

Introductory remarks

Second roundtable on euro risk-free rates

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Steven Maijoor
Chair
European Securities and Markets Authority

Good morning Ladies and Gentlemen,

It is a great pleasure for me to participate in this second roundtable on euro risk-free rates. Events like this are crucial to strengthening benchmarks users' awareness of developments in the interest rates landscape. I would like therefore to thank the ECB for hosting today's event and inviting me to contribute today.

In February 2018, I gave the concluding remarks at the first meeting of the working-group on the euro risk-free rates here in Frankfurt. Since then, important milestones have been achieved by this working-group in the form of recommendations to the public.

While the Alternative Reference Rates Committee was first convened by the FED in 2014 and the Working Group on Sterling Risk-Free Reference Rates was established by the Bank of England in 2015, the working-group on the euro risk-free rates first met in early 2018. I can recall that at the time there was a common feeling, among the working group members and observers, of lagging behind the other main jurisdictions.

Thanks to the joint effort by the private and public sectors, that feeling is now in the past. In the last 18 months the working-group has put in motion a process of reform of interest rates in the eurozone that has gained momentum, producing recommendation after recommendation, and has attracted the attention of market participants in the EU and abroad.

While the working-group should be satisfied with the results achieved already, we should not underestimate the major challenges still lying ahead on the path towards reform.

Let me say a few words about what ESMA considers the main two challenges that the working-group must face, and overcome, in the short and medium term. Benoit Coeuré already referred to them in his opening remarks.

ESMA's contribution to the working-group has been focusing predominantly, but not only, on regulatory issues. This is because ESMA is a standard setter for benchmarks in the EU. In relation to the Benchmarks Regulation, we have given technical advice to the European Commission, issued (draft) technical standards, published almost 40 Q&As, and we participate in the colleges of Euribor, EONIA and LIBOR. We also maintain the register of authorised administrators and 3rd country benchmarks and support national authorities with the implementation of the Benchmarks Regulation.

Therefore, it is natural that, with ESMA's regulatory perspective, our main aim now is the adoption by EU supervised entities of fallbacks in new and existing contracts. This is necessary to ensure that the relevant provisions of the Benchmarks Regulation are complied with by benchmark users. The goal of these provisions is to increase contractual robustness and enhance financial stability in the EU financial system. We know that benchmarks play a central role in financial markets, and that they are also an important building block of contracts, including retail contracts like mortgages. Fostering a wide adoption of reliable and effective fallbacks, across different asset classes, would surely promote stable and orderly financial markets that can deal with *worst-case scenarios* in relation to benchmarks. This, in turn, would enhance both the protection of investors in benchmarks and their clients, making sure that their interests are safeguarded in all scenarios.

As regulators, we are aware that the implementation of the fallback provisions has been slow to date, that is why this morning I would like to reinforce the message about the importance of introducing fallbacks in new and existing contracts.

The working-group has already started work on what is arguably the most important fallback rate in the EU, the one for EURIBOR. The successful development of functional fallbacks for EURIBOR is crucial for the working-group in order to consider its mission fulfilled. As mentioned by Benoit Coeuré, the work on fallbacks for EURIBOR should be the core topic for the working-group in the upcoming months.

The authorisation of EURIBOR in July 2019 by the FSMA is certainly a key step forward, confirming that the new hybrid methodology is robust, resilient and transparent. I believe that the new hybrid methodology measures the same underlying interest of the previous methodology of EURIBOR, just in a better, BMR-compliant way. Indeed, the authorisation of EURIBOR allows EU supervised entities to continue using EURIBOR for the foreseeable future.

However, just like for all other benchmarks authorised under the Benchmarks Regulation, fallbacks are needed for EURIBOR because users, and their clients, should be able to know in advance what will happen to their contracts if EURIBOR ceases to be provided..

The public sector is aware that identifying effective fallbacks for EURIBOR and including them in contracts is a challenging task, also because of the extensive economic, legal and operational implications. However, we also believe that the working-group has proven itself to be ready for this challenge, considering its *track record* of key achievements.

First steps on the path to sound EURIBOR fallbacks have already been taken, notably the working-group recommendation on a specific forward-looking term-structure methodology based on the *Euro short-term rate* (€STR). Later this morning members of the working-group will discuss in detail all the main issues surrounding the identification and adoption of €STR-based term-structures that could serve as EURIBOR fallbacks, and I am sure you will find the debate very useful.

This brings me to the second challenge where ESMA considers the role of the working-group to be decisive.

Thanks to the good work done by the ECB, as of next week the eurozone will have a new and reliable interest rate that is based exclusively on transactions, €STR. While the ECB will provide market participants with a new rate that meets the highest standards in terms of transparency and governance, it will be then up to market forces to translate €STR into a success story.

I believe that the working-group can play a key role in the broad adoption of €STR. The role of €STR goes clearly beyond being the base rate for fallbacks to EURIBOR or EONIA.

In a few days the transition from EONIA to €STR will start on the basis of the recommendations by the working-group. Derivatives markets will play a very relevant role in upgrading the role

of €STR and in this context the involvement of market infrastructures, such as CCPs, is a high-priority. The liquidity of €STR markets is a crucial factor for the calculation of forward-looking term-structures, together with sufficient sources of relevant data allowing the actual computation of the term-structures. Trading venues, such as multilateral trading facilities, must also be part of this exceptional transition to €STR. The issue of establishing a liquid €STR market and the transition of EONIA to €STR will be covered in detail today by the working-group experts, and they will help you in understanding all the pieces of this puzzle.

Before leaving the floor to the Chair of the working-group, Steven van Rijswijk (*Chief Risk Officer of ING*), I would like to make a final remark on the evolving regulatory environment.

By the end of the year, the Benchmarks Regulation will be amended by two EU legislative texts. The first focuses on *climate benchmarks*, and this text will introduce new types of benchmarks that would help fostering sustainable finance in the EU. This text will also amend the Benchmarks Regulation in a way that the transitional period for critical benchmarks, such as EURIBOR and EONIA, and for third country benchmarks will be extended by two years and end on 31 December 2021. I am sure this amendment will be welcomed by all of you.

The second text amending the Benchmarks Regulation is the *ESAs Review package*, which includes an enhanced role for ESMA on benchmarks. Indeed, by the end of 2021, the supervision of 3rd country administrators recognised in the EU and the supervision of critical benchmarks will be ESMA's responsibility. So, public authorities will also be subject to a transition as the supervision of EURIBOR will pass from FSMA to ESMA. At ESMA we are looking forward to building on the FSMA's pioneering work in relation to EURIBOR and we are working internally to make sure this transition is smooth, timely and effective.

To conclude, the today's roundtable is an excellent opportunity to understand thoroughly the work of the working-group and the transition to risk-free rates in the eurozone. The high level of expertise and the wide range of institutions present today is a tangible sign that we are moving in the right direction.

Finally, a personal thanks to all the panellists, members of the working group and public authorities involved (ECB, European Commission, FSMA and ESMA) for participating in this roundtable. A final thanks to the ING team for the leadership and direction provided as Chair of the working-group on euro risk-free rates.