

SG#5 - Cash products & derivatives implications

Presentation for the EUR RFR Working Group Meeting

10 May 2019

Agenda

1. Objectives
2. Organization and Composition
3. Deliverables and Timelines
 1. Report structure
 2. Timeline overview
4. T0 to T+1 potential milestones and activities

1. Objectives

1. Investigate from an operational and valuation standpoint per product how market participants can:
 - Transition from EONIA to €STR
 - Embed €STR term structure based fallbacks in EURIBOR contracts to avoid market disruption
2. This includes
 - Detail the discounting regime (incl. OIS discounting under CSA)
 - Moving from T to T+1 Fixing
 - Closing out legacy EONIA contracts incl. compensation methodology
 - Use cases for €STR in cash products
 - Establishing a liquid derivatives market
 - How to apply €STR based term structures as fallback for EURIBOR (by product/process) for retail and non-retail products
 - Liaise with ISDA and similar associations to ensure international co-ordination
 - Identify potential IT issues and provide guidance

2. Organization and composition

1. 53 working group members representing Banks, Market infrastructures, Corporates and Institutional Investors and related associations
2. Bi-weekly working group conference calls
3. Planned (after this working group meeting): establishing drafting group focusing on contributing sub sections of the report taking into consideration feedback and input from the overall working group
4. ECB secretariat supports organization
5. Co-ordination with other working groups through separate update calls
6. International co-ordination through relevant sub group members

Chairs:

Anna Kozhevnikova (Generali)
Christian Gau (Deutsche Bank)

Members:

APG Asset Management
Association for Financial Markets in Europe (AFME)
Banco Santander S.A
Bank of Cyprus
Barclays
Bayerische Landesbank (BayernLB)
BBVA
BME CLEARING
BMO Global Asset Management
BNPParibas
BPCE/Natixis
CaixaBank
Cardano Risk Management BV
Citigroup
Commerzbank AG
Crédit Agricole
Crédit Mutuel
DekaBank Deutsche Girozentrale
Deutsche Bank AG
DZ BANK AG
EBRD
EFAMA
EIOPA
Erste Group Bank AG
Eurex Clearing AG
European Association of Corporate Treasurers - EACT
European Investment Bank
European Money Markets Institute
European Stability Mechanism (ESM)
FIA
Goldman Sachs
HSBC
ICE Futures Europe
ICMA
IKB Deutsche Industriebank AG
ING
International Swaps and Derivatives Association
Intesa Sanpaolo SPA
J.P. Morgan Securities PLC
KfW
Loan Market Association (LMA)
London Stock Exchange Group/LCH
National Bank of Greece
Natwest Markets Plc
Nomura
Norddeutsche Landesbank -Girozentrale-
Orange SA
PIMCO
RBC Capital Markets
Société Générale
UniCredit Group
Wells Fargo Bank

3. Deliverables and Timelines

Report structure

Main output of the working group will be report covering the following sections. Focus will be on the first two sections as these relate to the EONIA to €STR transition.

1. Details of products, processes and models subject to EONIA/€STR transition
 - First task for the working group was to compile an overview of all relevant products, processes and model.
 - Due to the various feedback and the tight timelines for this working group meeting, it will take us until next week to provide an update with all feedback built in which we will present to the sub group in the next sub group call.

2. Transition recommendations
 - This section will pick up from the identified products, processes and models and suggest individual transition paths.
 - Special attention will be paid to the “T to T+1” change, i.e. we will provide input on how that process can or should be managed. We will refer to the experiences made when transitioning from SONIA to SONIA+.
 - Overlaps with sub group 6 on processes like hedge accounting (covered by SG6) or margin management (covered by SG5) will be managed through close communication between the SG chairs.
 - This section is the delivery for the next working group meeting in July.

3. Deliverables and Timelines

Report structure contd.

The following two sections will be mainly worked on in Q4 2019 to allow for full priority on EONIA/€STR transition. Caveat: In case the working group comes to the conclusion that a public consultation is required to test our recommendations, we will not be able to deliver a final report for on chapter 1 and 2 for July and might include below chapter 3 into the analysis and complete until September.

3. Establishing a liquid €STR derivatives market

- One of the main objectives for the working group
- Important as input for forward looking term structure methodologies
- Requires close co-operation between CCP's resp. clearing platforms and market participants
- Timelines are important to ensure sufficient progress before EONIA decommissioning

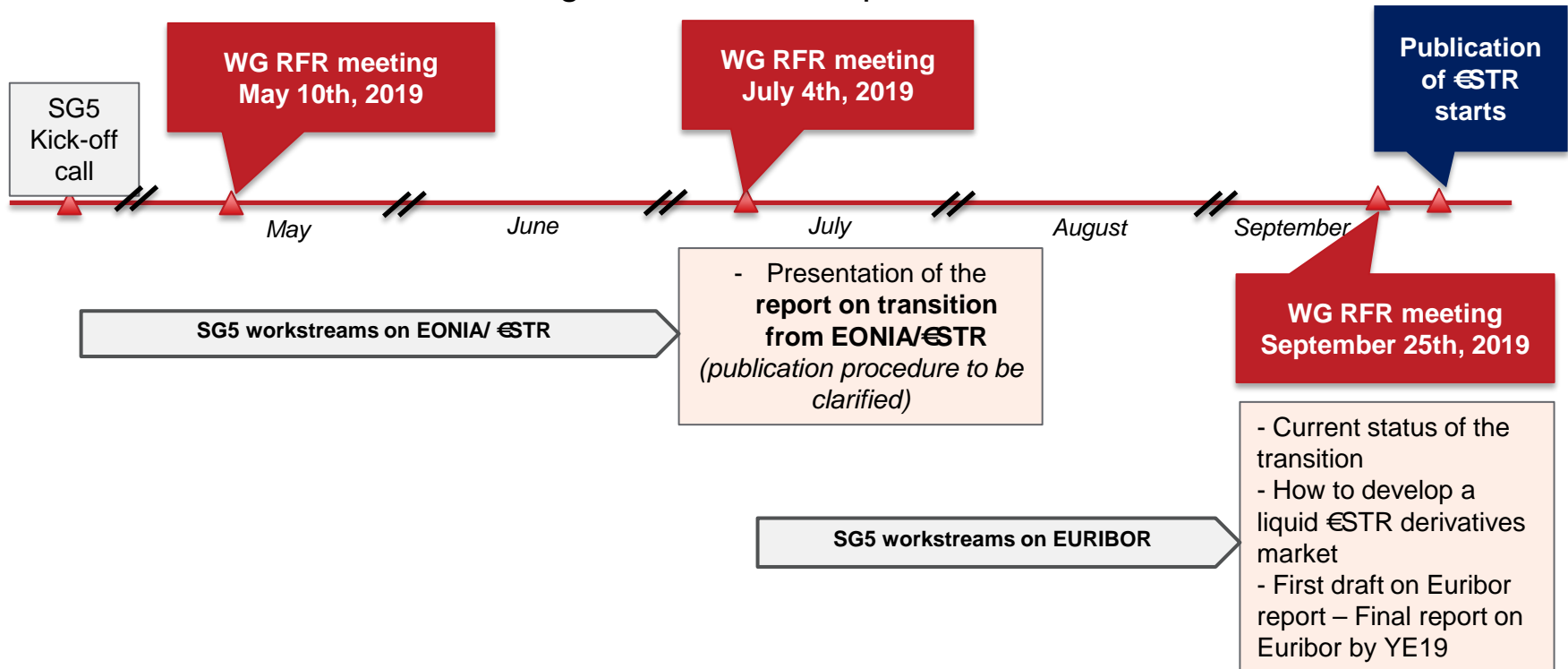
4. €STR based term structures as fallback for EURIBOR

- Main input will be forward and backward looking methodologies as described by sub group 2
- Different products might require different term structure methodologies – to be evaluated

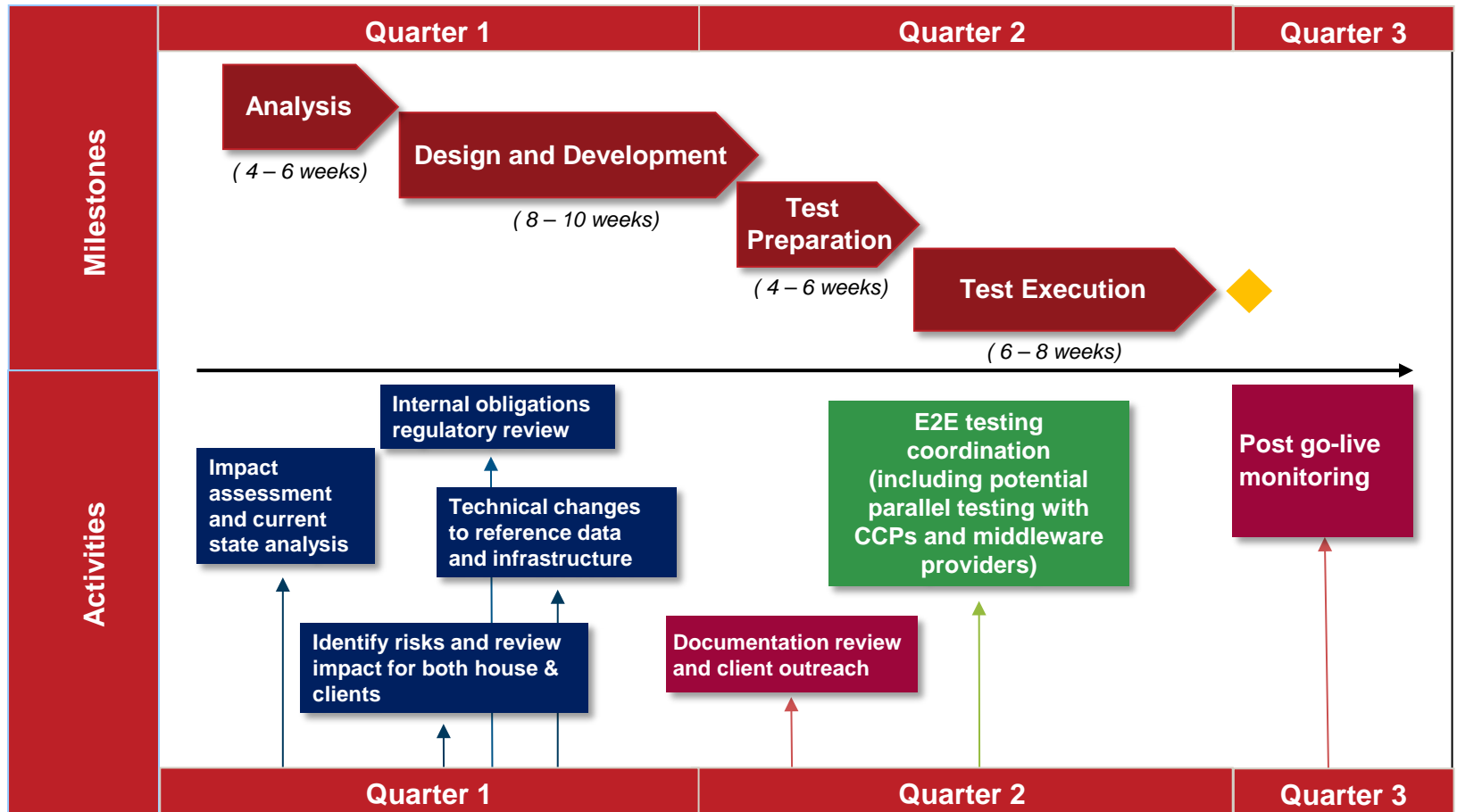
The report might be separated in two parts (chapter 1-3 and separately chapter 4) in case of a public consultation effort.

3. Deliverables and Timeline

1. The first focus is on **recommendations for transition from EONIA to €STR** with the goal to present the report at the **WG RFR meeting in July 2019**. Our proposal is to elaborate on *How to develop a liquid €STR derivatives market* after having finalized the recommendations on the transition, presenting it at the WG RFR meeting in September 2019.
2. Report on **fallback for EURIBOR – based contracts** to be finalized by YE19, sharing the first draft at the WG meeting scheduled in September 2019.

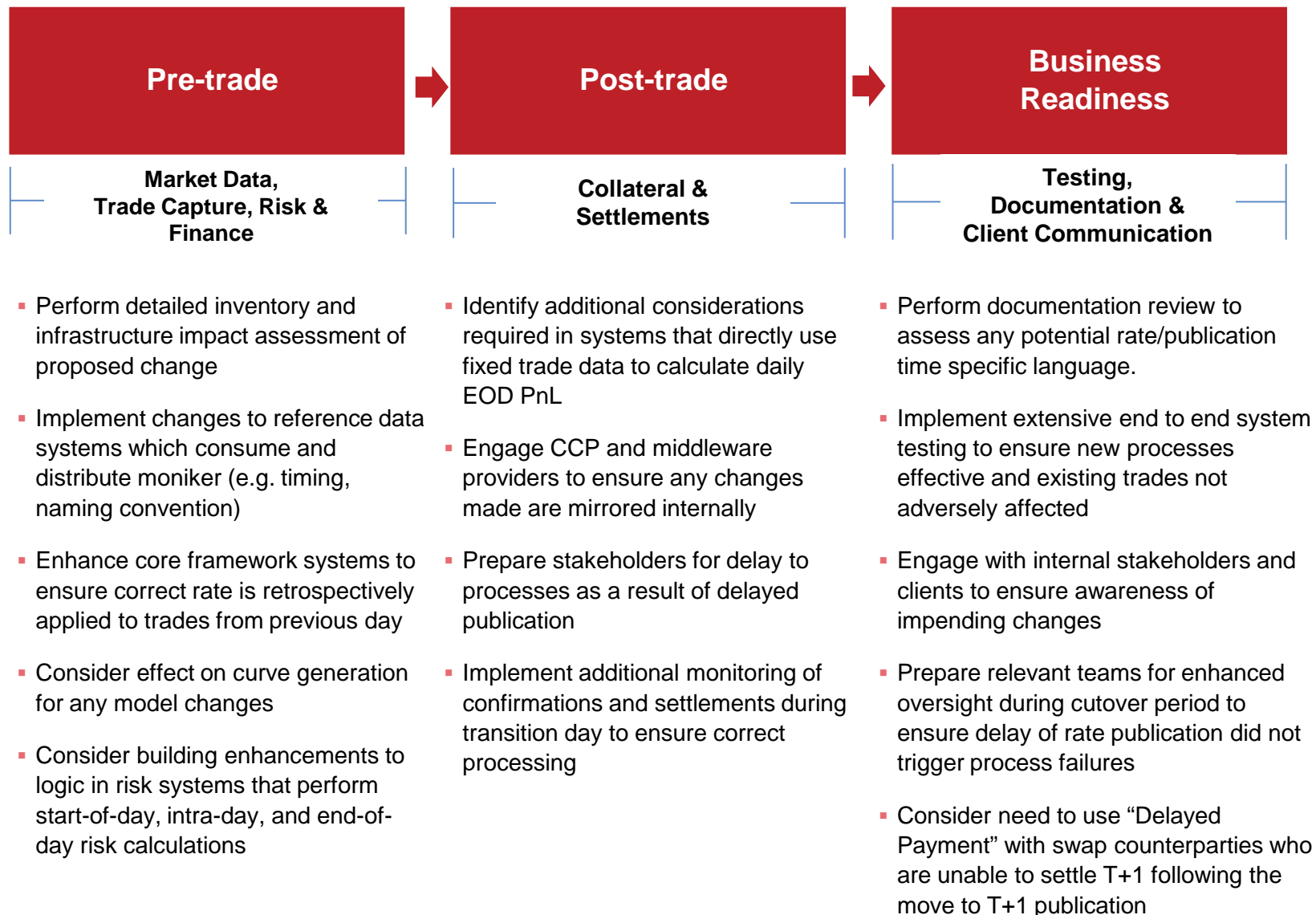


4. T0 to T+1 potential milestones and activities



- Key milestones
- Pre-trade activities
- Post-trade activities
- Business readiness activities

T0 to T+1 considerations



Industry feedback on T0 –T+1 transition to Reformed SONIA

- Observations on transition from the SONIA Stakeholder Advisory Group¹

Transition was seen as smooth as it could have been with no issues upon transition encountered

Information provided to the market was clear and concise

Guidance on expectations around the cutover was helpful

- Implementation date on a Monday was useful allowing technology changes to occur over the weekend
- Allowing substantial time for internal testing prior to 'go live' beneficial

¹<https://www.bankofengland.co.uk/-/media/boe/files/minutes/2018/sonia-stakeholder-advisory-group-10-october-2018.pdf?la=en&hash=0AEE10E00971265E2E8C0F0429BA8B76CDE6475C>