PUBLIC CONSULTATION BY THE WORKING GROUP ON EURO RISK-FREE RATES ON €STR-BASED EURIBOR FALLBACK RATES

Spanish CNMV Advisory Committee (hereinafter “the Committee”) welcomes the public consultation by the European Central Bank (ECB) on the €STR-based EURIBOR fallback rates.

The Committee strongly agrees that the ECB should promote suitable, workable and robust fallback provisions and therefore is clearly in favour of this initiative.

With the aim of contributing to the abovementioned objectives, below you may find the Committee answers to the questions raised in the consultation.

Answers to the different questions raised in the public consultation

Criteria used in the analysis of EURIBOR fallbacks rates (see Section 5.2)

- **Robustness/availability**
- **Operational ease**
- **Client acceptance**
- **Hedging ease and hedge accounting impacts**
- **Other accounting impacts**
- **Risk management impacts**
- **Consistency with other jurisdictions across asset classes**

QUESTION 1.-

Can you identify any additional criteria that should be taken into account? (Yes/No/No opinion) Please elaborate on the reasons for your answer.

NO.

All criteria are welcome, comprehensive, complete and robust and bring together the different factors that could impact in order to have an adequate analysis of EURIBOR fallbacks rates.

QUESTION 2.-

Do you agree with the analysis conducted in Section 5.2.1 and the conclusions of the working group presented in Section 5.2.2 with regard to the evaluation of the €STR-based term structure methodologies on the basis of the selection criteria?

(Yes/No/No opinion) Please elaborate on the reasons for your answer.

Use cases analysis (see Section 5.3)

YES.

The working group holistic approach distinguished **two main methodologies: backward- looking term and forward-looking term structure.** The cases in backward-looking methodology that may be considered potentially viable for specific asset classes are **payment delay, lookback period and last reset.**

The Committee agrees on the viability of these three backward-looking methodologies based on operational and computational ease, client acceptance, hedging ease and period congruency. On the basis of these criteria, the other 5 cases were deemed non-viable and were therefore discarded from any further analysis of suitable EURIBOR fallback measures for different reasons (operational and computational complexity, inconsistency or risk exposition to the potentially extreme values of a single overnight fixing).

Alongside the backward-looking approach the working group analyses **forward-looking term structure,** based on the derivatives markets referencing the €STR, reflecting market expectations on the evolution of the €STR during the upcoming interest rate period, and would be known at the start of the interest rate period.

Taking into consideration both methodologies with the list of the criteria selected in the consultation (see Question 1), both seem feasible standing out the backward-looking in robustness /availability and client acceptance and the forward –looking in operational ease, client acceptance and accounting impacts. Otherwise the two methodologies present potential drawbacks/improvements in risk management impacts.

The analysis goes into great detail, evaluating each methodology on each of the defined criteria. The conclusions take into account this analysis, acknowledging that different solutions are necessary for different use cases.

From questions 3 to 11 (included), the following table includes the Committee's agreements and disagreements with the different consultation proposals:

Products	Corporate lending	Retail mortgages/ consumer loans/ SME loans	Current accounts	Trade finance products	Export and emerging markets finance products	Debt securities	Securitisations	Transfer pricing model		Investments funds (benchmarking)
Fallback methodology recommended for the first level of the waterfall	BWL lookback FWL	FWL	BWL payment delay	FWL	FWL	BWL lookback	*Depending on the underlying assets*	For corporates and some financials: FWL	For most financials: BWL lookback	FWL? BWL lookback?
Fallback methodology recommended for the second level of the waterfall (if needed)	N/A BWL	BWL last reset up to 3M or BWL lookback	N/A	BWL last reset	BWL Last reset up to 3M	N/A	*Depending on the underlying assets*	BWL last reset	N/A	BWL lookback
Spread adjustment	Historical mean/median methodology									

Committee´s Agreement with proposal of the Consultation

Committee´s Disagreement with proposal of the Consultation

QUESTION 3.-

Corporate lending (Section 5.3.1)
Do you agree with the working group's conclusion that the backward-looking lookback period methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for most, by value, of the corporate lending linked to EURIBOR? (Yes/No/No opinion)
If not, what alternative methodology would you propose? (Forward looking/Backward-looking payment delay/Backward-looking last reset/Another alternative).Please elaborate on the reasons for your answer, also taking into account the possible interactions between asset classes and related instruments.

NO.

Forward-looking (hereinafter FWL) would be the most appropriate methodology, because some clients need to know the interest rate in advance.

Operationally, it could be easy to implement, as it would work exactly as the currently used EURIBOR rates. As the FWL rate currently does not exist and it is not clear yet how soon such a rate will be available, backward-looking (hereinafter BWL) with observation shift, would be appropriate as a second level within a waterfall structure.

QUESTION 4.-

Mortgages, consumer loans and SME loans (Section 5.3.2)

4.1. Do you agree with the working group's conclusion that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for retail mortgages, consumer loans and SME loans linked to EURIBOR? (Yes/No/No opinion) If not, what alternative methodology would you propose? (Backward-looking payment delay/ Backward-looking lookback period/Backward-looking last reset/Another alternative). Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

YES.

Using EURIBOR for retail mortgages, consumer loans and SME loans across the euro area should not be underestimated. It shows difficulties for the standarisation of the contracts, normally bilateral, difficult to amend with long maturities with a relevant impact from legislation and particularities from each country at local level (for instance Spain, Italy, Austria, Portugal and Finland show a much greater share of floating rate mortgages). These products represent a significant exposure in almost all euro area countries.

In Spain there are several mandatory legal provisions (Ley 5/2019, de 15 de marzo, reguladora de los contratos de crédito inmobiliario, Ley 16/2011, de 24 de junio, de contratos de crédito al consumo and Orden EHA/2899/2011, de 28 de octubre, de transparencia y protección del cliente de servicios bancarios) requiring that the consumer debtor should be aware of the rate in advance of the payment day. In particular, for mortgage loans the lender must inform the borrower of any change to the payment rate at least 15 days before the change takes effect.

In this case, **FWL is the most appropriate methodology**, because clients need to know the interest rate in advance and it reflects the forward-looking economic reality. Operationally, it is easy to implement, as it would work exactly as the currently used EURIBOR rates.

Nevertheless, it should be noted that derivatives used for hedging purposes have a different fallback (BWL lookback).

4.2. If your reply to Question 4.1 was affirmative, would you agree with the proposal to include a term structure built using a forward-looking methodology on the first level of the waterfall structure and, on the second level of the waterfall structure, to include as a backstop, in case a forward-looking term structure methodology is not available, either:
a) a term structure built using the backward-looking last reset methodology (up to three-month tenors) or, alternatively;
b) a term structure built using the backward-looking lookback period methodology?
(a/b/Neither) If neither, what alternative would you propose for the second level of the waterfall? (Backward-looking payment delay/Another alternative)
Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

Option A would be preferable in the Committee´s opinion.

Several local legislations (Spain, France, Italy, Netherlands ...) require that the consumer debtor should be aware of the rate in advance of the payment day. FWL and BWL last reset are the only “in advance” methodologies.

As the FWL rate currently does not exist and it is not clear yet how soon such a rate will be available, it makes sense to use a waterfall, with a BWL methodology as a secondary fallback. BWL lookback couldn’t be accepted because clients need to know the interest rate in advance. Anyway, it should be taken into consideration that **BWL last reset** may be feasible at a 3 months tenor, **but less so at 12 months**.

4.3. Would you expect your institution to have to cope with any impediments in the case of a rate calculated using the backward-looking lookback period methodology for retail mortgages, consumer loans and SME loans? (Yes/No/No opinion). Please indicate whether you are (representing) a lender or a borrower. (Lender/borrower)
Please elaborate on the reasons for your answer and, if your reply was affirmative, please specify what those impediments could be, and whether/how these impediments could be addressed.

YES.

Representing lenders and borrowers.

Although BWL lookback period approaches may be easier to conceptually understand than the calculation method pertaining to a FWL term structure methodology, they will not work in Spain because clients need to know the interest rate in advance as local mandatory legislation states.

4.4. Would you expect your institution to have to cope with any impediments in the case of a rate calculated using the backward-looking last reset methodology for retail mortgages, consumer loans and SME loans? (Yes/No/No opinion)

Please indicate whether you are (representing) a lender or a borrower. (Lender/borrower)
Please elaborate on the reasons for your answer and, if your reply was affirmative, please specify what those impediments could be, and whether/how these impediments could be addressed.

YES.

Representing lenders and borrowers.

BWL last reset reflects the economic reality of the past, and as such may be feasible at a 3 months tenor, but less so at 12 Months. This is specially an issue for mortgages which are typically linked to 12 Months EURIBOR. Therefore, 12 Months last reset **is considered most appropriate** since it is the tenor used for mortgages and would be in line with both the original rate tenor and first fallback provision (FWL) tenor.

The BWL last reset involves interest rate risk that is difficult to hedge due to potential changes to the €STR during the current interest period compared with the previous observation period.

In addition, the BWL option involve embedding a compounding calculation within the core banking systems of the retail/corporate banks that requires significant IT development, impact on the related risk management systems and modelling and will require significant resources.

Finally, as described in the consultation, for longer tenors there could be problems with regards to SPPI testing (solely payment of principal and interest) according to IFRS 9.

QUESTION 5.-

Current accounts (Section 5.3.3)
Do you agree that the backward-looking payment delay methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for EURIBOR for current accounts linked to EURIBOR? (Yes/No/No opinion). If not, what alternative methodology would you propose? (Forward-looking/Backward-looking lookback period/Backward-looking last reset/Another alternative)

YES.

Although the choice of FWL rate might be preferable, it could lead to negligible legal and operational impacts compared with any other option.

BWL payment delay would be the most appropriate because, as the consultation document states, it would allow time for the calculation of payments, for billing, and for borrowers/lenders to challenge any calculations in advance of payments. In addition, it would reflect the time value of money as the observation period would match the interest period. The economic equivalence and the fact that BWL methodologies are transparent and easily understandable facilitates customer acceptance, making them a highly appropriate alternative.

The payment delay option would be a better possibility for the features of current accounts than the lookback period option, as the balance on accounts can change every day and they do not have a predefined maturity, and therefore it is feasible to implement from an operational standpoint.

Within the current account section, another asset classes like Time Deposits should be considered and covered by the consultation.

QUESTION 6.-

Trade finance (Section 5.3.4)

6.1. Do you agree with the working group's conclusion that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for trade finance? (Yes/No/No opinion). If not, what alternative methodology would you propose? (Backward-looking payment delay/ Backward-looking lookback period/Backward-looking last reset/ Please specify another alternative). Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

YES.

FWL would be the **preferred option** if it were available because it is the only option that combines compatibility with the specific business cycle of trade financing with the possibility for the lender to source funding at this rate and for the client to hedge.

It remains a key consideration that clients need to know the interest rate in advance and it reflects the FWL economic reality. Operationally, it could be easy to implement, as it would work exactly as the currently used EURIBOR rates. Nevertheless, it should be noted that derivatives used for hedging purposes have a different fallback (BWL lookback).

6.2. If your reply to Question 6.1 was affirmative, would you agree with the proposal to include: (i) a term structure built using a forward-looking methodology on the first level of the waterfall structure and (ii) a term structure built using the backward-looking last reset methodology on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (Yes/No/No opinion). If not, what alternative methodology would you propose for

the second level of the waterfall? (Backward-looking payment delay/Backward-looking lookback period/Another alternative). Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.

YES.

As the FWL rate currently does not exist and it is not clear yet how soon such a rate will be available, it makes sense to use a waterfall, with a BWL methodology as a secondary fallback. BWL lookback will not work because clients need to know the interest rate in advance.

In this case, it should be preferable a simple average of the daily rates over a compounded methodology. Furthermore, derivatives used for hedging purposes have a different fallback (BWL lookback).

QUESTION 7.-

Export and emerging markets finance products (Section 5.3.5)

7.1. Do you agree with the working group's conclusion that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for the majority of EURIBOR-linked products used for export and emerging markets finance products? (Yes/No/No opinion). If not, what alternative methodology would you propose? (Backward-looking lookback period/ Backward-looking payment delay/Backward-looking last reset/Another alternative). Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

YES.

FWL is the **most appropriate** methodology, because all the participants involved like sovereigns, government ministries, exchange rate agencies (ECAs), special purpose vehicle (SPV) and private and listed companies in emerging economies need to know the interest rate in advance in order to reflect the FWL economic reality.

As the consultation document states, the advanced methodology (BWL last reset) would only work for short interest periods for avoiding disconnection with the interest period it represents, but other issues arise that make it unfeasible.

FWL term structure operationally could be easy to implement, as it would work exactly as the currently used EURIBOR rates.

7.2. Do you agree with the working group's conclusion that for some export and emerging markets finance products – those involving sophisticated counterparties and developed markets – an in arrears methodology might be preferable and, in that case, a backward-looking lookback period methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for such export and emerging markets finance products? (Yes/No/No opinion) If not, what alternative methodology would you propose? (Forward-looking/Backward-looking payment delay/Backward-looking last reset/Another alternative). Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

NO.

Committee agrees that the solution proposed (BWL lookback) is just suitable for sophisticated counterparties. Only in these cases, BWL rate may be potentially adaptable, but not in other counterparties or other borrowers such as sovereigns and/or state owned companies or in emerging market jurisdictions.

In addition to this, as the consultation explains, some borrowers or guarantors parties to these transactions may require local budgetary, central bank and/or parliamentary approval to agree fallback measures, before interest payments can be converted into hard currency and transferred to lenders outside the relevant jurisdiction. These processes may require the exact amount of interest to be known in advance and it may take weeks to complete.

7.3. If your reply to Question 7.1 was affirmative (and/or your response to Question 7.2 was negative), would you agree with the proposal to include (i) a term structure built using a forward-looking methodology on the first level of the waterfall structure and (ii) a term structure built using the backward-looking last reset methodology (up to three-month tenors) on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (Yes/No/No opinion). If not, what alternative methodology would you propose for the second level of the waterfall? (Backward-looking payment delay/Backward-looking lookback period/Another alternative). Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.

YES.

As the FWL rate currently does not exist and it is not clear yet how soon such a rate will be available, it makes sense to use a waterfall, with a BWL methodology as a secondary fallback. BWL lookback will not work, because clients need to know the interest rate in advance. Therefore, **BWL last reset term rate could be viewed as the only viable BWL option** (in the absence of another robust alternative such as a central bank rate) as the second layer of the EURIBOR fallback waterfall structure, although only on a temporary basis until a FWL rate is available, and as such may be feasible at a 3 months tenor, but less so at 12 months.

QUESTION 8.-

Debt securities (Section 5.3.6)

Do you agree that the backward-looking lookback period would be the most appropriate methodology for building a €STR-based term structure that could function as a fallback for EURIBOR-linked debt securities? (Yes/No/No opinion) If not, what alternative methodology would you propose? (Forward-looking/Backward-looking payment delay/Backward-looking last reset/Another alternative) Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

YES.

In general, the Committee considers that it would be most appropriate to issue debt at a **fixed rate**, avoiding the question of potential fallbacks from the start.

However, for floating rate issuances, **BWL lookback** 5 days seems to evolve into a market standard across some jurisdictions. This methodology in operational perspective is feasible to adapt. Another advantage it comes up is that for hedging purposes derivatives also use the BWL lookback, although there is a slight difference in the lookback period (2 days for derivatives and 5 days for debt securities).

QUESTION 9.-

Securitisations (Section 5.4.7)

9.1. Do you agree that for those securitisations that will include underlying assets for which the working group has identified the backward-looking lookback period as the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback (e.g. syndicated loans, business loans and debt securities), it would be advisable to include the same EURIBOR fallback measure?
If not, what alternative methodology would you propose? (Backward-looking payment delay/Backward-looking lookback/Backward-looking last reset/Another alternative). Please elaborate on the reasons underlying your answer, also taking into account possible interactions among asset classes and related instruments.

YES.

There will be risk management benefits if these **securitisations use the same EURIBOR fallback methodology as that included in the underlying assets and/or associated derivatives.** Any difference between the fallback approach of the securitisation notes and the underlying assets and/or derivatives would introduce risks to the structures which would need to be considered and, potentially, mitigated, increasing the complexity and the cost of the transition process.

For consistency reasons the fallbacks for securitisations should coincide with the fallbacks of the underlying assets. Therefore, the Committee coincides with the working group identifying the **BWL lookback period term structure methodology** as a suitable EURIBOR fallback measure (e.g. **syndicated loans, business loans and debt securities**).

9.2. Do you agree that for those securitisations that will include underlying assets for which the working group has identified the forward-looking methodology as the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback (e.g. mortgages and SME loans), it would be advisable to include the same waterfall structure as a EURIBOR fallback measure?
If not, what alternative methodology would you propose? (Backward-looking payment delay/Backward-looking lookback period/Backward-looking last reset/Another alternative). Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

YES.

For those securitisations that will include underlying assets where the working group has identified the **FWL** term structure methodology as the most suitable EURIBOR fallback measure (e.g. **mortgages and SME loans**), the Committee believes it would be appropriate to include the same waterfall structure as a EURIBOR fallback measure.

QUESTION 10.-

Transfer pricing models (Section 5.3.9)

10.1. Do you agree with the working group's conclusions that a forward-looking methodology would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for transfer pricing models for non-financial companies? (Yes/No/No opinion) If not, what alternative methodology would you propose? (Backward-looking payment delay/Backward-looking lookback/Backward-looking last reset/Another alternative). Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

YES.

Using a FWL rate is appropriate because it is easy to implement, as it is the same as the currently used EURIBOR. So the **FWL term structure methodology is preferred as a**

permanent fallback, as it enables companies to maintain existing system setups and processes, which is one major concern for many market participants.

This scope will eliminate potential accounting and handling issues which could arise from backward-looking approaches at critical reporting dates (such as the quarter end/financial year end).

10.2. Do you think that the backward-looking lookback period would be the most appropriate methodology for building a €STR-based term structure that could function as a EURIBOR fallback for transfer pricing models for financial companies? (Yes/No/No opinion) If not, what alternative methodology would you propose? (Backward-looking payment delay/Backward-looking last reset/Another alternative) Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.

Both FWL and BWL methodology could work, depending on the sophistication of the companies involved. It should be noted that using a BWL rate would arise issues expressed in previous question that would require adapting systems and processes.

10.3. If your reply to Question 10.1 was affirmative (and/or your response to Question 10.2 was negative), would you agree with the proposal to include (i) a forward-looking term structure methodology on the first level of the waterfall structure and (ii) the backward-looking last reset term structure methodology on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (Yes/No/No opinion) If not, what alternative methodology would you propose for the second level of the waterfall? (Backward-looking payment delay/Backward-looking lookback/Another alternative) Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.

YES.

As the FWL rate currently does not exist and it is not clear yet how soon such a rate will be available, it makes sense to use a waterfall, with a **BWL** methodology as a secondary fallback.

QUESTION 11.-

Investment funds (Section 5.3.10)

11.1. Which methodology – forward-looking or backward-looking lookback period – would be most appropriate for building a €STR-based term structure that could function as a EURIBOR fallback provision for benchmarking purposes for investment funds? (Forward-looking/Backward-looking lookback period/Another alternative).

Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.

Asset managers apply benchmarks to passively managed funds and exchange traded funds (ETFs) – with benchmarks as a target for index-linked funds – as well as to the evaluation of an active manager’s performance, when a fund’s performance is measured against a selected index or a set of indices. Money market and fixed income funds are the main EONIA users for benchmarking purposes, while the most commonly used instruments referencing EONIA are FRNs, repurchase agreements, interest rate derivatives and loan agreements.

In order to find the transparency and regulatory requirements, **FWL terms structure would be the preferable choice**, because would be consistent with assets and benchmarks.

11.2. If you indicated the forward-looking methodology in Question 11.1, would you agree with the proposal to include (i) a forward-looking term structure methodology on the first level of the waterfall structure and (ii) the backward-looking lookback period term structure methodology on the second level of the waterfall structure as a backstop, in case a forward-looking term structure methodology is not available? (Yes/No/No opinion). If not, what alternative methodology would you propose for the second level of the waterfall? (Backward-looking payment delay/Backward-looking last reset/Another alternative). Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.

YES.

As the FWL rate currently does not exist and it is not clear yet how soon such a rate will be available, it makes sense in Committee’s opinion to use a waterfall, with a **BWL lookback methodology** as a secondary fallback, as it is used by ISDA for derivatives, which could be an advantage in terms of ensuring consistency.

QUESTION 12.-

Asset classes and use cases

Are there any other asset classes or use cases that have not been covered by this consultation paper that you think should be considered by the working group? (Yes/No/No opinion) If the answer is “yes”, please elaborate on the reasons for your answer and what €STR-based term structure methodology you would recommend as a potential EURIBOR fallback measure.

NO.

The analysis, use cases and alternatives considered cover well enough the expectations in this matter.

QUESTION 13.-

Please indicate whether you agree with the conclusion of the working group that the historical mean/median spread adjustment methodology should be the preferred approach for cash products. (Yes/No/No opinion) If not, please rank the approaches discussed in Section 6.2 (dynamic spread adjustment methodology/forward spread adjustment methodology/spot spread adjustment methodology).Please explain why you prefer one methodology to another and what you think the main drawbacks are for the less preferred methodologies.

YES.

The **historical mean/median** allow, to the extent possible, for a value neutral transition and is understood and widely accepted by market participants.

Also allows ensuring consistency with ISDA. Having the same spread adjustment as ISDA confirms that hedge relationships are aligned. Furthermore, it is also fairly easy to understand.

QUESTION 14.-

Do you believe that having the same spread adjustment methodology for EURIBOR-linked cash products and other IBOR-linked cash products (the ISDA five-year historical median recommended by the ARRC and by the working group on sterling risk-free reference rates) is:

a) **essential;**
b) **highly desirable;**
c) **useful;**
d) **unimportant.**

Please give the reasons for your answer.

Option A (essential) would be the preferable option in the Committee´s opinion.

Consistency across jurisdiction is at least highly desirable, contributing to guarantee ease of understanding and market acceptance.

Having the same spread adjustment methodology for EURIBOR-linked cash products and other IBOR-linked cash products would avoid market fragmentation across jurisdictions and avoid potential mismatches in the hedging process.

The alignment between the three big jurisdictions (USA, UK and EU) is key, from the point of view of the end client. The customer journey and experience would hugely benefit from a unique and global spread adjustment methodology and it would make the client communication process easier.

QUESTION 15.-

Some cash products may fall back on backward-looking term rates fixing in arrears, while others may fall back on a forward-looking term rate or a backward-looking term rate fixing in advance.
Therefore, do you agree that the spread adjustment value for each tenor should be the same, irrespective of whether the products fall back on a forward-looking or a backward-looking rate? (Yes/ No/No opinion) Please elaborate on the reasons for your answer.

YES.

FWL term rates are based on market consensus of actual future expectations. However, the expected rate at the beginning of the period may not equal the realised rate for that period. In the long run, however, the differences between the expected and realised rates can be expected to balance out. Therefore calculating a credit adjustment spread using historic data derived from compounded in arrears rates or based on forward-looking OIS term rates could be considered close to equivalent.

Therefore, the Committee considers that the **spread adjustment value for each tenor should be the same,** irrespective of whether the products fall back on a FWL or a BWL rate for consistency reasons and in order to achieve an ease of understanding.

QUESTION 16.-

With regard to whether the historical €STR market data are sufficient to compute any adjustment spread, do you agree that, even though there might not be sufficient €STR historical market data, data can be obtained by using historical EONIA market data with a fixed spread of 8.5 bps between the two indices, given that EONIA has been recalibrated to €STR + 8.5 bps? (Yes/No/No opinion)
Please give the reasons for your answer.

YES.

As the consultation document states, the current liquidity of the €STR OIS market remains modest. However, the liquidity of the €STR market is expected to deepen following the CCPs' discounting switch from EONIA to €STR on 27 July 2020, and is expected to increase towards the same level of liquidity observed in the current EONIA OIS market until such time as EONIA ceases to exist on 3 January 2022. It should be noted that since EONIA has changed its underlying methodology to become a tracker rate of €STR + 8.5 bps, the liquidity transfer from the EONIA OIS market to the €STR OIS market has already taken place in reality, with the two markets becoming fungible from both a risk and a liquidity point of view.

This approach would be aligned with Bloomberg's methodology for ISDA fallbacks. Bloomberg uses the following proxy sources prior to the 2nd October 2019:

- From 15th March 2017 until 30th September 2019 (inclusive), the preliminary (pre-€STR) values published by the European Central Bank.
- From 4th January 1999 until 14th March 2017 (inclusive), the value of EONIA minus 8.5 basis points (0.085%).

Even though, there are issues to be solved as the high level of concentration in the current OIS market or other conditions relating to market data availability, but applying the **fixed spread of 8.5 bps to EONIA will allow calculating a long history for €STR**.

QUESTION 17.-

Do you think it is useful that for some cash products a one-year period would be applied for transition to the historic mean/median spread adjustment methodology? Please give the reasons for your answer, and explain for which cash products the above might, or might not be, useful.

YES.

The historical mean/median spread adjustment could be used from the end of a one-year transitional period after the EURIBOR fallback takes effect. During this transitional period, the spread to be used would be calculated using linear interpolation between the spot EURIBOR/€STR-based term structure spread at the time the fallback takes effect (i.e. the spot EURIBOR/€STR-based term structure spread on the last date that the relevant EURIBOR is published) and the spread that would apply after the end of the transitional period.

The **one-year transitional period** would mitigate against a "cliff effect" at the time the fallback takes effect, if the spot EURIBOR/€STR-based term structure spread at that time differs from the historical mean/median. There will be a gradual progression during the one-year transitional period from that spot EURIBOR/€STR-based term structure spread to the spread adjustment that will apply going forward.

Having a one-year transitional period not only would avoid any potential "cliff effects" but also will make communication with clients easier smoothing the transition.

Nevertheless, have the disadvantage that it is more complex to implement, because, the inclusion of a transition period may not be useful for corporate loans and some finance products, as it would complexify operations and generate significant manual adjustments to various IT systems.

QUESTION 18.-

Do you agree with the working group's conclusion that it would be useful for market participants to have access to a publication of the spread adjustment and/or an all-in rate that consists of (i) compounded €STR rates with an observation shift as proposed in Chapter 5, and (ii) a spread adjustment as proposed in Chapter 6? Please elaborate.

YES.

For market participants, **having access to a publication** of the spread adjustment and/or an all-in rate to a EURIBOR fallback measure that consists of (i) compounded €STR rates, and (ii) a spread adjustment, will facilitate to address their specific market needs (simple or compounded rate).

It would be useful to have a readily and widely available all-in rate. This rate could serve as a reference rate that includes credit risk.

QUESTION 19.-

Do you agree with the working group's view that if a floor were included, it should be on the sum of the €STR compounded rate plus the spread adjustment? Please elaborate.

YES.

Having the floor on the all-in rate, it **should be on the sum of the €STR compounded rate plus the spread adjustment**, because it is operationally easier as it resembles current practice. Furthermore, it is also consistent with the approach used by ISDA.

However, as far as corporate loans and some finance products are concerned, some may consider that compounded rates should be calculated with a floor applied to the daily €STR value, as it has been recognised by the Sterling Working Group on Risk-Free Reference Rates and by the ARRC.

QUESTION 20.-

Do you agree that, in general, compounding the rate is the best calculation methodology? Please provide your reasoning.

YES.

The proposal is consistent and compatible with the standards used in EURO money markets and derivatives market. Simple averaging ignores the fundamental principle of time value of money.

In Committee´s opinion, **compounding the rate** is the best calculation methodology due to it is simpler in calculation and consistent with method used by the ECB for its proposed compounded €STR rates and index and by ISDA.

QUESTION 21.-

Do you agree that the backward-looking lookback period term structure methodology with an observational shift is the preferable calculation methodology? Do you agree that the lag approach is a viable and robust alternative to the observation shift? Please elaborate on the reasons for your answer.

YES.

A the consultation document states, the **"with shift"** methodology is a more natural measure of interest over the period and would be consistent with the convention adopted for the publication of the indices across jurisdictions, including the euro area and ISDA.

Using lookback period with observation shift is also consistent with the derivatives market, which seeks to apply a two-day lookback with an observation shift.