A RFR €STR BASED TERM STRUCTURE AS A FALBACK TO EURIBOR

THE EURO RFR BENCHMARKS WG

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Paris, September 13, 2019
The necessary term RFR rates as fallbacks to Euribor-linked contracts

- Euribor remains an essential benchmark for the Euro area economy.
- It accommodates properly the economic specificities of the Eurozone: national specificities, diversity of cash products, large coverage of the retail sector (in particular, the mortgages)
- The BMR (the benchmark regulation) is requiring fallbacks to critical benchmarks such as Euribor.
- European Regulators are not asking for the discontinuation of Euribor such as it is the case for the Libor
The Euro RFR WG has been working since March 2018 on recommending fallbacks to Euribor based on €STR.

The analysis of the relevant Fallbacks will take into account:

- The assets classes: derivatives, corporates loans, bonds, FRN, mortgages
- The end users needs
- The legal national specificities
- The work done by other jurisdictions, by the FSB and ISDA
2 possible methodologies for a RFR €STR based term structure:
- the backward looking and
- the forward looking methodologies

The WG has already recommended a forward looking methodology:
- *the OIS observable quotes based fallback*

The WG is now analysing the backward looking methodologies.

Finally, the WG will recommend the most suitable fallbacks per asset classes.
The prequisites for a robust fallback

- Coherence with the Euribor
- Consistency between fallbacks
- Determination of the credit spread methodology
- Hedgeability
- Transparency
- Easy adoption by the end users
- Legally approved
Conclusion: what are the challenges?

- Fallbacks and transition period
- Determine a robust credit spread methodology
- Liaise with other jurisdictions
- Take into account the end users needs
- Assess all the related risks

- Last but not least, keep in mind that a fallback is not a replacement rate but a contingency rate for Euribor.