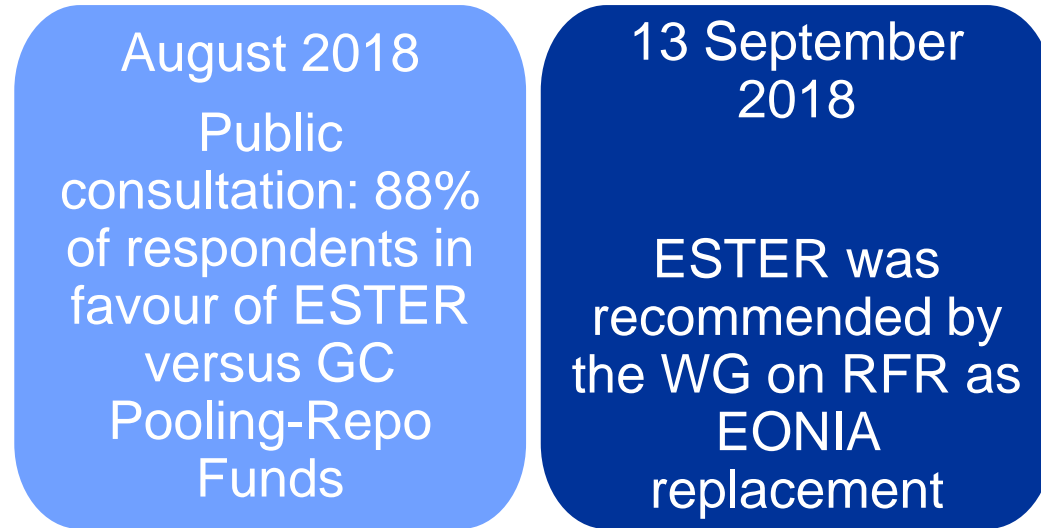
Volumes are steady



Source: ECB pre-ESTER publication

- **ESTER volume remains in a range at high levels, falls at quarter-ends**
- **Rate behaviour and volume represent a good compromise**
- **Clear conceptual logic to measure borrowing costs**

ESTER chosen by the WG on euro RFR in September



ESTER was preferred on the grounds of :

- its unsecured nature;
- compilation methodology;
- low volatility;
- ECB – an EU institution – is the administrator.

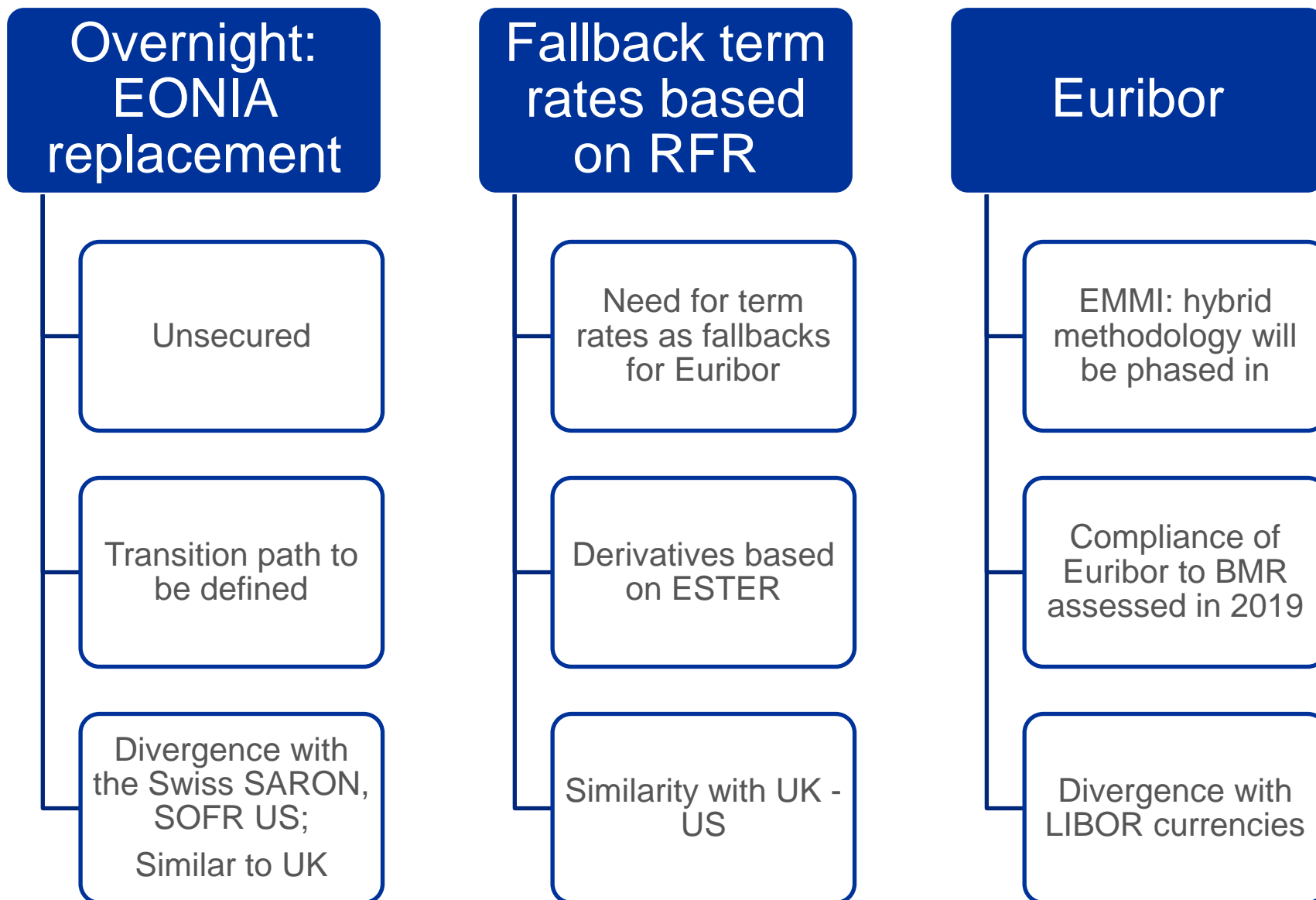
Implications for the euro benchmarks

Transition from EONIA to ESTER

- Several transition paths under discussion
 - Market-led transition, either with or without a transition period, after which EONIA would be discontinued
 - Successor rate transition path, either as a “pure succession” (whereby ESTER succeeds EONIA) or with EONIA as a “tracker” of the new euro RFR (i.e. EONIA methodology indexed to ESTER)
- Recommendation on EONIA transition path planned for December 2018.

Term rates based on ESTER

- Several methodologies under review
 - Futures-based
 - OIS transactions-based
 - OIS quotes-based
 - Composite methodology combining transactions and quotes
 - Backward-looking methodologies
- Public consultation around year-end 2018.



Legal options to ensure smooth EONIA transition and Euribor reform

- Bilateral agreements
- Multilateral agreements (protocols, standards etc)
- Regulatory amendments involving European or National law
- Public authorities' support (statements, speeches)

=> No easy or mutually exclusive options

ESTER published by October 2019 + transition before 1/01/2020 makes the transition “at best challenging or too tight” (WG minutes).

BMR PROLONGATION BY 2 YEARS REQUESTED BY THE
WORKING GROUP ON EURO RISK-FREE RATES