



EUROPEAN CENTRAL BANK

EUROSYSTEM

Summary of feedback

Public consultation on
EURIBOR fallback
trigger events

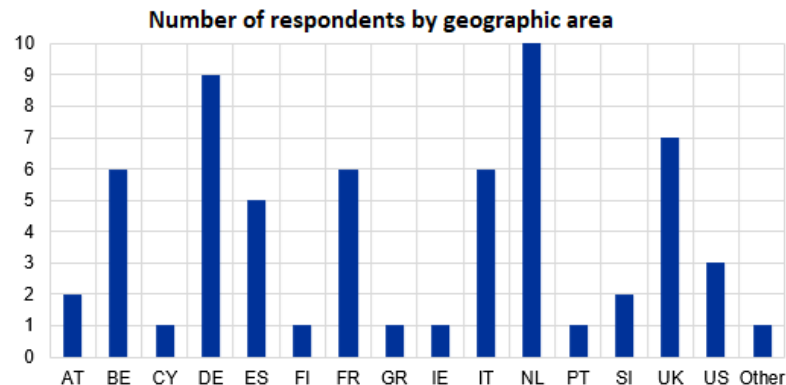
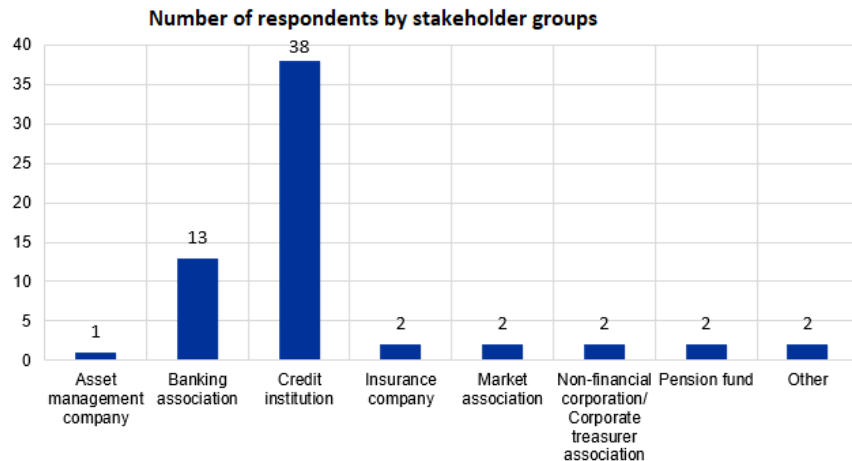
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Feedback coverage

62 respondents: appropriate geographic coverage and considerable interest mainly from the banking industry



Trigger events feedback summary (Q1 – Q7)

Level of support to WG's proposal	Description of events
98%	Event 1: A public statement or publication of information by or on behalf of the supervisor of the administrator of EURIBOR stating that the said administrator has ceased or will cease to provide EURIBOR permanently or indefinitely → WG proposal to include it.
97%	Event 2: A public statement or publication of information by or on behalf of the administrator of EURIBOR stating that the said administrator has ceased or will cease to provide EURIBOR permanently or indefinitely → WG proposal to include it.
81%	Event 3: An official public statement by or on behalf of the supervisor of the EURIBOR administrator that, in its view, EURIBOR is no longer representative, or will no longer be representative, of the underlying market it purports or measure and no action to remediate such a situation is taken or expected to be taken as required by the supervisor of the EURIBOR administrator → WG proposal to include it.
88%	Event 4: The EURIBOR administrator determines that EURIBOR should be calculated in accordance with its reduced submissions or other contingency or fallback policies → WG proposal not to include it.
62%	Event 5: The agreement to use EURIBOR has become, for any reason, unlawful under any law or regulation applicable to relevant parties → WG proposal to include it.
61%	Event 6: EURIBOR is permanently no longer published without a previous official announcement by the competent authority or the administrator → WG proposal to include it.
85%	Event 7: Material change is made to EURIBOR methodology → WG proposal: no automatic trigger event.

Trigger events – almost unanimous support

Events 1 & 2*

98% & 97% respondents agreed to include Events 1 & 2 in EURIBOR fallback provisions

- Broadly in line with fallback provisions already defined by other industry bodies (e.g. the ARRC) and market associations (e.g. ISDA and the LMA), *but suggestion to align the wording.*
- It should be made clear that the fallback rate takes effect on the actual cessation date of EURIBOR and not on the publication date of the public statement.
- Suggestion to clarify what exactly would constitute a public statement for this purpose in order to provide the greatest possible legal certainty.
- Events 1 & 2 should only be triggered after all available measures, i.e. mandatory contributions and administration, have been exhausted.

****A public statement or publication of information by or on behalf of the (1) supervisor of the administrator of EURIBOR or (2) the administrator of EURIBOR stating that the said administrator has ceased or will cease to provide EURIBOR permanently or indefinitely***

Trigger events – vast support to WG’s proposal

Event 3*

81% respondents agreed to include Event 3 in EURIBOR fallback provisions

- Such a trigger event is already defined for LIBOR by the ARRC, LMA and ISDA and it is aligned with the amended BMR.
- ISDA does not include it in its EURIBOR documentation. Suggestion that ISDA considers including it in order to increase global consistency across currencies and products.
- Several respondents emphasised the need that the public statement clarifies the time frame as of when EURIBOR will no longer be considered representative

**An official public statement by or on behalf of the supervisor of the EURIBOR administrator that, in its view, EURIBOR is no longer representative, or will no longer be representative*

Trigger events – vast support to WG’s proposal

Event 4*

88% of respondents agreed not to include Event 4 in EURIBOR fallback provisions

- The benchmark methodology, including the contingency procedures, is subject to continuous review and supervision, thus a rate calculated within this framework should still be seen as valid and representative.
- Reduced submissions and other contingency procedures are intended to manage temporary problems which should not trigger a permanent fallback provision.
- Not aligned with trigger events considered in other jurisdictions and by market associations.

** **The EURIBOR administrator determines that EURIBOR should be calculated in accordance with its reduced submissions or other contingency or fallback policies***

Trigger events – significant support to WG’s proposal

Event 5*

62% of respondents agreed to include Event 5 in EURIBOR fallback provisions

- Adjustments to the drafting of this trigger event should be considered; its broad definition introduces an element of uncertainty.
- Potential divergences depending on whether parties adhered to ISDA’s documentation or not.
- Lack of alignment with the LMA rate switch triggers and the ARRC’s recommendations. Cross product and cross jurisdictional considerations may be studied if it is included in EURIBOR fallback provisions.
- Illegality provisions in documentation should be referred to instead.

* *The agreement to use EURIBOR has become, for any reason, **unlawful** under any law or regulation applicable to relevant parties*

Trigger events – significant support to WG’s proposal

Event 6*

61% of respondents agreed to include Event 6 in EURIBOR fallback provisions

- The majority of the respondents considered Event 6 as a last resort trigger event that might be useful in case of any unforeseen scenario, although several respondents considered this scenario as unlikely to occur.
- Most of the respondents proposed the introduction of an agreed time period after which the cessation of the publication of EURIBOR would be considered permanent to avoid any potential confusion with a temporary lack of EURIBOR, e.g. owing to technical impediments.

* **EURIBOR is permanently no longer published** without a previous official announcement by the competent authority or the administrator

Trigger events – vast support to WG’s proposal

Event 7*

85% of respondents agreed that Event 7 should not be an automatic trigger event

- Most respondents considered it important that parties themselves define what should be understood by “material change”, differentiating between a “material change” in the benchmark and a “material change” in the methodology of the benchmark.
- The determination of what constitutes “material” has not been specified in the BMR, therefore without further clarification or definition, there would be significant uncertainty about when the trigger has objectively occurred.
- Its inclusion was also considered to be inconsistent with the BMR requirement for benchmark administrators to periodically review the benchmark's definition and methodology.

* *Material change is made to the EURIBOR methodology.*

Consistency between asset classes (Q8)

Almost unanimous support to WG's proposal

97% respondents in favour of having
the same set of fallback trigger events for all asset classes to the extent possible

- It would minimise disruption and market fragmentation, reduce basis and hedging implications for linked products/contracts and reduce value transfers.
- It would minimise complexity and it would provide legal certainty.
- It would support the monitoring of all asset classes, decreasing the operational burden and administrative efforts.
- Consistency was considered important and preferable (ii) for end users and (ii) between jurisdictions, especially for multicurrency products.
- It was acknowledged that reasonable exemptions could be expected. However, deviations should be kept to a minimum and only applied if the generic fallback trigger event does not fit a certain type of asset class.

Summary of responses available at

https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html