

ECB policy and procedure for cessation of the euro short-term rate (€STR)

June 2020

1 Legal basis and role of the Oversight Committee

As the administrator of the euro short-term rate (€STR), the ECB has certain relevant tasks and responsibilities that are set out in Guideline (EU) 2019/1265¹ (hereafter the “Guideline”).

One of these tasks is that, pursuant to Article 10 of the Guideline, the ECB is required to:

“adopt clear written policies and procedures on the possible cessation of the euro short-term rate owing to a situation, or any other condition, which makes the euro short-term rate no longer representative of the underlying interest”.

The €STR Oversight Committee is tasked with reviewing any proposed cessation policy and procedures and any material changes thereto. Pursuant to Article 9(5)(d) of the Guideline, the Committee is required to:

“review proposed and implemented material changes and proposed policies and procedures on the possible cessation of the euro short-term rate, and request the ECB to consult with stakeholders prior to implementing such material changes or adopting such policies or procedures in accordance with Article 14”.

2 Cessation as a last resort

2.1 €STR cessation

The €STR is intended to provide a robust and reliable benchmark rate for the euro area.

¹ Guideline (EU) 2019/1265 of the European Central Bank of 10 July 2019 on the euro short-term rate (€STR) (ECB/2019/19) (OJ L 199, 26.7.2019, p. 8).

Given that (i) the €STR is based on daily statistical information which the reporting institutions are required to submit to the ESCB, and (ii) the ECB regularly conducts reviews of the methodology to ensure that the underlying interest of the €STR is adequately represented by the rate (see Section 2.2 below), it is highly unlikely that a situation would arise in which the option of ceasing production of the €STR would need to be considered.

Nevertheless, the ECB recognises the importance of having credible cessation policies and procedures in line with the International Organization of Securities Commissions' Principles for Financial Benchmarks, which would apply in the unlikely event the institution considers that it should cease to produce the €STR.

2.2 Review of the methodology of the €STR

In accordance with Article 9 of the Guideline, the Oversight Committee periodically reviews the €STR methodology² to ensure that the rate reflects the market it is designed to measure. In addition, the Oversight Committee oversees any material changes to the €STR methodology by assessing whether the €STR continues to appropriately measure the underlying interest as stated in the methodology. The actions taken by the ECB, as the €STR administrator acting on the advice of the Oversight Committee, are expected to minimise the risk of a possible cessation of the €STR.

3 Procedures

Prior to the ECB taking a decision on the cessation of the €STR, the following procedures shall be followed.

- (i) The Oversight Committee shall assess the conditions in the market, taking into account:
 - (a) changes in the market structure, including changes in market participants' behaviour and product preferences;
 - (b) any condition that results in the €STR no longer reflecting the underlying interest the rate is supposed to measure (e.g. data are insufficient to produce a reliable rate because the number of transactions is very low or data integrity is very poor) and that can no longer be remediated by a change in methodology;
 - (c) changes that are due to external factors beyond the control of the ECB;
 - (d) any other relevant considerations.

² See "The Euro short-term rate (€STR) methodology and policies", ECB, Frankfurt am Main, June 2018.

- (ii) Before advising the decision-making bodies on the cessation of the €STR, the Oversight Committee may request, to the extent it is reasonable and practicable, that the ECB consults relevant users and other stakeholders, pursuant to Section 4 below.
- (iii) Following the above assessment by the Oversight Committee, and on a proposal from the Executive Board, the Governing Council may decide that the ECB should cease to produce the €STR as of a certain date and time. In such a case, the Governing Council may also adopt a transition plan, including a recommended fall-back rate for the €STR to be used by the market.

4 Consultation with stakeholders

In accordance with Article 14 of the Guideline, the ECB will consult with stakeholders, to the extent it is reasonable and practicable, prior to the implementation of any material change, or the adoption of policies or procedures on the possible cessation of the €STR, and following review thereof by the Oversight Committee.

5 Publication

This policy and list of procedures shall be published on the ECB's website.

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