

WG Euro RFRs Subgroup #4

EONIA-ESTER Transition

Frankfurt 19 December 2018

Agenda

1. SG4 in brief
2. **SG4 recommendations & questions** – proposal to the EU RFR
 - for decision: discussion and approval of the report, recommendations, and questions of SG4 on EONIA transition
3. **Next Steps and actions** – proposal
 - for discussion: next steps (including SG4 next steps)

Annexes:

- ✓ 1- Report Skeleton
- ✓ 2- SG4 composition

1. SG4 in brief

- 13 SG4 telco have taken place between 27 July 2018 (SG4 kick-off meeting) and 17 December 2018 (last SG4 telco before 19 December 2018 WG meeting)
- SG4 telco frequency: 1 every 2 weeks and this frequency was even higher during the last few weeks in order to match the 19 December deadline. In addition some bilateral calls took place to resolve and clarify some specific issues
- SG4 had a limited time to achieve its tasks but managed to set consensus, propose some recommendations, and a report including questions to the public
- Every SG4 members took part in the drafting of SG4 report for SG4 report to benefit from the wide variety of its members
- SG4 also liaised with other SG and with the main group to be consistent with other transitions / problematic

Please also refer to Annex I « report skeleton », II “SG4 composition”

2.- SG4 recommendations – proposal to the main WG

SG4 has formulated the following recommendations for which it is seeking feedback:

I - Recommendations to EMMI:

- 1. The working group recommends that the European Money Markets Institute (EMMI), as the administrator of EONIA, takes the following steps before 1 January 2020:**
 - (a)** Modify the current EONIA methodology to become ESTER plus a spread for a limited period, in accordance with Financial Stability Board (FSB) recommendations and IOSCO Principles for Financial Benchmarks to further anchor EONIA's methodology in transactions;
 - (b)** Engage with the relevant authorities to ensure the compliance of EONIA, under its evolved methodology, with the EU Benchmarks Regulation;
 - (c)** Consider and consult market participants on discontinuing the publication of EONIA under its evolved methodology, after a transition period that ensures firms can achieve transition to ESTER in a smooth manner and that pays due regard of the existing EONIA legacy book. This transition period should last until the end of 2021, which is consistent with benchmarks transitions in other jurisdictions.

- 2. The working group also invites EMMI to take the following considerations into account:**
 - (a)** Consider an EONIA-ESTER spread methodology based on a simple average with an observation period of at least 12 months, combined with a 15% trimming mechanism;
 - (b)** That the recalibration methodology and the effective determination of the spread are announced at the same time before ESTER's first day of publication;
 - (c)** That the recalibration date is on the first day of ESTER's publication for simplicity reasons.

2.- SG4 recommendations – proposal to the main WG

II - Recommendations to the market:

- 3. The working group recommends that market participants gradually replace EONIA with ESTER as a reference rate for all products and contracts and make all adjustments necessary for using ESTER as their standard benchmark after the transition period (including making the appropriate changes to their systems to enable a T+1 publication).**
- 4. The working group encourages market participants to make all reasonable efforts to replace EONIA with ESTER as a basis for collateral interest for both legacy and new trades with each of its counterparties (clean discounting).**

2.- SG4 questions – proposal to the main WG

Questions:

- 1. Do you agree with the working group's recommendation that the preferred transition path is the time-limited recalibration approach with spread and clean discounting?**
- 2. If not, what would be your preferred option and why?**
- 3. Do you agree that a publication deadline for the recalibrated EONIA of end-2021 is sufficient for a smooth transition under the recalibration approach with spread and clean discounting path?**
- 4. Do you have any other ideas to accelerate the transition of the derivatives market to ESTER?**
- 5. Do you see any benefit in the new recalibrated EONIA to be authorised and supervised until its publication deadline?**
- 6. Do you agree with a spread methodology based on a 1-year pre-ESTER historical data period, calculated as an average with a 15% trimming?**
- 7. If not, what would be your preferred option and why?**
- 8. How much time do you think would be the minimum to make your systems ready for ESTER T+1 publication and why?**

3.- Next steps and actions- proposal

WG meeting #7

EUR RFR endorses SG4 report and tentatively endorses SG4 recommendations

• 19 December 2018

SG4 report is published including the recommendations and the questions for feedback

• 20 December 2018

WG meeting #8

EUR RFR discusses the recommendations including the market feedback

• 27 February 2019

Recipient of recommendations (EMMI):

1. consults on the evolution of EONIA methodology
2. engages with the relevant authorities to ensure recalibrated EONIA compliance with the EU BMR

• End of Q1 2019/ Q2 2019

Announcement of the recalibration methodology and the effective determination of the spread

• Before ESTER's first publication date

1. ESTER's first day of publication
2. EONIA evolved first day of publication
3. spread application
4. authorisation of EMMI/EONIA

• By October 2019

EONIA recalibrated discontinuation

• End of 2021
• Following consultation

Annex 1 – Report skeleton (1/2)

I. Executive Summary

II. Introduction

III. Background and objectives

1. EONIA definition and short history
2. Impact of EONIA not complying with the EU Benchmark Regulation as of 1 January 2020
3. Objectives of the Group

IV. EONIA footprint

1. EONIA use in products
2. EONIA use in balance sheet and valuation processes

V. Transition approaches

1. Criteria used to recommend the best possible transition approach
2. Description of available transition approaches
3. Spread methodology

Annex 1 – Report skeleton (2/2)

VI. Comparative Analysis

1. Legal perspective
2. Derivatives valuation impact
3. Collateral impact
4. Risk management impact
5. Non-derivatives impact
6. Readiness of systems and market infrastructures
7. Accounting perspective
8. T+1 publication
9. Summary of the analysis of transition path approaches

VII. Conclusions

VIII. Annexes

1. European Fund and Asset Management Association survey on EONIA usage
2. ISDA Benchmarks Supplement
3. Derivatives valuation impact – additional information
4. Collateral impact – additional information
5. Readiness of systems and market infrastructures – additional information
6. Relevant stakeholders and their main responsibilities/challenges
7. Calculation methodologies
8. Legal disclaimer

IX. Abbreviations

Annex 2 – Composition SG4 on EONIA transition

Chair

Carlos Molinas (Crédit Agricole)
Gaëtan Romand, Chair assistant (Crédit Agricole)

Members (Credit Institutions, Asset Managers, User Associations, Clearers, Other Institutions, and Benchmark Providers)

AXA Investment Managers (AXA I)M
Barclays
Banco Bilbao Vizcaya Argentaria (BBVA)
Bayerische Landesbank
BMO Global Asset Management
BNPP
BPCE Natixis
CaixaBank
Crédit Agricole
Deutsche Bank
DZ Bank
EMMI
Erste Bank
Eurex Clearing AG
European Bank for Reconstruction and Development (EBRD)
European Fund and Asset Management Association (EFAMA)
European Investment Bank (EIB)
HSBC
ING
JPM
KfW Bankengruppe
Loan Market Association
London Stock Exchange Group/ LCH
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Santander
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Observers

Belgian Financial Services and Markets Authority (FSMA)
European Central Bank (ECB)
European Commission
European Securities and Markets Authority (ESMA)

Secretariat

European Central Bank