



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Survey replies on forward-looking rates production

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Working group on euro  
risk-free rates

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# Survey of replies

- **Objective**

- Update WG RFR on intended forward-looking fallback rates that could be built by various providers
- Follow-up of the October 2019 WG RFR meeting where 4 providers (EMMI, ICE IBA, Refinitiv, FTSE Russell) had presented possible broad avenues

- **4 potential candidates**

- IHS Markit, EMMI-ICE IBA, Refinitiv, FTSE Russell
- Detailed explanations on envisaged methodologies to compute the rates: data scope, data access, governance, contingencies, timing

# Survey of replies

## Main points

- **Input data:** committed quotes or trades, in OIS (spot and forward) and Futures, which is also aligned with what certain providers already committed to do for UK or US rates, also in terms of **governance**
- **Waterfalls** quite clearly explained in substance
- But in absence of liquid markets it is difficult for providers to have a quantified view on **data sufficiency policies, triggers for the waterfalls and for the contingencies**, and on **representativeness**
- **Transactions-based methodology** on non-€STR products suggest good volumes and participation are achievable BUT include futures transactions, not only OIS
- Once liquidity has moved into €STR products at least for OIS, the various potential providers expect to cover a **large fraction of the market**
- Providers expect their rates would be **IOSCO and BMR** compliant
- **First tests** could start end 2020-start 2021

## WHAT

EMMI/IBA, Refinitiv, FTSE Russell: OIS and Futures, committed quotes from MTFs and exchanges

IHS Markit: OIS and futures trades

Various waterfalls, 3 or 4 levels, including DTC platforms (Refinitiv and FTSE Russell) or futures settlement prices (EMMI-IBA)

Refinitiv: mids based on volume weighted average, median of mids  
Level 4 of waterfall: changes in compounded €STR applied to previous day's rates

Waterfall with 6 levels

## HOW

EMMI/IBA, Refinitiv, FTSE Russell: snapshots at random time windows in the morning

IHS Markit: observed trades past 24 hours

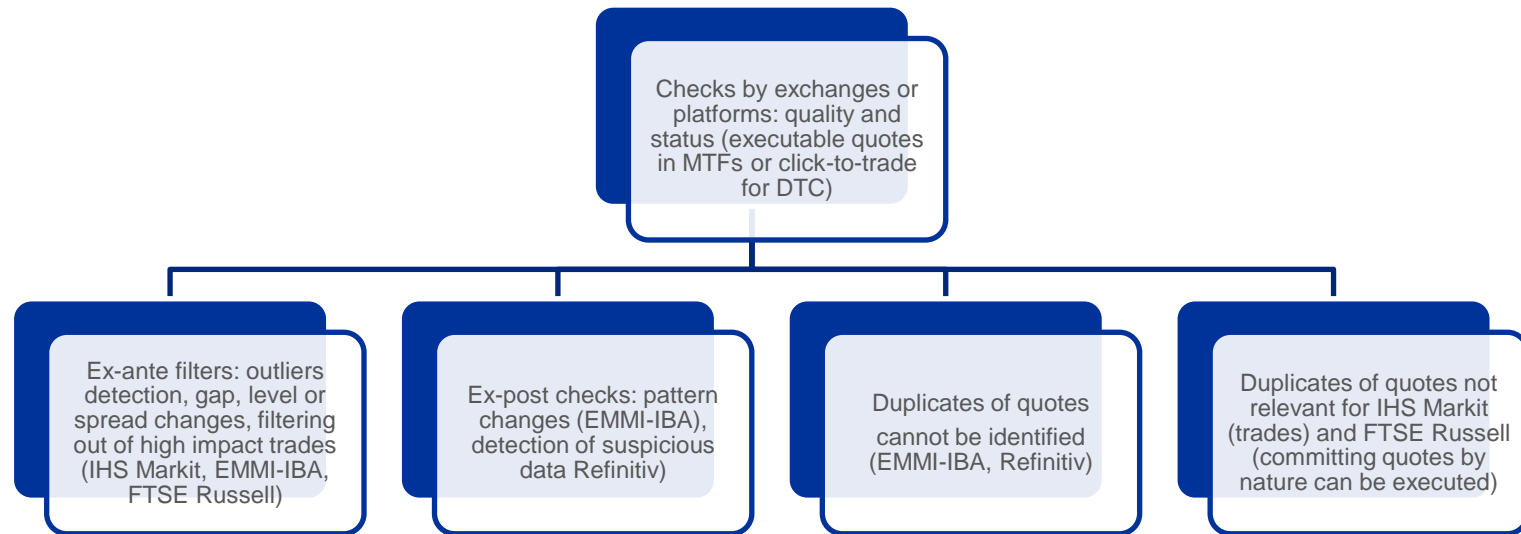
IBA: Agreements to access data already in place with MTFs and exchanges for other currencies, currently negotiating to get euro data

FTSE Russell will use ICAP-Tradition and Curve Global for OIS and sign agreements with LCH, Eurex, CME by end 2020

Plans to complete agreements in the course of 2020 except Refinitiv (waits for a decision)

OIS already in database, and in talks with exchanges for futures

**Absence of volumes, but improvement expected once CCPs switch in July**

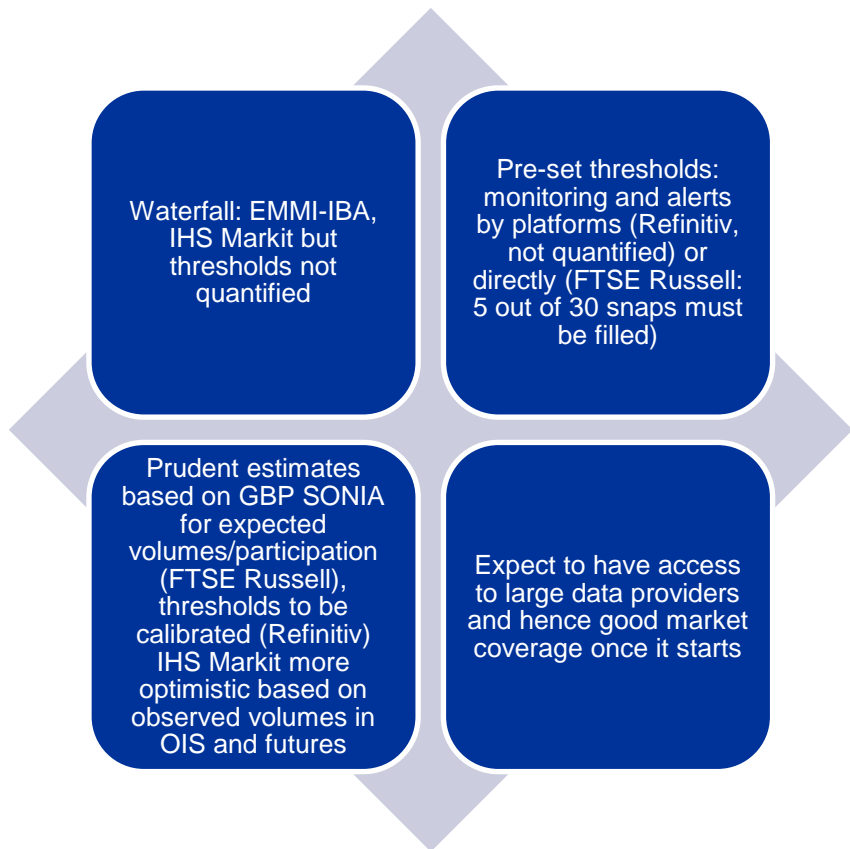


**Duplication of quotes not necessarily an issue**

# Data sufficiency (Q8 to Q14)

In absence of data, reliance on waterfalls is preferred to thresholds

Large market coverage expected but little on concentration risk



T H E  W A T E R F A L L	EMMI-IBA	FTSE RUSSELL	IHS MARKIT	REFINITIV
	3-level waterfall approach	3-level waterfall approach	6-level waterfall approach	4-level waterfall approach
	Level 1: executable €STR-based OIS quotes, VWA	Level 1: executable quotes from MTFs (interdealer) for OIS 1-, 3-, 6- and 12-M for Standard Market Size	Observed trades, futures and OIS spot and forward	Level 1: executable quotes from MTFs (interdealer) for OIS, median of mids (VWA of bids and offers), using a Central Limit Order Book (CLOB)
	Level 2: executable €STR-based futures quotes, VWA	Level 2: executable OIS quotes from one client-to-dealer platform and futures	Futures settlement prices	Level 2: executable quotes from one client-to-dealer platform for OIS, same calculus as L1
	Level 3: futures settlement prices, ECB €STR rates, Gov C dates - step function model	Level 3: same as above but time windows extended, or contingency	Overnight rate	Level 3: executable quotes from exchanges for futures
			Interpolation/extrapolation of previous day's rate <b>Compounded €STR term rates</b>	<b>Level 4: apply the change in compounded €STR to the rates</b>



## Not enough data?

- The waterfall is the answer for all candidates
- EMMI-IBA and Refinitiv mention possible publication delays or suspension, or could publish corrections



## Systems crash?

- Redundancies, backups and hot standby sites
- Recovery plans well documented



## Timeline

- Publication will be daily (IHS Markit: 9:00, FTSE Russell: around 11:00, Refinitiv: in the morning, EMMI: daily)
- Testing to start end 2020 (Markit) or early 2021 (EMMI-IBA) – no indication by Refinitiv – FTSE Russell would coordinate with the WG RFR to identify the best timeline

**Potential administrators to follow standard policies in benchmark production and refer to BMR requirements**

<b>Status</b>	Markit NV (IMBA, NL) is an authorised administrator since December 2019	EMMI will be administrator (end-to-end responsibility) and will apply its governance framework IBA calculating and publishing agent	Regulated entity of Refinitiv (RBSL) would be the administrator	FTSE Russell is a regulated benchmark administrator
<b>Committees structures</b>	Oversight Committee including external members	Dedicated Oversight Committee	Oversight Committee and Board risk Committee	FTSE Russell standard governance will be applied
	Production oversight committee			An Advisory Committee on term €STR will be added, gathering market makers, platforms and key users
	Index Advisory Committee	Risk, conflicts of interest policies will apply		This committee will oversee that the underlying interest is adequately measured
<b>Tasks</b>	Daily and monthly reports Annual methodology review	Methodology reviews	Operations monitoring, compliance and audit functions to control	Methodology reviews