BLACKROCK®

February 1, 2019

Submitted via email: EuroRFR@ecb.europa.eu

Re: Report by the working group on euro risk-free rates on the transition from EONIA to ESTER

Dear Sirs,

BlackRock is pleased to have the opportunity to respond to the questions raised in the report by the working group on euro risk-free rates on the transition from EONIA to ESTER, 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 report, 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]

<u>**Responses to specific questions**</u>

Question 1: Do you agree with the working group's recommendation that the preferred transition path is the time-limited recalibration approach with spread and clean discounting?

Yes. The existence of a firm deadline for needing to transition away from EONIA creates a strong incentive for a voluntary transition (i.e. non-reliance on fallbacks) whilst recognising that different market participants can move at different speeds.

Recalibration with spread is preferred to reduce perceived value transfer and would likely be consistent with security valuations in the event that EONIA ceases to be published and an ISDA-like fallback adopted.

Whilst we agree that clean discounting is preferable to dual discounting due to its lighter operational impact, successful implementation would require that collateral be compensated at ESTER+spread to avoid transfer of value.

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[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.

Question 2: If not, what would be your preferred option and why?

N/A

Question 3: Do you agree that a publication deadline for the recalibrated EONIA of end-2021 is sufficient for a smooth transition under the recalibration approach with spread and clean discounting path?

We believe that the end-2021 deadline presents an optimistic timeline for the phasing out of EONIA from financial markets. We believe that end-2023 would be a more realistic deadline.

Whilst it is a reasonable timeframe for establishment of a liquid market for ESTER products, experience in the take-up of SOFR products in the US and SONIA products in the UK suggests it might be challenging for some market participants to be ready within this timeline. Furthermore, the transition to ESTER has the additional challenge of needing amendments to legal documentation to remove reference to EONIA as PAI.

ISDA undertook a comparable exercise in 2014 with the publication of its negative rates protocol, and that took two years to finalise and several further months before adoption was widespread. With ISDA also working on fallback protocols at present and Brexit discussions ongoing, the capacity of financial lawyers over the next few years seems likely to be limited.

Question 4: Do you have any other ideas to accelerate the transition of the derivatives market to ESTER?

N/A

Question 5: Do you see any benefit in the new recalibrated EONIA to be authorised and supervised until its publication deadline?

Yes. This would ensure that the index retains legitimacy as long as it is being published and may also be important to avoid triggering fallback protocols.

Question 6: Do you agree with a spread methodology based on a 1-year pre-ESTER historical data period, calculated as an average with a 15% trimming?

We note that both the ISDA fallback and ARRC seem to be heading towards using a historical spread methodology using a longer data period.
Whilst we recognise the limitations of the data available for pre-ESTER, we would prefer an approach that is more consistent with ISDA/ARRC. It is important that the processes used to transition to new RFR are widely seen as robust and if they are consistent it is easier to message to end users that the ‘right’ approach is being used in all cases.

With that said, given the stability of the spread between pre-ESTER and EONIA in the data available the economic difference between the proposed approach and a longer window (say back to the first available date of pre-ESTER) is negligible so we would also be supportive of a 1 year data period.

We would also agree with the use of either a trimmed mean or median in order to reduce the impact of outlier data points which may be a concern for such a new data series.

Question 7: If not, what would be your preferred option and why?

N/A

Question 8: How much time do you think would be the minimum to make your systems ready for ESTER T+1 publication and why?

We estimate the time required to make our systems ready as 6-9 months. We note that a full system readiness will partly depend on vendors and service providers outside of our firm, making it difficult to estimate the timeline with any certainty.

We would emphasise that our individual readiness is not sufficient: successful implementation across the market requires readiness across market participants to ensure that there is sufficient time for a well-functioning ESTER market to develop.
The experience in the development of SOFR and related markets is that timing on systems readiness varies across organisations and some market participants will likely require considerably longer to be operationally ready to trade products using ESTER.

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We thank the Working Group on Euro Risk-Free Rates for providing BlackRock with the opportunity to comment on the report. 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

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