

PRESS RELEASE

21 January 2019

Private sector working group publishes “Guiding principles for fallback provisions in new contracts for euro-denominated cash products”

- Working group highlights importance of market participants preparing for transition to risk-free rates
- Paper proposes guiding principles promoting use of effective fallback provisions in new contracts for euro-denominated cash products

The working group on euro risk-free rates, for which the European Central Bank (ECB) provides the secretariat, has published the paper “Guiding principles for fallback provisions in new contracts for euro-denominated cash products”. The paper offers an overview of the legal frameworks and market practices applicable to cash products, such as mortgages, loans and bonds, that reference EURIBOR and EONIA, with a specific focus on fallback clauses. It is important that market participants prepare for the transition to risk-free rates and the paper proposes a set of guiding principles promoting the use of effective fallback provisions in new contracts for euro-denominated cash products. In the course of 2019, the working group intends to recommend more detailed fallback language to be used in legacy and new euro-denominated contracts.

The working group on euro risk-free rates is an industry-led group established in 2018 by the ECB, the Financial Services and Markets Authority, the European Securities and Markets Authority, and the European Commission. Its main tasks are to identify and to recommend alternative risk-free rates and transition paths. On 13 September 2018 the working group recommended ESTER as the new euro risk-free rate. ESTER reflects the wholesale euro unsecured overnight borrowing costs of euro area banks and will be published by the ECB as of October 2019 at the latest.

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