



EUROPEAN CENTRAL BANK

EUROSYSTEM

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risk-free rates

Update on the working group on euro risk-free rates

Operations Managers Group, ECB
Frankfurt am Main, 3 June 2019

Agenda

- 1 Working Group on euro risk-free rates**
- 2 Update on EONIA transition to €STR
- 3 Update on EURIBOR reform and EURIBOR fallbacks
- 4 New organisation of the working group on euro risk-free rates' substructures

- **Created in 2018**

- Objective: to identify and recommend risk-free rates that could serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area

- **Membership**

- 21 EU banks (Chair: ING)
- 7 non-voting members (associations, benchmark providers, buy-side)
- 4 observers (public institutions, of which ECB provides secretariat)
- Membership in sub-groups is broader

- **Work streams**

- **Identify risk-free rate (RFR); recommend EONIA transition path**
- **Term rates as fall-back for Euribor**
- **Contractual robustness (legacy contracts; legal issues)**
- **3 new subgroups created for the market adoption phase**

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2 October 2019: €STR and EONIA reformed first publication date

- WG [recommendations](#) on the transition path from EONIA to €STR published 14 March 2019
 - EONIA methodology to become the €STR + fixed spread until the end 2021
- 31 May 2019:
 - EMMI published [results](#) from their [consultation](#) on the change of EONIA's methodology
 - ECB published a [press release](#) announcing the fixed spread (calculation based on WG recommendation)
 - ECB updated [€STR webpage](#) and [€STR Q&A](#)

Next steps

- 2 October 2019:
 - Start of €STR publication and change in EONIA methodology
 - EONIA publication to [move from T to T+1](#)

The move from EONIA in T to €STR in T+1

**30 September by
19:00 CET**

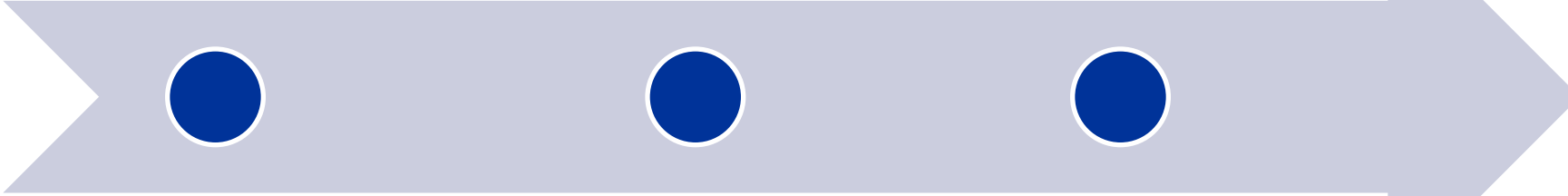
Last EONIA
published under
current methodology

2 October by 9:00 CET

€STR based on 1
October transactions

**2 October at or shortly
after 9:15 CET**

re-calibrated EONIA



1 October:
No overnight rate
published

Key points of the 31 May ECB press release

- Spread between €STR and EONIA is calculated at **0.085%** (8.5 bp)
- Spread is based on methodology recommended by Working Group on euro risk-free rates:
 - 15% trimming average of the daily spread between EONIA and pre-€STR for the most recent year of publicly available pre-€STR data, i.e. 17 April 2018 to 16 April 2019
- Spread is to be used by EMMI in new EONIA methodology as of 2 October 2019
- ISIN assigned to €STR is **EU000A2X2A25** (FISN: **ECB/EUR EURO SHORT-TERM RATE IR**)

Internal preparations are necessary

Processes



- Use of the new rate
- Systems: new timing
- Dealing, hedging

Documentation



- Procedures
- Contracts, fallbacks
- New products

IT setup:

ISIN: EU000A2X2A25

German WKN: A2X2A2

FISN: ECB/EUR EURO SHORT-TERM RATE IR

EONIA legal action plan (I)

- The EONIA legal action plan addresses two critical events for new and legacy contracts:
 - the change of methodology for EONIA on 2 October to €STR + spread, where it is recommended to insert an acknowledgement that this change shall not affect continuity of the contractual obligations;
 - the cessation of EONIA at the end of 2021, which should be addressed through the insertion of robust fallbacks or replacement of the reference rate through novation of the contract.
- Covers legacy and new contracts referencing EONIA in all asset classes (derivative transactions, collateral agreements and cash products)

Way forward:

- Public consultation until mid-June
- Final recommendations of the WG end of July.
- Discussions on the EURIBOR legal action plan will start in Summer 2019

EONIA legal action plan (II)

- Relies on private contractual solutions
- Recommendations for market participants to consider:
 - Using and/or amending, where necessary, existing **master agreements and standard documentation to embed robust fallbacks in new contracts** (such as ISDA Benchmarks Supplement, European local master agreements, template wording recommended by LMA)
 - Using existing or developing **multilateral protocols** (such as the ISDA Benchmarks Supplement Protocol) and using **new amendment agreement templates** (under development by the LMA for syndicated loans and by the sponsors of local master agreement) **to amend legacy contracts**
 - In cases where recommended forms of fallback provisions or templates for amendment agreements do not exist, which may be the case **for certain cash products**, using **fallback language templates and bilateral amendment agreement templates developed by the WG** to assist market participants in commencing their bilateral negotiations.

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EURIBOR reform ongoing / Substantial work on EURIBOR fallbacks remains to be done

EURIBOR reform

- EMMI published a [press release](#) on 6 May 2019 stating that:
 - EMMI applied for authorisation from the Belgian Financial Services and Markets Authority (FSMA) under the EU Benchmarks regulation (BMR)
 - Phasing in of new EURIBOR hybrid methodology has started

EURIBOR fallbacks

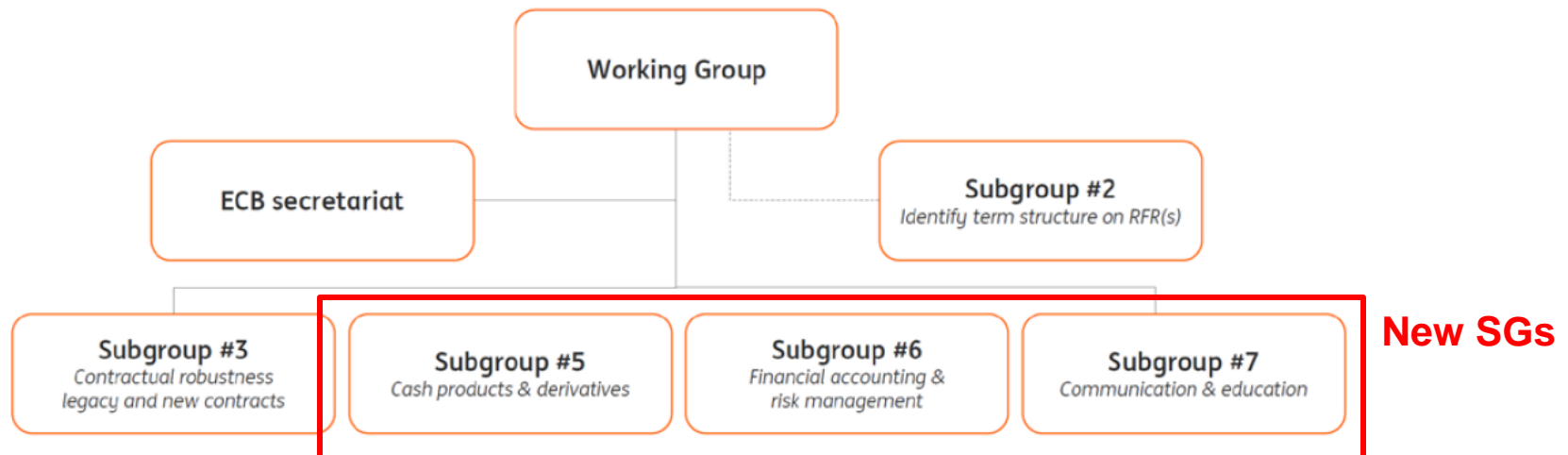
- WG [recommendation](#) on a €STR-based forward-looking term structure methodology published in March 2019
 - OIS (tradable) quotes-based methodology
- Open issues
 - SG2: analysis of backward-looking methodologies/way forward on forward-looking methodology and co-existence of both, spread calculation methodology
 - SG 5: applicability by asset class, international coordination
 - SG 6: accounting and risk management issues

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Reorganisation to address broad market adoption

- WG moves towards “market adoption phase” (“preparation phase” until April 2019)
- Reorganisation of the WG’s substructures:
 - SG2 on term rates to close out remaining work until Oct 2019
 - SG3 on legal issues to continue
 - SG4 on EONIA transition discontinued as of April 2019
 - **New SGs 5 / 6 / 7, covering both EONIA transition and EURIBOR fallbacks**
 - Additional members to broaden range of market participants involved



SG 5 on cash products and derivatives

- Co-chaired by Deutsche Bank and Generali
- Key deliverables:
 - Detail the new **discounting regime** to enable transition from EONIA to €STR.
 - Design a possible methodology for **closing out or transitioning legacy EONIA exposure**, in particular setting up a possible **compensation mechanism**.
 - Identify use cases for the **€STR in cash products**.
 - Establish a **liquid €STR derivatives market**, preparations required with market participants, trading venues, clearing houses, etc.
 - Analyse and make recommendations for (1) how €STR-based forward-looking and backward-looking term structures can co-exist and (2) the most **relevant EURIBOR fallback methodology applicable for each financial product**.
 - Liaise with other jurisdictions to **ensure international coordination**.
 - Identify possible **system and infrastructure issues** that will arise due to the transition, and provide guidance for market participants.

SG 6 on cash products and derivatives

- Chaired by KfW
- Key deliverables:
 - Day 1 **P&L**, once the market moves from EONIA to €STR or EURIBOR to the €STR-based fallback (in the event EURIBOR will cease to exist).
 - **Hedge accounting**, to avoid the unwinding of current hedge relationships.
 - **Valuation**.
 - Historical market **data to be used in models**.
 - Liaise with IASB and ISDA, and provide input to **international coordination** efforts led by the Official Sector Steering Group (OSSG).

SG 7 on communication and education

- Chaired by Santander
- Key deliverables:
 - Establish a clear WG **communication strategy**, notably on how to approach, inform and **educate market participants**.
 - Act as an “editorial committee” for general public inquiries.

Thank you for your attention
Q & A