Frankfurt am Main,
12 January 2018

BVI`s position on the first ECB public consultation on developing an euro unsecured overnight interest rate

BVI[1] supports the initiatives started by the ECB and other relevant stakeholders (e.g. EMMI institute) to develop new alternative benchmarks (e.g. unsecured overnight interest rates) complementing existing benchmark rates.

Fund management companies are generally not involved in the production, calculation and contribution to data on which benchmarks are based. They are, however, important users of benchmarks either in the case of passively managed funds, mostly exchange traded funds (ETFs), which use benchmarks as the blueprint for the composition of their portfolios, or in order to evaluate an active manager's performance by measuring the fund performance against a selected index or a set of indices (e.g. Eonia, Libor/Euribor). Such benchmark rates are also used in multi-asset products as a component of their performance benchmark or to track the performance in money markets funds and to calculate the performance fees in investment funds.

When using benchmarks, fund management companies have to adhere to extensive regulatory obligations on the use of financial indices, e.g. under the UCITS Directive.[2] Money market funds are also active players in the unsecured overnight market.

We agree with the proposed framework/definition to develop an unsecured overnight interest rate which should be representative of the euro area and reflects the very short tenor (e.g. overnight). The newly created reference rate should reflect the activity and the market-based funding costs in the market segment it covers. We support the idea that the new rate should reflect banks` daily funding costs, given the fact that credit institutions are the main market participants of the short-term funding market. We share the ECB view that the new rate could reflect money market deposits and also commercial papers.

Beyond the proposed framework we would like to highlight one additional matter in the case of Eonia`s discontinuation after 2020. The new reference rate will be the main substitute for Eonia. It will therefore be relevant for all (investment fund) mandates which are linked to Eonia. The transition process requires good and early knowledge of the alternative rate and clarity as to the potential spread and the changes to be brought into the legal documentation. In that context, fund management companies have to review the legal fund documentation (e.g. fund rules, KIIDs and Prospectuses) which would require the approval of the client and also of the regulator.

In order to facilitate this process, clarity as to the features of the rate and early communication on them, as well as concrete information on the transition process itself will be of key importance for users. A sufficient transition period for existing products to adapt to the new reference rate will be crucial.

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[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Fund companies act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's over 100 members manage assets of nearly 3 trillion euros for private investors, insurance companies, pension and retirement schemes, banks, churches and foundations. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

[2] ESMA Guidelines on ETFs and other UCITS issues (ESMA/2012/832/EN)

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