Public consultation by the working group on €STR-based EURIBOR fallback rates

Response form

Please enter all your feedback in the grey coloured cells of this form using the drop-down menus where appropriate (i.e. where choices are provided and highlighted in the question in bold).

Please send your response to EuroRFR@ecb.europa.eu by 17:00 CET on 15 January 2021.

Institution/Company name:	BNP PARIBAS
Type of respondent:	Credit institution
Country code:	FR

Please note that the European Central Bank (ECB) and the European Commission (EC) will evaluate all the responses and prepare an anonymised summary of the feedback.
Individual feedback will not be published, and will only be shared between the ECB, as secretariat of the working group on euro risk-free rates, and the EC, as secretariat to the subgroup on cash and derivative products.

Question number	Question	Reply
Criteria used in the analysis of EURIBOR fallbacks rates (see Section 5.2)		
1	Can you identify any additional criteria that should be taken into account? (**yes** / **no** / **no opinion**) 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	No
	Please elaborate on the reasons for your answer.	We consider these criteria are both appropriate and exhaustive

<table>
<tr><td rowspan="2">2</td><td>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)</td><td>No</td></tr>
<tr><td>Please elaborate on the reasons for your answer.</td><td>We diiffer on a few important points points: the fact that there is no impediment to the creation of forward looking term rates, it is just a matter of time. And the fact that the most appropriate fallback rates for most cash products, and in particular for Corporate Lending are the Forward looking term rates.</td></tr>
<tr><td colspan="3">Use cases analysis (see Section 5.3)</td></tr>
<tr><td colspan="3">Corporate lending (Section 5.3.1)</td></tr>
<tr><td rowspan="3">3</td><td>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?</td><td>No</td></tr>
<tr><td>If not, what alternative methodology would you propose?

(Forward-looking / Backward-looking payment delay / Backward-looking last reset / Another alternative)</td><td>Forward-looking</td></tr>
<tr><td>Please elaborate on the reasons for your answer, also taking into account the possible interactions between asset classes and related instruments.</td><td>Forward Looking Term rates have been selected as the best possible LIBOR fallback rate for Corporate Loans in USD and JPY, following consultations by Industry Working Groups in these jurisdictions, and it would make total sense for EURIBOR Fallback recommendations to be aligned with those.
The advantage of this rate being that it fixes upfront and therefore, at least for all Loans that are not hedged (of which there are many) would be easier to manage and adapt to for many corporates.
It is worth noting that more than 90% of hardwired fallback clauses in USD Business Loans have USD SOFR Term Rates as the preferred fallback rates, and those are mostly with Large US Corporates.
European Corporates will prefer to use a Term rate than a compounded rate that brings a significant level of complexity, totally unnecessary in the Large Corporate RCF market.</td></tr>
<tr><td colspan="3">Mortgages, consumer loans and SME loans (Section 5.3.2)</td></tr>
<tr><td rowspan="2"></td><td>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)</td><td>Yes</td></tr>
<tr><td>If not, what alternative methodology would you propose?

(Backward-looking payment delay / Backward-looking lookback period / Backward-looking last reset / Another alternative)</td><td></td></tr>
</table>

4.1	**Please elaborate** on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	Rates fixed in advance, at the start of each interest period are the most appropriate for lending to retail clients, private banking clients, and small /medium companies for several reasons: (1) In the Eurozone where most of the EURIBOR lending takes place, the laws and customer protection dispositions of several countries require that rates fixing in advance are used, so clients know early what payments they shall make (or receive) (2) The smallest, least sophisticated clients will likely be unable to adpat their processes to manage rates fixing in arrears (3) Forward looking term rates are a better solution than Last Reset Rates, as the latter pose serious risk management issues (as shown in section 5.2)
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**)	a
	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.	The reasons are the same as those mentionned in 4.1
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**)	Yes
	Please indicate whether you are (representing) a lender or a borrower.	Lender
	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.	Legal risk, arising from the usage of this type of rate being potentially in contradiction with existing Consumer Protection Laws will be a major impediment in the main markets we operate in

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**)	Yes
	Please indicate whether you are (representing) a lender or a borrower.	Lender
	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.	Risk management issues will arise, and in case of long term tenors, they may lead to switching to fixed rate, which risk can be managed rather than continuing to use a floating rate which risk can not be managed, or not be managed at an acceptable cost
Current accounts (Section 5.3.3)		
5	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**)	Yes
	If not, what alternative methodology would you propose? (**Forward-looking** / **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.	The backward looking methodology is already used by most if not all institutions for the periodic calculation of interest applied to daily balaces of current accounts
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**)	Yes
	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.	Most trade finance products are discounting interest due from disbursed amount upfront. For that purpose a rate know in advance is an absolute must.

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**)	Yes
	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.	Last reset despite its drawbacks would be the only operationally feasible alternative to Term Rate in case the latter is temporarily or permanently unavailable.
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 <u>majority</u> of EURIBOR-linked products used for export and emerging markets finance products? (**yes** / **no** / **no opinion**)	Yes
	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.	Term Rates are much easier to manage in a context where FX must be arranged sufficiently in advance of principal and interest payment dates.
	Do you agree with the working group's conclusion that for some export and emerging markets finance products – <u>those involving sophisticated counterparties and developed markets</u> – 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**)	No

7.2	**If not**, what alternative methodology would you propose? (**Forward-looking** / **Backward-looking payment delay** / **Backward-looking last reset** / **Another alternative**)	Forward-looking
	Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	As for Large Corporate clients, a number of sophisticated export and emerging market players may prefer the simplicity of Term rates, like US Corporate clients do. However, we do acknowledge that in case a perfect hedge is required for an SPV financing, then the backward dated compounded method will give better results and may be recommended.
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**)	Yes
	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.	This the US methodology that we recommend for all large corporate users.
	Debt securities (Section 5.3.6)	
8	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**)	Yes
	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.	This method does not introduce any incremental volatility because it doesn't reduce the reference period in comparison to the interest period.
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? (**yes** / **no** / **no opinion**)	Yes
	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 underlying your answer, also taking into account possible interactions among asset classes and related instruments.	In securitisation, it is important to match asset cash flow and financing cash flow as closely as possible.
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? (**yes** / **no** / **no opinion**)	Yes
	If not, what alternative methodology would you propose? (**Backward-looking payment delay** / **Backward-looking lookback period** / **Backward-looking last reset** / A**nother alternative**)	
	Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	See 9,1
Transfer pricing models (Section 5.3.9)		
	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 <u>for non-financial companies</u>? (**yes** / **no** / **no opinion**)	Yes

10.1	**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.	This makes sense - although it is inconsistent with the EUR RFR WG recommendation for Corporate loans in this consultation. Generally, as mentionned in answers to questions 10.2 and 10.3, there is a need for flexibility as far as rate conventions used for FTPs are concerrnced.
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 <u>for financial companies</u>? (**yes** / **no** / **no opinion**)	No
	If not, what alternative methodology would you propose? (**Backward-looking payment delay** / **Backward-looking last reset** / **Another alternative**)	Another alternative
	Please elaborate on the reasons for your answer, also taking into account possible interactions between asset classes and related instruments.	FTPs are usually internal conventions agreed between companies and their subsidiaries, which are often not documented in legal contracts and on which flexibility is needed. So best would be to leave flexibility. In addition, since FTPs are used to finance the assets of a subsidiary and we consider that most assets to be financed will be indexed on forward looking rates, it would make sense for FTPs to be mostly using forward looking term rates (especially in the case of long term assets).
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**)	No
	If not, what alternative methodology would you propose for the second level of the waterfall? (**Backward-looking payment delay** / **Backward-looking lookback** / **Another alternative**)	Another alternative
	Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.	This is mostly not relevant as FTPs are internal conventions, agreed between a company and its subsidiaries, and most often not documented in legal contracts. They would be in the case on subisdiaries that are not fully owned, but it is not common enough to lead to generally recommend a waterfall of fallback rates.

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 fund? (**Forward-looking** / **Backward-looking lookback period** / **Another alternative**)	Forward-looking
	Please elaborate on the reasons for your answers, also taking into account possible interactions between asset classes and related instruments.	
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**)	Yes
	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.	
Asset classes and use cases		
12	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**)	No
	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.	

Spread adjustment (see Chapter 6)		
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**)	Yes
	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.	This methodology is most likely to reduce transfer pricing risks at the time of the switch to fallback rates.
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.	a)
	Please elaborate on the reasons for your answer.	Working Groups in other jusridictions have recommended this methodology for Derivatives and Cash products, and doing the same would introduce a global consistency, which is highly desirable here. Chosing another methodology would also be very difficult to justify and explain.
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
	Please elaborate on the reasons for your answer.	This is simple. And adjusting the spread methodology to the fallback rate has little to no merits as the spread obtained would essentially be the same (very close numerically if not identical): as studied and explained by the ARRC in its consultation on adjustment spreads for cash products.

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
	Please elaborate on the reasons for your answer.	In terms of historical market data: €STR fixings should be used first when available, then ECB pre-€STR data, and if historical data is still missing after that, (EONIA fixings - 8,5 bp) should be used to determine past €STR fixings.
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? (**yes** / **no** / **no opinion**)	No
	Please give the reasons for your answer, and explain for which cash products the above might, or might not be, useful.	We believe that it would add too much operational complexity.
Calculation methodologies andd conventions (see Chapter 7)		
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? (**yes** / **no** / **no opinion**)	Yes
	Please elaborate on the reasons for your answer.	Neutral data references are important for corporate and SME borrowers.
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? (**yes** / **no** / **no opinion**)	Yes
	Please elaborate on the reasons for your answer.	The floor that pre-existed on EURIBOR for Legacy contracts should be replaced by a floor on the all-in [€STR-based fallback rate + Additional spread], since this all-in rate would best represent EURIBOR at the time of its cessation. else there would be no economic equivalence. However, it would not be true and applicable in new contracts.
	Do you agree that, in general, compounding the rate is the best calculation methodology? (**yes** / **no** / **no opinion**)	Yes

20	**Please elaborate** on the reasons for your answer.	We agree with the analysis, however it will be important when presenting the results of the consultation to explain that this question is not - as it may seem - a generic question, applicale to all asset classes but a methodology point.
21	Do you agree that the backward-looking lookback period term structure methodology with an observational shift is the preferable calculation methodology? (**yes** / **no** / **no opinion**)	Yes
	Do you agree that the lag approach is a viable and robust alternative to the observation shift? (**yes** / **no** / **no opinion**)	Yes
	Please elaborate on the reasons for your answer.	We would have liked to recommend ‘shift’ rather than ‘lag’ for all cash products, but this would not match the ARRC and UK WG recommendations for Loans- which are to use ‘lag’, and which the market has started to adopt. And we do not think that the EUR, USD and GBP Loan markets can diverge. However, we agree with the proposed recommendation to use the ‘shift’ methodology in the case of Bonds fallback rates, in particular especially as it would be consistent with the methodology of derivatives, which are often used to hedge bonds. The only exception being for Bonds used in ‘bridge to bond facilities’, where the convention should be the one used for Loans (i.e. ‘lag’).