# Second public consultation on term rates by the working group on euro risk-free rates

## Response form

**Please enter all your feedback in the grey coloured cells of this form using the drop down menus where appropriate (i.e. where response choices are provided and highlighted in the question in red).**

**Please send your response to EuroRFR@ecb.europa.eu by 17:00 CET on 1 February 2019.**

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| **Institution / Company name:** | BDO Austria GmbH |
| **Type of respondent:** | Other |
| **Country code:** | AT |

**Please note that the ECB will evaluate all the responses and prepare an anonymised summary of the feedback.**

| Question number | Question | Reply |
|---|---|---|
| 1 | For your current and future business, for which asset class would a forward-looking term rate methodology as a fallback to EURIBOR be required? (**essential/desirable/dispensable/not business-relevant**) | |
| | Financial Leasing | essential |
| | OTC derivatives - both cleared and uncleared | essential |
| | Exchange-traded derivatives | essential |
| | Money Market or securities lending | essential |
| | Capital/perpetual securities | essential |
| | Floating rate notes | essential |
| | Retail loans/mortgages | essential |
| | Securitisation structures | essential |
| | Corporate lending | essential |
| | Please elaborate on the reasons underlying your answer, also taking into account possible interactions among asset classes and related instruments. | As Auditors of financial statements we are looking at the discussion from an accounting perspective. Only a forward looking term rate methodology would basically safeguard that interest rate terms will meet the so called IFRS 9 stipulated SPPI (Solely Payments of Principal and Interest) criteria. This is a requirement for classifying financial instruments under the amortized cost category under IFRS 9. This is because the SPPI criteria requires an adequate compensation for the the time value of money with no mismatches between the tenor and the applied interest rate. A backward ("in-arrears") calculated average of observed overnight ESTER rates might potentially fail the IFRS 9 SPPI requirement. This would significantly impact accounting for financial instruments. A change from the current forward looking EURIBOR rates to backward -looking methodology would also severly impact discounting techniques in the accounting world. Accruing interest on the basis of not knowing what the interest rate will be before the end of the tenor will create challenges for the accrual principle of accounting as well as technical challenges for the infrastructure. |
| 2 | Do you agree with the working group's analysis of the OIS transactions-based methodology? (**yes/no/no opinion**) | no |
| | Please provide your assessment of the OIS transactions-based methodology in terms of (i) **data sufficiency** (**high/medium/low**) | medium |
| | Please provide your assessment of the OIS transactions-based methodology in terms of (ii) **transparency** (**high/medium/low**) | medium |
| | Please provide your assessment of the OIS transactions-based methodology in terms of (iii) **overall feasibility** (**feasible/challenging/unviable**) | feasible |

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| | Please elaborate. | Interest term reference rates are an integral input for determining fair values under IFRS accounting rules. From an IFRS 13 accounting point of view which governs fair value measurement interest rates are typically a Level 2 input when determing fair values of financial instruments. IFRS 13 provides a hierarchy of valuation inputs. According to this hierarchy directly oberservable prices from orderly transactions between market participants shall be used. Hence it follows that from an accounting view a transaction based approach is most in line with IFRS 13 requirements. Of course, this requires that there are orderly transactions in an active market. |
| 3 | Do you agree with the working group's analysis of the OIS quotes-based methodology? (**yes/no/no opinion**) | no |
| | Please provide your assessment of the OIS quotes-based methodology in terms of (i) **data sufficiency** (**high/medium/low**) | medium |
| | Please provide your assessment of the OIS quotes-based methodology in terms of (ii) **transparency** (**high/medium/low**) | low |
| | Please provide your assessment of the OIS quotes-based methodology in terms of (iii) **overall feasibility** (**feasible/challenging/unviable**) | challenging |
| | Please elaborate. | As mentioned under question 2 interest term reference rates are an integral input for determining fair values under IFRS accounting rules. If there is no active market and hence no observable transactions executable quotes can be used in line with IFRS 13. But quotes shall only be a fallback in case there are not sufficient orderly transactions in active markets. There also seems to be a risk that there might not be sufficient dealers who want to contribute executable quotations. |
| 4 | Do you agree with the working group's conclusions regarding a point-in-time fixing? (**yes/no/no opinion**) | yes |
| | Please elaborate. | The fixing risk argument of the working group is obvious. Furthermore this leads to better comparability applying point in time valuations. |
| 5 | Do you agree with the working group's analysis of the OIS composite methodology? (**yes/no/no opinion**) | no |
| | Please provide your assessment of the OIS composite methodology in terms of: (i) **data sufficiency** (**high/medium/low**) | high |
| | Please provide your assessment of the OIS composite methodology in terms of: (ii) **transparency** (**high/medium/low**) | low |
| | Please provide your assessment of the OIS composite methodology in terms of: (iii) **overall feasibility** (**feasible/challenging/unviable**) | feasible |
| | Please elaborate. | Again, from an accounting point of view the most appropriate is observable prices from transactions in an orderly market. To apply an OIS composite methodolgy when there are not sufficient transactions is in line with IFRS 13. |
| 6 | Do you agree with the working group's analysis of the futures-based methodology? (**yes/no/no opinion**) | yes |

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| | Assuming sufficient liquidity, what would be your view of the futures-based methodology? | as futures are standardised contracts a model has to be established to determine term interest rates based on futures transactions. As mentioned above direct observable transactions will be best used for accounting purposes. If there are not sufficient transactions in the market a model based on futures transactions is an alternative solution. |
| | Please provide your assessment of the futures-based methodology in terms of (i) **data sufficiency** (**high/medium/low**) | medium |
| | Please provide your assessment of the futures-based methodology in terms of (ii) **transparency** (**high/medium/low**) | medium |
| | Please provide your assessment of the futures-based methodology in terms of (iii) **overall feasibility** (**feasible/challenging/unviable**) | challenging |
| | Please elaborate. | See comments above |
| **7** | Do you agree with the working group's assessment that the OIS quotes-based methodology offers the best prospect for producing a viable fallback rate within a reasonable time period following the launch of the daily ESTER publication? (**yes/no/no opinion**) | no |
| | Please elaborate on the reasons for your most preferred forward-looking methodology, taking into account that your preferred methodology could serve as the basis for determining a fallback rate for Euribor. | From the comments above it follows that from an accounting point of view direct oberservable transactions in an active market provide the best input for a term rate curve. If there are not sufficient trades the missing term rates shall be determined from observable futures trades. If even there are no futures market transactions executable OIS quotes are to be used to fill the missing tenors. |