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1. Introduction

Refinitiv, a London Stock Exchange Group business, is a leading calculator and administrator of benchmarks and indices.

On 26 October 2022, Refinitiv commenced production of a Term €STR prototype using a two-level waterfall. The first level of the waterfall collected €STR Overnight Index Swap ("OIS") quote data from a dealer-to-client trading platform every 10 minutes between 09:00 and 16:00CET. If there was insufficient data the rate would have been calculated using the integrated fallback, which is composed of a spread adjusted compound €STR rate. The prototype comprised of five tenors: spot-week, 1-month, 3-months, 6-months and 12-months and was published on TARGET2 business days at or around 11:30am CET.

On 26 June 2023, the prototype methodology was enhanced to incorporate executed trade data and adopted a longer collection window. It is calculated using a combination of eligible spot starting €STR OIS executed trades and quotes collected between 09:00-18:00CET on the previous TARGET2 business day. If there is insufficient trade and/or quote data the rate will be calculated using the same integrated fallback as used in the original prototype, which is composed of a spread adjusted compound €STR rate. This enhanced prototype comprises the same five tenors and is published on TARGET2 business days at the same time as the original prototype.

The Refinitiv Term €STR prototype is provided for informational purposes only. It is not intended to be construed or used as a benchmark whether as a reference rate in financial instruments or financial contracts or for valuation and pricing activities until a production version is made available. The purpose of the prototype is to enable market participants to assess its behaviour.

On 26 June 2023, Refinitiv issued a consultation paper to collect feedback on the design of Refinitiv Term €STR. Refinitiv also held a series of one-on-one meetings with target users of the rate. A summary of the key points received in response to the consultation and one-on-one client meetings, as well as the decisions taken by Refinitiv are in Section 3. Refinitiv is grateful for those who provided feedback on Refinitiv Term €STR.

2. Executive summary

Respondents were supportive of the current Refinitiv Term €STR design and the use of executed trade data collected during a long window. They suggested minor changes to improve the rate. This feedback has been considered and in response, the following changes will be made to Refinitiv Term €STR when it transitions from prototype to production:

- Minimum volume thresholds will be calibrated to be specific for each tenor and data source. For executed trade data, these minimum volume thresholds will take into account DV01 and for quote data these minimum volume thresholds will take into account current market behaviour.
- The publication time will be 30 minutes earlier to at or around 11:00CET; and
- The last time that the rate can be refixed will be moved to earlier in the day to allow users to update their systems on the publication date.

3. Summary of feedback and outcomes

Through a combination of interviews and written consultation feedback Refinitiv received comments from 13 banks. No buy-side institutions or corporates provided feedback. Not all respondents answered all questions.

Q1: Do you agree with Refinitiv’s choice of collection window?

Refinitiv currently use a collection window of 09:00-18:00CET for both trade and quote data. All respondents agreed with this collection window. They were supportive of the proposed collection window because it is consistent with the existing market convention and collects most of the available trade data.

Refinitiv will retain the existing collection window of 09:00-18:00CET for both trade and quote data.
Q2: Do you think the minimum volume thresholds should be based on a consistent DV01 across all five tenors? Do you think the minimum volume thresholds should be the same for trade and quote data? Please provide a rationale for your answer.

Five respondents believe it is important to adjust the minimum volume size based on DV01. One of them suggested adjusting the DV01 per tenor to mitigate the duration effect and another highlighted the importance of using the minimum volume threshold in conjunction with a minimum amount of trade or quote data. The current methodology already takes data availability into account when determining whether the final published rate should be based on trade and/or quote data or applying a spread adjustment to the previous day’s rate.

Two respondents were supportive of using large minimum volume thresholds to ensure the benchmark wouldn’t be affected by smaller trades. One respondent suggested setting the minimum volume threshold at a low level to ensure the benchmark collected as much data as possible and was reflective of the whole market.

The remaining respondents had no objections or no views on our minimum volume thresholds.

Refinitiv will calibrate the minimum volume thresholds specific to each tenor and data source. For executed trade data, these minimum volume thresholds will take into account DV01 and for quote data these minimum volume thresholds will take into account current market behaviour. Furthermore, the minimum volume thresholds for trade data will be set so as to maximise data availability whilst not include smaller trades that may be less representative of the market or increase the risk of manipulation.

Q3: Do you agree that Refinitiv should trim the top 20% and bottom 20% of values before calculating the mean?

Seven respondents preferred a trimmed mean but did not express a view on whether 20% was an appropriate amount to trim from the top and bottom. Some highlighted that this approach is consistent with other European interest rate benchmarks. One respondent preferred a median. The remaining respondents didn’t have a clear preference.

Refinitiv will retain the existing approach of trimming the top 20% and bottom 20% of values before calculating the mean.

Q4: Would you prefer the prototype to be published shortly before 11:00CET (e.g., 10:45CET), at 11:00CET or shortly after 11:00CET (e.g., 11:30CET)?

Eight respondents preferred for Term €STR to be published at or shortly before 11:00CET. One respondent would like the rate published slightly after 11:00CET. The remaining respondents had no preference.

Refinitiv will amend the publication time to at or around 11:00CET.

Q5: Are there any other applications or delivery mechanisms (either Refinitiv or third party) that you would like to receive Refinitiv Term €STR through?

One respondent highlighted it is important that the rate isn’t exclusively available through Refinitiv products. Refinitiv agrees and will continue with plans to make the rate available via authorised redistributors as well as via Refinitiv products.

Q6: Do you agree with the publication of Refinitiv Term €STR in spot week, 1-month, 3-months, 6-months and 12-months tenors?

Refinitiv did not receive any objections to the proposed tenors nor any suggestions of additional tenors. Refinitiv will retain the existing five tenors (spot week, 1-month, 3-months, 6-months and 12-months).

Q7: Should we continue to publish the rate to 3 decimal places?

All respondents who answered this question agreed that the rate should be published to three decimal places. Refinitiv will continue publishing the rate to three decimal places.

Q8: Do you agree with the proposed refix policy?

One respondent highlighted that refixing the benchmark after close of business on publication date would result in additional workload. Other respondents agreed with the refix policy.
Due to the change in publication time of Refinitiv Term €STR to at or around 11:00CET rather than at or around 11:30CET, Refinitiv plans to change the deadline for identification of a material error to before 12:00 CET rather than before 12:30CET. In response to client feedback the deadline for publishing a refix will be moved to earlier in the day.

Amended refix policy

If following publication, a material error is identified in the input data or the determination of the rate before 12:30 CET, the administrator shall endeavour to refix the rate as soon as possible. No refix will be issued after 23:59 CET on the day of publication.

A material error is one that results in a change of + or – 0.1 basis points to the published value of the benchmark.

Q9: Do you agree with the proposed delayed publication policy?

Refinitiv did not receive any objections to the proposed delayed publication policy. Refinitiv will retain the existing refix policy (but amend “Prototype” to “Benchmark”).

4. Next steps

Refinitiv will incorporate the changes in section 3 above into the calculation of Refinitiv Term €STR when it becomes a production regulated benchmark administered by Refinitiv Benchmark Services (UK) Limited (RBSL). As per our previous announcement, we expect this to be in September 2023.
Visit refinitiv.com

Refinitiv, an LSEG (London Stock Exchange Group) business, is one of the world’s largest providers of financial markets data and infrastructure. With $6.25 billion in revenue, over 40,000 customers and 400,000 end users across 190 countries, Refinitiv is powering participants across the global financial marketplace. We provide information, insights, and technology that enable customers to execute critical investing, trading and risk decisions with confidence. By combining a unique open platform with best-in-class data and expertise, we connect people to choice and opportunity – driving performance, innovation and growth for our customers and partners.

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