BLACKROCK®

February 1, 2019

Submitted via email: EuroRFR@ecb.europa.eu

Re: Consultation on determining an ESTER-based term structure methodology as a fallback in EURIBOR-linked contracts

Dear Sirs,

BlackRock is pleased to have the opportunity to respond to the public consultation by the working group on euro risk-free rates on determining an ESTER-based term structure methodology as a fallback in EURIBOR-linked contracts published in December 2018.

As an asset manager, BlackRock acts as a fiduciary on behalf of our clients. In this regard, we note that BlackRock has a diverse range of clients with different investment strategies and objectives.[1] As such, while we have endeavoured to respond to the questions raised in the consultation, we note that preferences may be varied depending on each client's and portfolio's objectives, and the solutions we ultimately choose to pursue in consultation with different clients may not be uniform.

Further, as considerations of global benchmark reform continue, we find it important to highlight the need for global coordination and for solutions to avoid imposing significant costs to investors. Investors manage portfolios across asset classes on a holistic basis with the returns from those asset classes complementing each other (both asset owners as well as asset managers managing money on behalf of their clients), so the need for coordination among asset classes and currencies is imperative. We describe our views on global benchmark reform more broadly in our *ViewPoint*, LIBOR: The Next Chapter.[2]

Responses to specific questions

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

In our view, a forward-looking term ESTER as a fallback to EURIBOR would be desirable for corporate borrowers, retail loans and mortgages primarily due to operational issues that can arise if a term rate was not available as a replacement rate. In the event of a permanent cessation of EURIBOR, having a term rate as fallback would ease the transition for securitisation structures and floating rate notes. However, floating rate notes and certain securitisation structures, depending on the interest rate referenced by the underlying assets, could also be capable of being transitioned to an overnight rate with appropriate spread adjustments. Therefore, whilst it would be desirable, we do not think it is essential to have a term ESTER as fallback for floating rate notes and securitisation structures. What is essential in our view is a global cohesion in the fallbacks for IBORs and for fallbacks to be

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

[2] BlackRock *ViewPoint*, LIBOR: The Next Chapter (Apr 2018), available at https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-libor-the-next-chapter-april-2018.pdf.

consistent across the derivatives and cash markets, in particular with respect to triggers and spread adjustments.

Question 2: Do you agree with the working group's analysis of the OIS transactions-based methodology? Please provide your assessment of the OIS transactions-based methodology in terms of (i) data sufficiency, (ii) transparency, as well as (iii) overall feasibility

We broadly agree with the working group's analysis that data sufficiency is far too low for the transactions-based approach to be viable as a robust fallback. We would find it very difficult to reconcile relying on transactional data to replace EURIBOR when the current volumes in EONIA transactions presented in section 5.2.4 of the consultation document fall short of those currently used to calculate EONIA which has been designated as not BMR compliant.

Question 3: Do you agree with the working group's analysis of the OIS quotes-based methodology? Please provide your assessment of the OIS quotes-based methodology in terms of (i) data sufficiency, (ii) transparency, as well as (iii) overall feasibility

We broadly agree that the quotes-based approach is preferable to the transactions-based approach in that it is still available with only a limited number of transactions and thus we can be more confident in its availability. However, the numbers presented in section 5.2.4 of the consultation document on actual swap market volumes look small (certainly relative to the daily volumes of transactions that will underpin ESTER) we would question the assertion that the risk of manipulation is substantially reduced, particularly for a point-in-time fixing.

Question 4: Do you agree with the working groups conclusions regarding a point-in-time fixing?

We do not agree with the working group's firm conclusions regarding a point-in-time fixing. The primary driver of benchmark reform is to produce more robust benchmark indices. In all cases this has meant moving from indices based on a very small dataset (EURIBOR/EONIA) to indices based on a broader and more difficult to manipulate dataset.

We have already commented that daily volumes for EONIA swaps seem less than desirable, so to try to rely on even a small sub-set of those transactions would seem to further weaken the robustness of the fallback.

We note that it is quite common in the equity market for investors to trade on a TWAP or VWAP basis so would expect the ESTER swap market to evolve and accommodate that practice were a similar calculation methodology be used.

Question 5: Do you agree with the working group's analysis of the OIS composite methodology? Please provide your assessment of the OIS composite methodology in terms of (i) data sufficiency, (ii) transparency, as well as (iii) overall feasibility

We agree with the analysis of the composite methodology. The rules for determining whether to use transactions or quotes would make the fallback non-transparent, and trying to form an agreement on what those rules should be would make the composite methodology unviable to implement in our view.

Question 6: Do you agree with the working group's analysis of the futures-based methodology? 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) data sufficiency, (ii) transparency, as well as (iii) overall feasibility

We broadly agree with the analysis of the futures-based methodology. The use of data from a regulated futures exchange gives us more confidence that such a fallback would be less open to manipulation than the transaction or quotes based approaches (although they could be used in conjunction with the futures-based approach).

As with the other approaches, there is a reliance on there being sufficient liquidity/volumes in the underlying market to make it robust, and as the market is not yet trading it is hard to be overly confident. However, transactional volumes in EURIBOR futures suggest the potential for volumes in an ESTER futures market to be several multiples of volumes in 3M EONIA swaps which does provide some cause for optimism.

Question 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? 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

We do not agree with the assessment that the quotes-based methodology offers the best prospect for a viable forward-looking fallback rate in a reasonable time period: an approach that uses actual ESTER fixings would be more robust and have a broader dataset to be able to use when calculating the appropriate EURIBOR-fallback rate adjustment (i.e. could use the historical ESTER fixings produced by the ECB already rather than relying on an ESTER derivatives market to start trading).

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We thank the Working Group on Euro Risk-Free Rates for providing BlackRock with the opportunity to comment on the consultation. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Stephen Fisher
Managing Director, Global Public Policy

Evan Guppy
Director, Global Fixed Income

Deniz Yegenaga
Director, Global Fixed Income