

Ongoing Reforms and Challenges ahead

Conference on the adaptation of interest rate benchmarks to the new European regulation on benchmarks

29 October 2019, CNMV (Madrid, Spain)

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Good afternoon Ladies and Gentlemen,

It is my great pleasure to participate in this conference on interest rate benchmarks organised by the CNMV. These types of events are crucial to strengthening the awareness of benchmarks users about developments in the interest rates landscape and the Benchmarks Regulation. Therefore, I would like to thank the CNMV for hosting today's event and inviting me.

Today I would like to speak about ESMA's role under the Benchmarks Regulation and more generally in the global reform of interest rates.

The Benchmarks Regulation was published in the EU Official Journal in June 2016 and ESMA has contributed in many ways to the implementation of this Regulation. In 2017 we developed 14 technical standards specifying a number of key provisions dealing with core aspects of the Regulation, such as the quality of input data, the transparency of the methodology and the characteristics of the oversight function. In the same year we started to publish Q&As on the Regulation that clarified to market participants how it functions. We have now published almost forty Q&As regarding benchmarks and will continue to do so as needed.

When the Regulation became applicable in January 2018, ESMA started publishing the *ESMA*

register of administrators and third country benchmarks on its website. This is an essential tool for supervised entities as it identifies the benchmarks that they can use once the transitional period ends. As of today, the ESMA register includes around 60 administrators and more than 80,000 third country benchmarks. Both numbers are set to increase in the coming months.

ESMA also plays a crucial role in the implementation of the 3rd country regimes under the Regulation. Following the equivalence decision by the European Commission (Commission) in respect of the Australian benchmark regime, I have recently signed a Memorandum of Understanding with the Chair of the Australian Securities and Investments Commission (ASIC). This Memorandum of Understanding sets out the cooperation arrangements between the European Union (EU) and Australia in respect of the oversight of Australian benchmarks. In the next weeks we expect to finalise a similar Memorandum of Understanding with the Monetary Authority of Singapore, and more should follow next year.

ESMA also provides National Competent Authorities with advice every time they recognise 3rd country administrators, or when Authorities identify a benchmark as a *critical benchmark* at national level, such as WIBOR in Poland or STIBOR in Sweden.

Additionally, a key role for ESMA under the Regulation is being a member of the colleges of European critical benchmarks. There are currently two colleges: the one in charge of LIBOR, chaired by the UK Financial Conduct Authority, and the one in charge of both EURIBOR and EONIA, chaired by the Belgian Financial Services and Markets Authority, the FSMA. ESMA has been a member of both colleges since their creation, promoting effective, efficient and consistent functioning of these two colleges.

As you can tell the Regulation has kept us very busy in recent years and will continue to do so in the future, with an upcoming review of the Regulation by the Commission and more technical standards to be drafted by ESMA. But in parallel to this regulatory work, ESMA has been and is an active player in the on-going global reform of interest rates.

We are a member of the Financial Stability Board's *Official Sector Steering Group*, which gathers experts on risk-free rates from all continents and has been one of the main engines behind the reform of interest rates in many jurisdictions. We also participate in the IOSCO Task-Force on Financial Benchmarks thanks to which, back in 2013, IOSCO published the *IOSCO Principles for Financial Benchmarks* on which the EU's Benchmarks Regulation is clearly based.

Towards the end of 2017, we decided to establish in the EU the *EUR Working Group on euro risk-free rates* together with the ECB, the Commission and the FSMA. The Working Group first met in February 2018 and is composed of leading European banks, including several Spanish banks. These Spanish banks have taken the lead in some of the most crucial workstreams within the Working Group, in particular the challenging legal workstream is chaired by BBVA with the support of ESMA as secretariat.

We already heard earlier today how the Working Group has achieved remarkable results in the last 18 months. This success was possible thanks to the joint efforts of the private and public sectors. In conjunction with the results achieved by the Working Group, the ECB decided to publish a new overnight, unsecured rate: the Euro short-term rate, or €STR. This has been identified by the Working Group as the risk-free rate for the euro-area.

In the EU €STR arguably represents the central piece of the interest rate puzzle. It has been regularly published by the ECB since the 2 October this year and its production is widely recognised as a great achievement not only for the ECB, but also for all public and private stakeholders involved in the project.

Although the first publication of €STR was less than a month ago, market participants are reacting very rapidly to this new reality. A large clearing house is already offering clearing of Euro-denominated swaps benchmarked to €STR, while the European Investment Bank already issued 1 billion of short-term bonds linked to €STR. It seems that we already have all the elements to make €STR a success story.

Together with the publication of €STR, at the beginning of October the value of EONIA became anchored to the value of €STR. The smooth transition to the new methodology of EONIA is an important accomplishment for the Working Group, who first proposed the new methodology which was subsequently adopted by the EONIA administrator, EMMI.

EMMI has applied for authorisation of EONIA a few weeks ago and the FSMA is working with ESMA and the College to finalise the assessment of the EONIA application before the end of the year.

Let me now speak a little about EURIBOR. I know that EURIBOR is followed with great interest in Spain, due to the large number of mortgages in Spain that are benchmarked to EURIBOR. This means that EURIBOR's fate has a direct impact not only on Spanish market participants and professional investors but also on millions of Spanish citizens, and ESMA is aware of that.

The administrator of EURIBOR, EMMI, started the implementation of the new hybrid EURIBOR methodology in the first half of this year. In July 2019 the Belgian FSMA and the college authorised EURIBOR under the Regulation. This authorisation is a key step forward, as it confirms 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.

There is a clear commitment by the administrator of EURIBOR and the public sector to sustain EURIBOR and the work will continue in the next years to ensure that the panel of banks contributing to EURIBOR is stable and representative. While the support for EURIBOR by all stakeholders should not be underestimated, there is an additional message I would like to share with you today.

The Regulation requires EU supervised entities to produce and maintain robust written plans setting out the actions they would take if a benchmark they are using materially changes or ceases to be provided. Supervised entities should reflect these written plans in the contractual relationship with their clients by means of fallback clauses introduced in the relevant contract.

Just as for all benchmarks authorised under the Regulation, fallback clauses are needed for EURIBOR too. This is 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 Working Group is about to publish an important recommendation regarding the implementation of fallback provisions in contracts referencing EURIBOR and I would invite all of you to carefully consider this upcoming recommendation.

Let me now conclude with a short remark about the future.

While we should all be satisfied with the results achieved already, we should not underestimate the major challenges still lying ahead on the path to reform. ESMA is committed to continue its role within the Working Group and help to finalise the interest rate reform in the EU.

From a Benchmarks Regulation perspective, ESMA's duties will be enhanced by the *ESAs Review* legislative text, that will soon amend the Regulation. By the end of 2021, the supervision of 3rd country administrators recognised in the EU and the supervision of EU critical benchmarks will be ESMA's responsibility. We are already working to prepare ourselves



for the new supervisory tasks and are committed to managing this transition in a smooth, timely and effective way. We are looking forward to building on the FSMA's pioneering work in relation to EURIBOR supervision and to ensure that it continues to be a sound and reliable benchmark in the interest of all Eurozone countries.

Finally, before leaving the floor to Sebastián Albella, the CNMV's Chair, I would like to express again my gratitude to the CNMV for taking the initiative to organise this conference and increase public awareness about the interest rate reform.