

Working Group on Euro Risk-Free Rates – Work Programme for 2022/23

1. Introduction

2021 was a landmark year for benchmark reform with the five critical LIBOR benchmarks and EONIA either ceasing, continuing in an unrepresentative form, or still being available but only for limited use in new contracts after 2021. EURIBOR is not scheduled to be discontinued and its provision and use are subject to the requirements of the EU Benchmarks Regulation.

The Working Group on EUR Risk Free Rates (the “WG”) continues, and in conjunction with the working group’s terms of reference (*refer to appendix 1*), this document sets out the work programme for 2022/2023 that builds upon the solid foundation developed by the original WG that included:

- Recommendation of the euro short-term rate (€STR) as the risk-free rate for the euro area
- Recommendations to support the transition from EONIA to €STR
- Recommendations on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates.

To continue contributing to the reform efforts in the euro area and facilitate coordination between private sector and public sector efforts in this respect, the WG will focus amongst others on:

- fostering the use of €STR in a diverse range of financial products
- assessing the level of implementation and potential impediments to the timely adoption of EURIBOR fallback provisions by EU supervised entities
- identifying potential issues related to the impact of LIBOR discontinuation in the EU
- coordinating on cross currency issues with similar working groups in other jurisdictions
- informing, raising awareness and educating users about interest rates reform in the EU

For each of the above areas of focus, the WG might also consider the publication of corresponding recommendations, best practices, guidance or other types of communications.

More granular details on the WG’s work programme for 2022/2023 are set out in section 2 below.

2. Delivery of Mandate

2.1 Foster the use of €STR in a diverse range of financial products – Start H1 2022

The cessation of EONIA on 3rd Jan 2022 has necessitated the adoption of €STR in any products that were utilising EONIA. Given the overnight nature of the rate that has been limited primarily to those products that required an overnight rate including, but not limited to; interest rate swaps, collateral arrangements and swingline facilities. There have been some early adopters in bond markets issuing €STR based coupons but so far this has been limited to European agencies.

The cessation of IBA administered LIBORs at the end of 2021, coupled with the joint statement on 30 November 2020 from the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, that it is expecting that

market participants do not enter into new USD LIBOR contracts from 1 Jan 2022, have provided impetus for the adoption of €STR into contracts, particularly for multi-currency transactions. For example; the EUR vs USD cross-currency swap market now trades SOFR vs €STR in addition to positive developments in the trading volumes of €STR based interest rate swaps.

An increased use of €STR in financial products in 2022 will be beneficial to further develop liquidity of derivatives products referencing €STR, which will also support the publication of a forward-looking term rate based on €STR to be used for fallback provision.

The working group will assess whether the preparation and communication of standard market practice and associated technical requirements to support new business in €STR is required. In addition, the working group will assess whether the build out of market infrastructure to support a broader range of financial products (including loans, bonds and derivatives) is appropriate or required.

2.2 Assess the availability of Euribor fallback rates to be published by one or more administrator – Start H1 2022

Some administrators already provide or are considering providing EURIBOR fallback rates. For example, an €STR based credit adjustment spread for EURIBOR is already available based on the median 5 year spread difference between EURIBOR and €STR compounded in arrears for each reference rate.

Following-up on the call for expression of interest in October 2019, take stock of developments in the meantime and reach out to administrators or index providers and request a status update on work already performed to support forward looking €STR term rates for adoption of fallbacks aiming to initiate and conclude the process in 2022.

Assess whether other initiatives are needed in relation to the Credit Adjustment Spread and/or all-in rate, for instance to launch a renewed call for expression of interest.

2.3 Identify impediments to the timely adoption of Euribor fallback provisions and make recommendations to overcome them – Start H1 2022

Assess progress on implementation of WG Euribor fallback recommendations.

Perform lessons learnt analysis on LIBOR settings ceasing on 31 December 2021 to inform further actions on how to facilitate the implementation of EURIBOR fallback recommendations published in May 2021. Distil actions into WG recommendations to progress adoption.

Consider publication of refined WG recommendations.

2.4 Identify potential issues related to the discontinuation of USD LIBOR in the EU and recommend viable solutions – Start H2 2022

Undertake a read-across analysis from US market practice as it evolves to ensure viability of USD LIBOR transition in the European Union. Determine next steps and actions.

Furthermore, determine potential financial stability risk arising from USD LIBOR cessation on 30th June 2023 and agree mitigating actions.

Determine the risks associated with the cessation of synthetic LIBOR settings in the EU and propose solutions.

2.5 Coordinate with RFR Working Groups in other jurisdictions - Start H1 2022

Consider use of benchmarks across different jurisdictions with different regulatory frameworks and different cessation dates or terms of use and coordinate solutions with other RFR Working Groups.

3. Facilitation

To deliver the 2022/2023 book of work the WG will use the following methods:

- Formation of subgroups/taskforces when dealing with the most technical issues
- Engagement with industry bodies where beneficial
- Conducting surveys across members, public consultations
- Information Provision through newsletter, market practice guidelines, case studies and supporting technical documents as required.

4. Conclusion

Whilst firms have completed their transition after the first material cessation milestones at the end of 2021, it is important to recognise the necessity for continued progress in the benchmark reform across the European Union over the coming years.

The WG work plan takes into account market participants' obligation to comply with Article 28(2) of the [EU Benchmarks Regulation](#), regarding contingency plans in case a benchmark materially changes or ceases to be provided.

In addition to the aforementioned regulatory obligations, in facilitating the use of RFR and the adoption of EURIBOR fallback provision, the work of the WG would also contribute to mitigating risks to financial stability and orderly markets in the EU as well as consumer protection.

Appendix 1 – Important Links

Terms of Reference-

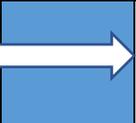
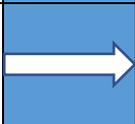
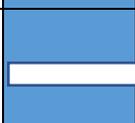
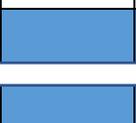
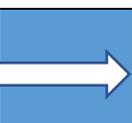
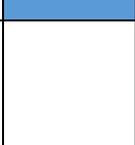
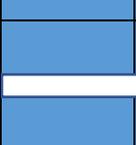
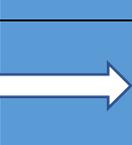
https://www.esma.europa.eu/sites/default/files/library/eur_rfr_wg_tor.pdf

Recommendations by the WG on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates

<https://www.ecb.europa.eu/pub/pdf/other/ecb.recommendationsEURIBORfallbacktriggereventsandESTR.202105~9e859b5aa7.en.pdf>

Appendix 2 – Schedule of Work Programme by Time Period

Reference:	Description:	Timeline:		
		H1 2022	H2 2022	H1 2023

2.1	Foster the use of €STR in a diverse range of financial products			
2.2	Assess the availability of Euribor fallback rates to be published by one or more administrator			
2.3	Identify impediments to the timely adoption of Euribor fallback provisions and make recommendations to overcome them			
2.4	Identify potential issues related to the discontinuation of USD LIBOR in the EU and recommend viable solutions			
2.5	Coordinate with RFR Working Groups in other jurisdictions	