

Answers of the European Financial Congress¹ to the questions asked in the European Central Bank's consultation on developing euro unsecured overnight interest rate²

Methodology for preparing the answers

The answers were prepared in the following stages:

Stage 1

A group of experts from the Polish financial sector were invited to participate in the survey. They received selected extracts of the ECB's consultation paper. The experts were guaranteed anonymity.

Stage 2

The survey project coordinators from the European Financial Congress prepared a draft synthesis of opinions submitted by the experts. The draft synthesis was sent to the experts participating in the survey with the request to mark the passages that should be modified in the final position and to propose modifications and additions as well as marking the passages they did not agree with.

Stage 3

On the basis of the responses received, the final version of the European Financial Congress' answers was prepared.

¹ European Financial Congress (EFC – www.efcongress.com). The purpose of the regular debates held within the EFC is to ensure the financial security of the European Union and Poland.

² https://www.ecb.europa.eu/paym/pdf/cons/euoir/consultation_details_201803.pdf

Answers to the consultation questions

Re Section 2 *Assessing data sufficiency*

Q 1

Do you agree that a €1 million threshold is preferable to any higher threshold, as it adequately reduces operational burdens while limiting any loss of information? Please elaborate.

The € 1 million threshold now makes sense as it does not cause a significant loss of the volume or the information value of the index. However, the nominal value of the threshold should be periodically reviewed and updated, if necessary, so that if, for example, the number of transactions below the threshold increases (in terms of number or volume) or if the price impact of the transactions is significant, those transactions could be added to the index.

Re Section 3 *Calculation methodology*

Q 2

Do you agree with the proposal to apply trimming at the level of 25% in order to reduce the volatility of the daily rate? Please provide details of the reasoning underpinning your assessment.

Trimming the amount of data by 50% to eliminate outliers is probably too radical an approach. Data analysis shows that trimming at the level of 10–15% gives satisfactory results. However, a systemic solution to be considered, which does not lead to information loss, is having an index based on a median which in turn is based on all observations.

Re Section 4 *Operational design features*

Q 3.1

Do you agree with the proposed data sufficiency policy? Please elaborate.

The proposed data sufficiency policy seems to be appropriate at the present stage. The key point is to determine the rate based on actual transactions and to ensure an appropriate number of contributors. It is appropriate for the document to indicate specificity of the euro area, which results from diversification of financial markets of individual countries. The methodology (and the scope of data) should be periodically reviewed and adjusted if needed to ensure that the data used are not overly simplified and standardised and that they reflect the specificity of the euro area. Excessive standardisation within the euro area, which is fairly diversified, may cause a very significant loss of information and distort the real picture.

Q3.2

Do you agree with the proposed criteria for moving to a contingency procedure? Please elaborate.

The procedure includes cases where there are too few banks and where the concentration of transactions is too high in several banks, and as such seems a reasonable approach. However, it is worth considering a case where the concentration of reported transactions is too high.

Q 3.3

Would you suggest other criteria for implementing a contingency procedure, taking account of the specificity of the euro area? Please elaborate.

The procedure should take into account the risk of excessive concentration of transactions originating from one or several banks. In particular such situations may arise in the case of national holidays and if the panelists' structure changes from day to day (this effect may also be deepened if 50% of the sample is cut off). Also such events as joining or leaving the group of panelists by a bank should trigger an analysis of concentration and related procedures.

Q 4

Do you agree with the proposed calculation methodology for the contingency rate? Please elaborate.

The proposed rule of combining the previous day rate with the rates available on a given day, taking into account a change in interest rates (if the contingency procedure is activated on the day when the interest rate change occurs) seems to be correct. However, it is worth testing this method and present results to the stakeholders. Such analysis may also be the basis for modifying this proposal, if participants note weaknesses of the methodology in certain scenarios.

Q 5.1

Do you agree that a rate with three decimal places provides sufficiently precise information? Please elaborate.

EURIBOR rates published with three decimal places will be precise enough.

Q 5.2

Do you agree with the daily publication of the variables listed in the bullet points above? Please elaborate.

Yes. Transparency of publications is very important in building confidence for the reference rate. However, it is worth considering whether some elements should

not be published with a delay (e.g. rates for the 25th and 75th percentile). In addition, publishing certain information with a geographical distribution could also be considered.

Q 5.3

Do you think that correcting an already published rate would be necessary? If so, please elaborate in which timeframe on the same day a republication may be useful.

Such situations should be exceptional and used only if no major errors are identified (parameters to be discussed – e.g. the impact of an error on the reference rate in excess of three standard deviations).

Q 6.1

Do you regard the envisaged delayed publication of daily rate and volume data during the preparatory phase as sufficient in terms of its scope and the planned start date? Please elaborate.

It is important to ensure that all stakeholders have a full understanding of the specific nature of the new rate before its official implementation. The proposed annual learning period seems to be sufficient, assuming effective and frequent communication between the ECB and stakeholders.

Q 6.2

Please specify any additional features that you deem necessary as regards those regular updates.

Describing and justifying changes introduced by the ECB in the model as well as providing interpretation of any unusual results of the model would contribute a significant value.

Q7

Are there other high-level features or issues that should be taken into account and have not been sufficiently covered by the previous questions?

No.
