WEBINAR REPORT: MARKET READIES FOR NEW BENCHMARK RATE ALTERNATIVE TO EURIBOR, March 2025

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An ITFA webinar held last month gave members an insight into the new CME Term €STR reference rate, set to be available for licensed use during the second half of this year.

The new benchmark rate is - in part - positioned as a 'fallback' rate – to be used in contractual backup provisions of new Euribor transactions or if Euribor is phased out for any reason. While market consensus is that Euribor will remain for the foreseeable future, the European Central Bank-supported Working Group on Risk-free Euro Rates did make recommendations back in 2021 that market participants active in trade finance, as well as retail mortgages and consumer loans, should introduce Euribor fallback rates into their new loan documents.

The CME Term €STR rate has been published in beta format since last December, available for review and evaluation by the market. The rate is calculated via CME's specific methodology and based on a forward-looking measurement of €STR rates based on futures OTC swap market data.

The rate is published daily in 1-month; 3-month; 6-month and 12-month tenors. Speaking at the webinar, hosted on 25 February, Max Ruscher, head of benchmark services at CME Group, said: "Why is our rate unique? Because it is heavily anchored in transaction data."

He went on to elaborate on how the rate is calculated, based on the two key data inputs. The first input – the Overnight Index Swaps (OIS) data - is based on electronic confirmations of spot starting swaps and ECB-dated swaps. In the first half of 2024, the average daily volume of OIS transactions eligible for the CME Term €STR calculations stood at more than €135 billion, he explained.

The second data set is based on CME €STR futures, which were first launched in October 2022, with futures open interest held at the end of last year reaching close to €60 billion.

Speaking after the event, webinar chair and ITFA board member Paul Coles explained that the new rate was particularly pertinent for those trade finance market participants that are structuring loans with longer tenors that use a floating rate or interest rate reset provision. Such deals would require a fallback rate for future rate setting should Euribor no longer exist.

"ITFA is always keen to keep our members informed of any market developments that may facilitate their day-to-day business. The availability of term reference rates is a critical component of many trade finance transactions, as the products are often discounted or have a future interest rate setting element," he added.

"With Euros being a key currency for trade finance, we're pleased to see fallback rates being made available – in this case by CME, who also publishes the Term SOFR rates commonly used for US dollars."

The new rate will build upon CME Group's success with its CME Term SOFR – a global risk-free benchmark rate for US dollar lending established in 2021. The rate was set up as the use of Libor was being wound down and finally ceasing in September 2024.

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It is the first and only benchmark rate formally recommended by the Alternative Reference Rates Committee. The rate is now licensed to more than 2,000 firms, headquartered across 95 countries.

Speaking on the webinar, Tim Moran, director of benchmark data sales at the CME Group, cited data from Refinitiv Deals Screener, showing that CME Term SOFR had been used as a reference rate in $3.74tn of syndicated loans in 2024, increasing from $2.58tn in 2023, taking the total outstanding balance of syndicated loans referencing CME Term SOFR at the end of 2024 to $7.96tn.

“The success of CME Term SOFR says a lot about the future of CME Term €STR. There has been so much involvement in helping clients, providing them with use cases and helping them properly and smoothly become licensed. We also talk to regulators ... we have experience with all of that and it has been very successful,” he said.

To find out more about CME Term €STR and CME Term SOFR, you can watch a recording of the webinar here.