

€STR Term Rate

Project update

The working group on euro risk-free rates

18 February 2021

EMMI-IBA joint initiative for €STR Term Rate

Outstanding synergies and clearly identified and separate roles for each party

- EMMI: administrator of the Term €STR, end-to-end responsibility
- IBA: calculation agent



Over-arching Governance Framework incl.

- Risk management | BCP | Contingency
- Audit
- Confidentiality policy
- Conflict of interest
- Complaints handling & whistleblowing

Dedicated Oversight Committee

- Regular briefings on surveillance activities

Calculation agent - Calculation function incl.

- Governance
- Controls
- Accountability

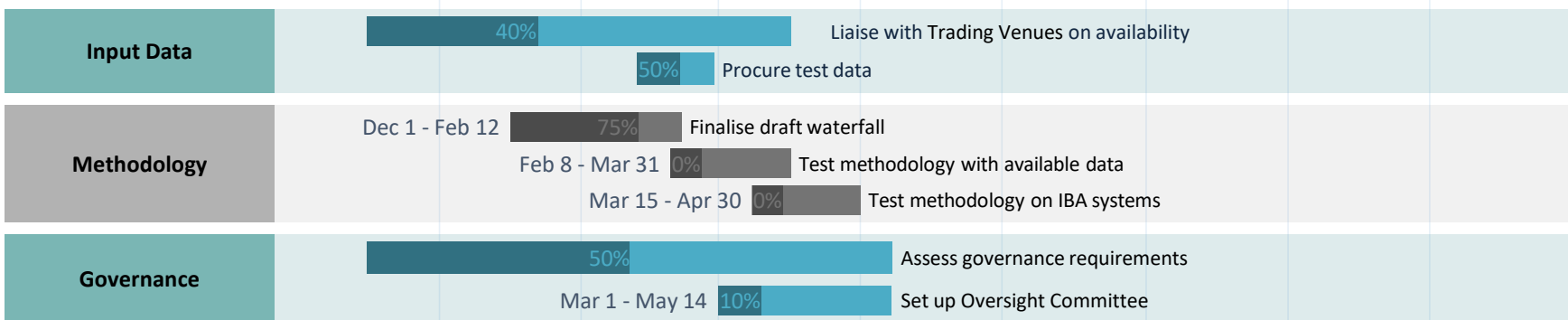
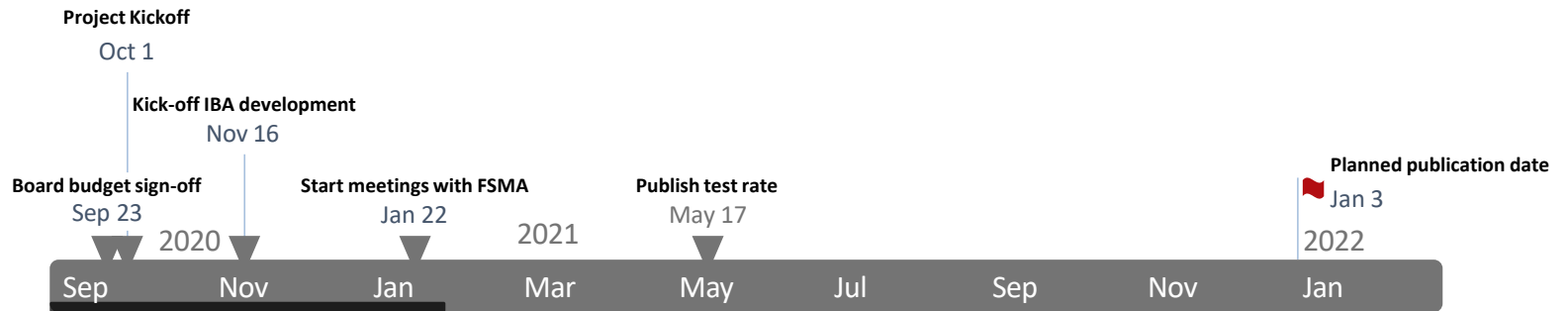
Outstanding experience in data quality management

- Sufficiency
- Back testing
- Publication checks

Initial Project Timeline

Initial timeline at the set-up of the EMMI/IBA project

- Test version of the €STR Term Rate is envisaged for Q2/2021 with a marketable final rate expected to be released in H2/2021.



Delays to be expected in the absence of substantial trading increase in €STR derivatives

- To date: advancement in all non-data dependent work streams.
- Current thin market data to impact the start of test rate publication and final implementation of the €STR Term Rate.

Progress on Methodology

- Draft methodology almost finalized; ready for test implementation.
- In order to facilitate testing, we are evaluating the use of EONIA swap data in the absence of sufficient €STR data.

Progress on Governance

- Progress on documents for the benchmark governance framework (Governance Code of Conduct, Code of Obligations of the Calculation Agent, applicable procedures such as whistleblowing and cessation policies).
- Terms of Reference of a Benchmark Oversight Committee are being finalised.
- EMMI has started regularly discussions of the project with its supervisor.

Progress on Operations

- The €STR Term Rate will be calculated by IBA, acting as a calculation agent, on existing systems; similar to the existing ICE Term Sonia Rate the calculation process.
- Re-use existing infrastructure between data providers and IBA.

Progress on Input data

- Procuring input data from trading venues, based on IBA's existing business relationships for SONIA derivatives data.
- Current availability of €STR-based derivatives data is scarce as market continues to trade on EONIA, with a significant move to €STR only expected later this year when CCPs convert EONIA outstandings to €STR.
- Futures prices data available for third level of calculation waterfall and comparison testing to swaps quotes.

Underlying liquidity market

- Currently, among the electronic trading venues that IBA is engaging with, only one has €STR-based quotes in Term €STR derivatives
- The absence of sufficient trading in €STR derivatives will cause delays in the testing of the methodology and the definition of waterfall parameters.
- In the meantime we are evaluating the use of historical EONIA swap data to perform back-testing in order to be able to look at the results of the different waterfall scenarios of the methodology.
- As it is reasonable to expect that EONIA activity will to a large extent shift to €STR, the use of “synthetic €STR” data could allow progress in methodology testing.

Diversification in terms of types of participants

- Liquidity provision will be driven by market makers on major trading venues
- Different waterfall levels reflect diverse market interests from diverse market makers (committed quotes and D2C quotes in swaps, prices in futures contracts).

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