

Benoît Cœuré: Euro interest rate benchmark reform: achievements and remaining challenges

Opening remarks by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, at the annual dinner of the working group on euro risk-free rates, Frankfurt am Main, 26 February 2019.

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Good evening and welcome to the first annual dinner of the working group on euro risk-free rates.

On this very day one year ago, the working group on euro risk-free rates held its first meeting in Frankfurt, hosted by the ECB. Looking back, your achievements have been impressive, almost on a par with the challenges that lie ahead.

In its short existence, the working group has recorded two prominent achievements.

The first is the choice in September 2018 of the ECB's overnight rate as the new euro risk-free rate. This decision provided clarity to market participants and planning certainty for the transition towards more robust benchmarks in the euro area. It also brought the euro area closer in line with other currency areas in preparing for new benchmarks.

The second achievement is that, at the roundtable on euro risk-free rates in November 2018, the working group took a major step in reaching out to stakeholders and raising awareness of its activities.

Sound communication and transparency are vital for spreading awareness about the transition to risk-free rates beyond a small circle of informed parties. By getting the message across to a more diverse audience, the working group lends more legitimacy to its recommendations and does as much as it can to promote market consensus. This first roundtable was a successful exercise in this regard. In time, I would expect such open communication to play a pivotal role in the transition to more robust interest rate benchmarks.

Besides these two very concrete achievements, I know that a great deal of work on building a consensus has been going on behind the scenes in the various sub-structures of the working group over the past year.

Reaching agreement on recommendations that reflect the views of such a wide variety of institutions is not an easy task. Over the course of last year, the working group and subgroups members held no less than 80 teleconferences and seven working group meetings, which give some idea of the work that went into aligning views within such a tight time frame.

I would like to thank all of you, including the team supporting the working group chair, for your contributions, as well as the Secretariats of the ECB and the European Securities and Markets Authority for their coordinating work and dedication.

These combined efforts seem to be paying off. The working group is now preparing several important recommendations with regard to: (i) the transition away from EONIA towards the new ECB euro short-term rate, (ii) the most suitable methodologies for building derivatives-based term rates as a fallback to EURIBOR, and (iii) guiding principles for fallback provisions in new contracts for euro-denominated cash products.

While these recommendations are still work in progress, it seems that we are nearing a consensus on the way forward, which I find encouraging compared with the situation one year ago. I understand that the feedback received on the working group's recent public consultations, which you will discuss in detail at tomorrow's meeting, was supportive and reflected the views of

a good number of respondents. That gives the working group a solid basis for proposing feasible solutions which can win market acceptance.

The ECB will do its part with the launch of its own overnight rate. We are aware that the launch of the new rate is essential in the sequencing of events for the year to come. In this regard, I am glad to confirm that the recently launched “shadow production” of the ECB overnight rate, is working well.

As you know, the daily production of the new rate is planned by October 2019. In the meantime, the data referred to as “pre-ESTER”, which are published every maintenance period, should enable future users to familiarise themselves with how the rate behaves.

That said, the quality and success of the ECB overnight rate crucially depends on market participants. In this regard, we expect the members of this group to lead by example, mainly for two reasons: first, because many of you represent banks reporting under the Money Market Statistical Reporting Regulation and we count on the timeliness and quality of your data submissions to ensure the quality of the rate that the entire industry will use. Second, as future users, it seems natural that you should promote the usage of the rate which you yourselves recommended to the industry.

Let me conclude by saying that, in only one year of existence, the working group on euro risk-free rates has established itself as the forum for benchmark reforms in the euro area. Its recommendations have so far been widely supported by market participants and it has shown that the euro area is catching up with other currency areas.

The private sector will face the biggest challenge in view of its role in preparing for the transition, including reviewing and amending contracts and, crucially, adopting the new benchmarks in its own day-to-day business. For the working group, the greatest challenge ahead might eventually be to bring the whole industry on board in preparing for an orderly transition to more robust benchmarks.

Thank you.