

# AFGG's RESPONSE CONSULTATION

## FALLBACK EURIBOR

Report by

the ECB working group  
on euro risk-free rates

*6 February 2019*



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- Representing the business, financial and corporate interests of members, the entities that they manage (collective investment schemes) and their customers. As a talking partner of the public authorities of France and the European Union, the AFG makes an active contribution to new regulations,
- Informing and supporting its members; the AFG provides members with support on legal, tax, accounting and technical matters,
- Leading debate and discussion within the industry on rules of conduct, the protection and economic role of investment, corporate governance, investor representation, performance measurement, changes in management techniques, research, training, etc.
- Promoting the French asset management industry to investors, issuers, politicians and the media in France and abroad. The AFG represents the French industry – a world leader – in European and international bodies. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA), of PensionsEurope and of the International Investment Funds Association (IIFA).

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## Second public consultation on term rates by the working group on euro risk-free rates

1. For your current and future business, for which asset class would a forward-looking term rate methodology as a fallback to EURIBOR be required? (**essential/desirable/dispensable/not business-relevant**)

Financial Leasing	<b>essential</b>
OTC derivatives - both cleared and uncleared	<b>essential</b>
Exchange-traded derivatives	<b>essential</b>
Money Market or securities lending	<b>essential</b>
Capital/perpetual securities	<b>not business-relevant</b>
Floating rate notes	<b>essential</b>
Retail loans/mortgages	<b>not business-relevant</b>
Securitisation structures	<b>essential</b>
Corporate lending	<b>essential</b>

**Please elaborate on the reasons underlying your answer, also taking into account possible interactions among asset classes and related instruments.**

The AFG supports the development of a forward-looking term rate methodology as a fallback to Euribor which is a forward rate. This is all the more important as the current fallback clauses of the contracts referencing Euribor are not robust enough. Fallbacks vary from one instrument to another and are not permanent.

We agree with the working-group choice of forward-looking term rate rather than a backward looking. This would ease the transition to the fallback in the case it is activated as it does not change market practices.

We do not share the views of the WG stating there is a weak demand for a fallback for money market or securities lending.

**2. Do you agree with the working group's analysis of the OIS transactions-based methodology? (yes/no/no opinion)**

Yes

Please provide your assessment of the OIS transactions-based methodology in terms of (i) <b>data sufficiency (high/medium/low)</b>	<b>low</b>
Please provide your assessment of the OIS transactions-based methodology in terms of (ii) <b>transparency (high/medium/low)</b>	<b>medium</b>
Please provide your assessment of the OIS transactions-based methodology in terms of (iii) <b>overall feasibility (feasible/challenging/unviable)</b>	<b>feasible</b>

**Please elaborate.**

The AFG is in line with the WG analysis. A minimum number of transactions is necessary to calculate an accurate rate and, as the WG study indicated, the volume of data is not sufficient at the moment to have a pure transactions-based methodology. It should be feasible in the coming months if the availability of transactions referring to ESTER increases sharply.

**3. Do you agree with the working group's analysis of the OIS quotes-based methodology? (yes/no/no opinion)**

Yes

Please provide your assessment of the OIS quotes-based methodology in terms of (i) <b>data sufficiency (high/medium/low)</b>	<b>medium</b>
Please provide your assessment of the OIS quotes-based methodology in terms of (ii) <b>transparency (high/medium/low)</b>	<b>high</b>
Please provide your assessment of the OIS quotes-based methodology in terms of (iii) <b>overall feasibility (feasible/challenging/unviable)</b>	<b>feasible</b>

**Please elaborate.**

We share the views of the WG on that methodology but would like to express the following. First, the methodology relies on the assumption that there will be a sufficient number of dealers ready to quote and provide liquidity in tradable quotes for the different tenors but we do not know at the moment if this number would be reached.

Secondly, we recommend not to rely solely on regulations MiFID II and MAR to minimise the risk of manipulation but to set up a robust process to reduce this risk.

Finally, we would like to have some clarification on the mismatch between Euribor, which is published daily on the basis of quotes of the same day, and ESTER which will be published on the basis of transactions of the previous business day. Does it raise consistency issue for the ESTER term rate?

**4. Do you agree with the working group's conclusions regarding a point-in-time fixing? (yes/no/no opinion)**

Yes

**Please elaborate.**

We share the opinion of the WG that the shorter time window should be optimal as this would limit the risks in period of low volumes.

**5. Do you agree with the working group's analysis of the OIS composite methodology? (yes/no/no opinion)**

Yes

Please provide your assessment of the OIS composite methodology in terms of: (i) <b>data sufficiency (high/medium/low)</b>	<b>medium</b>
Please provide your assessment of the OIS composite methodology in terms of: (ii) <b>transparency (high/medium/low)</b>	<b>medium</b>
Please provide your assessment of the OIS composite methodology in terms of: (iii) <b>overall feasibility (feasible/challenging/unviable)</b>	<b>challenging</b>

**Please elaborate.**

We agree with the WG analysis on this composite methodology. Volume of transactions is currently not sufficient to build a robust term-rate. Implementing this composite methodology is also very challenging as it would require an adjustment of many parameters.

**6. Do you agree with the working group's analysis of the futures-based methodology? (yes/no/no opinion)**

Yes

**Assuming sufficient liquidity, what would be your view of the futures-based methodology?**

Please provide your assessment of the futures-based methodology in terms of (i) <b>data sufficiency (high/medium/low)</b>	<b>medium</b>
Please provide your assessment of the futures-based methodology in terms of (ii) <b>transparency (high/medium/low)</b>	<b>medium</b>
Please provide your assessment of the futures-based methodology in terms of (iii) <b>overall feasibility (feasible/challenging/unviable)</b>	<b>challenging</b>

**Please elaborate.**

As stated by the WG, in the absence of a liquid ESTER-based future market, this methodology is highly challenging to implement. This should be reconsidered in a few years if this market has developed significantly.

**7. Do you agree with the working group's assessment that the OIS quotes-based methodology offers the best prospect for producing a viable fallback rate within a reasonable time period following the launch of the daily ESTER publication? (yes/no/no opinion)**

Yes

**Please elaborate on the reasons for your most preferred forward-looking methodology, taking into account that your preferred methodology could serve as the basis for determining a fallback rate for Euribor.**

As pointed out in our previous answers, and given the fact that ESTER is currently not officially published, the OIS quotes-based methodology seems the best option in our views. That said, the WG should ensure the manipulation risk is minimised and the publication mismatch of ESTER and Euribor does not raise consistency issue. The choice of the methodology should be assessed again in a few years when market conditions will have changed.