

Issues related to the EONIA transition

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Q&A session

Eonia



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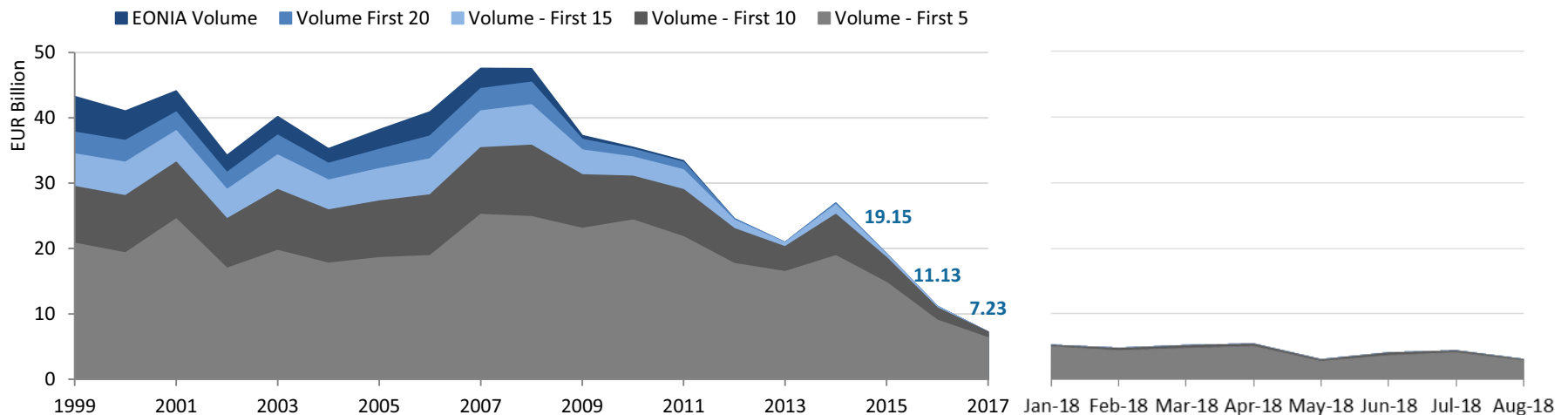
EONIA

Roundtable on euro risk-free rates

9 November 2018

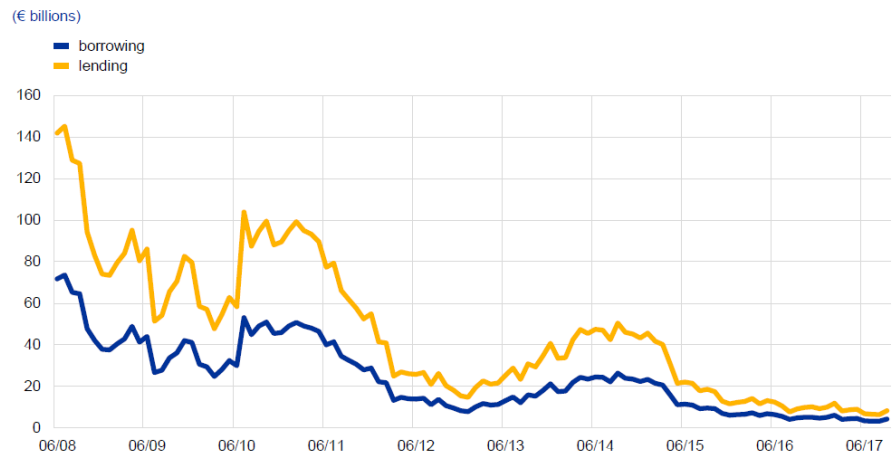
European Central Bank, Frankfurt am Main

- ➔ EONIA volumes have decreased further, to a yearly average of EUR 7 billion in 2017. On 31st October 2018, EONIA was published on the basis of an underlying activity of EUR 488 million.



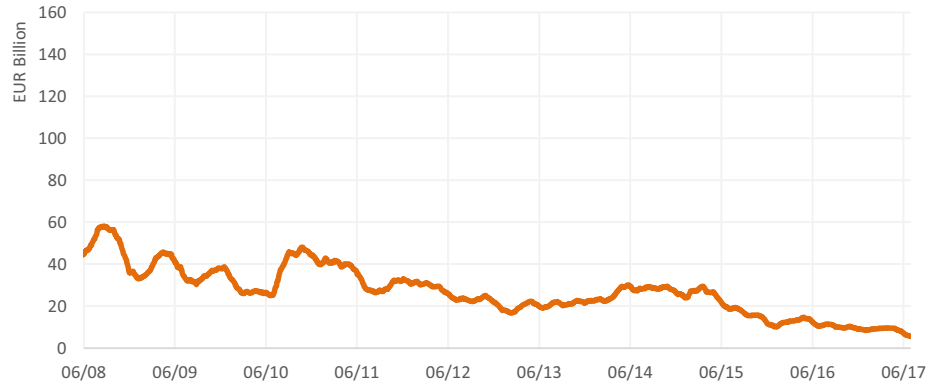
- ➔ **Concentration of EONIA volume:** between 1999 and 2009, approximately 51% of total daily EONIA volume was reported by the 5 most active banks in the Eonia panel. In 2016, about 81% of volume was reported by the top five banks. **In 2017, this concentration indicator increased to 88%.**

Euro area banks' unsecured overnight borrowing and lending volumes as derived from TARGET2 data



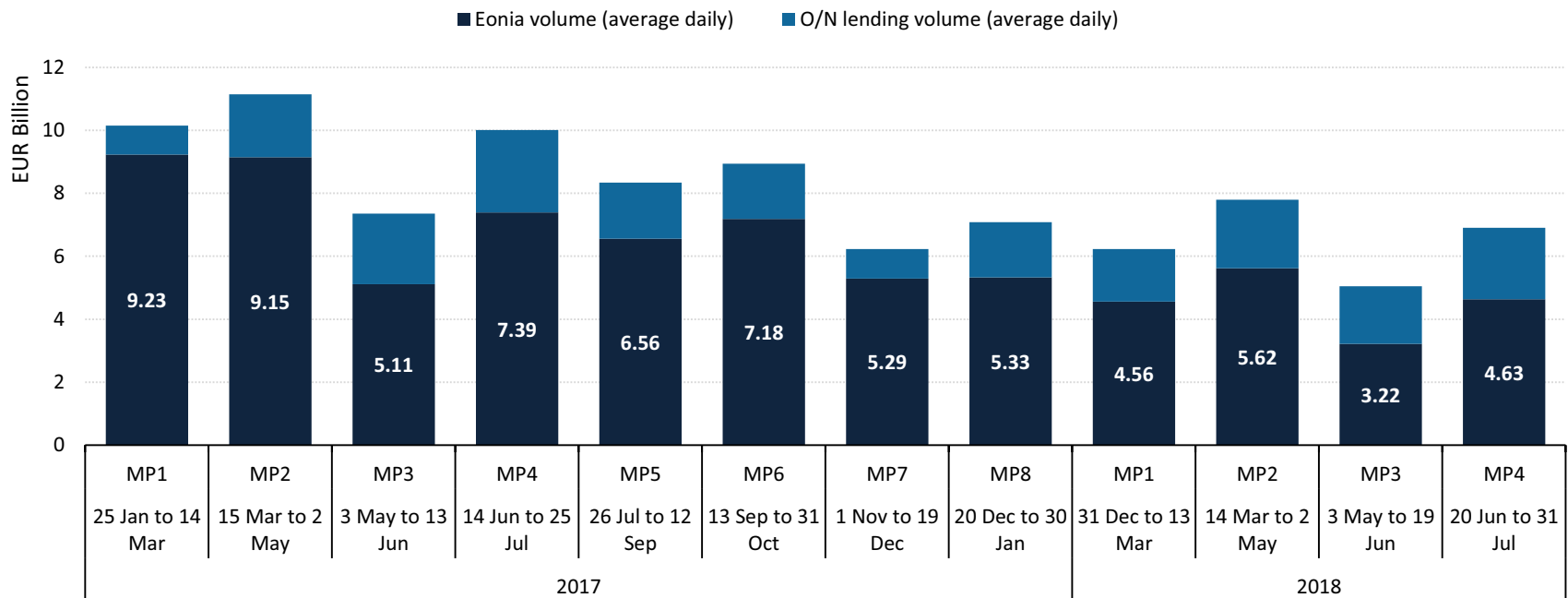
Source: First ECB public consultation on developing a euro unsecured overnight interest rate, Chart 4

EONIA volume

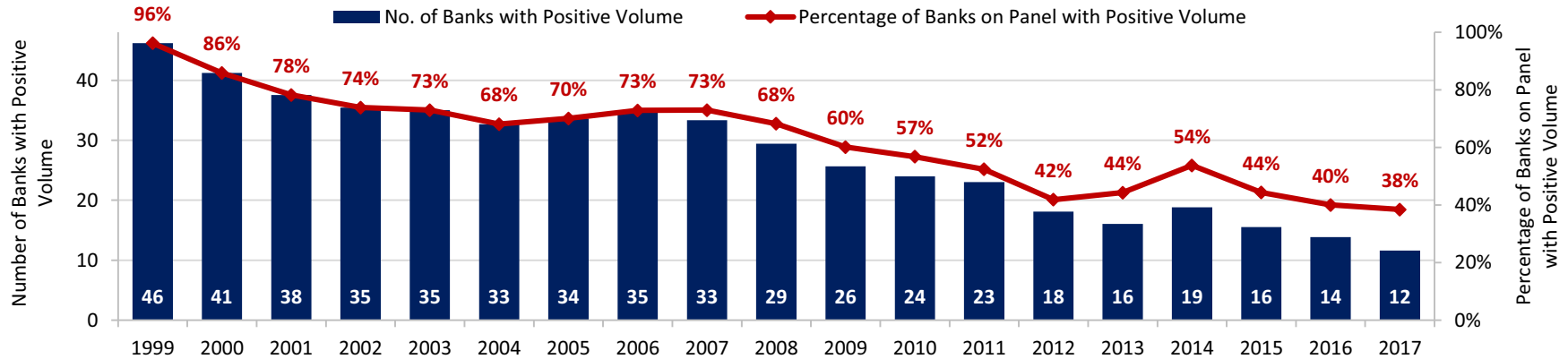


Source: EMMI

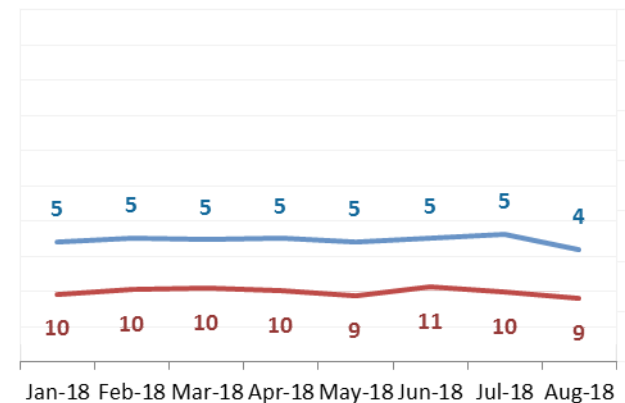
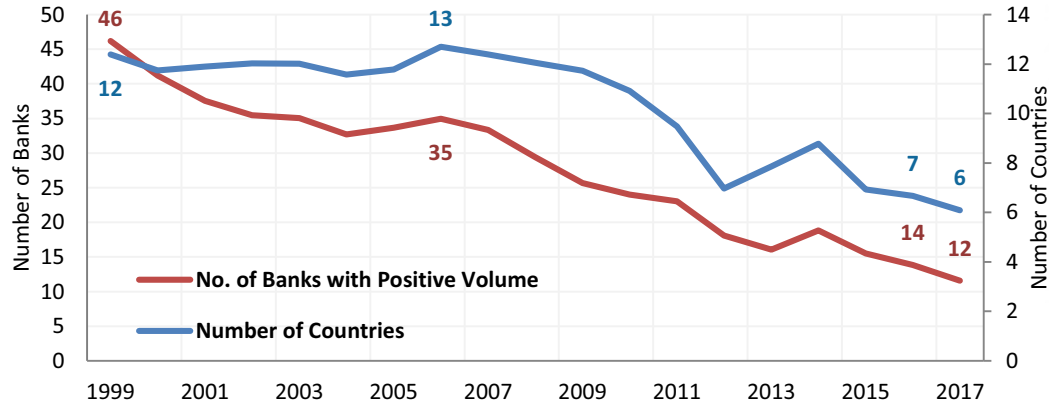
- ➔ On November 21, 2017, the ECB started publishing statistics on the euro money market based on the data gathered in the context of the MMSR regulation.
- ➔ The EONIA Panel captured 80% of the O/N interbank lending activity in 2017.



Panel Banks with non-zero submissions



Geographic concentration indicators



WG Euro RFRs Subgroup #4

EONIA-RFR Transition

Carlos Molinas, CA-CIB
Chair of subgroup 4 on EONIA transition

Agenda

1. EONIA “best case” scenario
2. Objectives and Challenges Subgroup #4
3. From A to B : EONIA/ESTER gap analysis and potential transition paths
4. Envisaged next steps and actions Subgroup #4

1. EONIA “Best case” Scenario

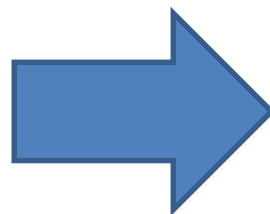
- EONIA is used:
 - As a reference rate for floating payments in derivatives and cash products
 - For OIS curve to discount/value most future cash flows
- As of 1 January 2020, EONIA in its current form will not be EU BMR Compliant.
- If EONIA stays “as it is” :
 - Worst case scenario - EONIA will be prohibited for new contracts and for legacy books as of 1 January 2020
 - Best case scenario - EONIA will be prohibited for new contracts and allowed for use in legacy books as of 1 January 2020
- Can you value your legacy books with a curve you are prohibited to use?
- Our “best case” scenario is still catastrophic : liquidity in EONIA OIS curve will disappear due to BMR prohibition. Valuation and risk management of cash flows coming from legacy books will be impaired.

2. Objectives and Challenges Subgroup #4

- “Do nothing” is by far the worst course of action
 - “Do something” involves risks that depend on how radical the transition path is
 - The market needs to move from a non sustainable benchmark to a sustainable benchmark as per the end of the BMR transitional period (1 January 2020)
- **Our objective is to identify, recommend and communicate a transition path from EONIA to ESTER as smooth as possible that protects market integrity and is the fairest to all benchmark users**

3a. From A to B : EONIA/ESTER gap analysis

EONIA
EUR
Overnight
Unsecured
Transaction Based



Unstable Panel
Narrow Panel
Bank Lending
Published on T

ESTER
EUR
Overnight
Unsecured
Transaction Based

Stable Panel
Wider Panel
Bank Borrowing
Published on T+1

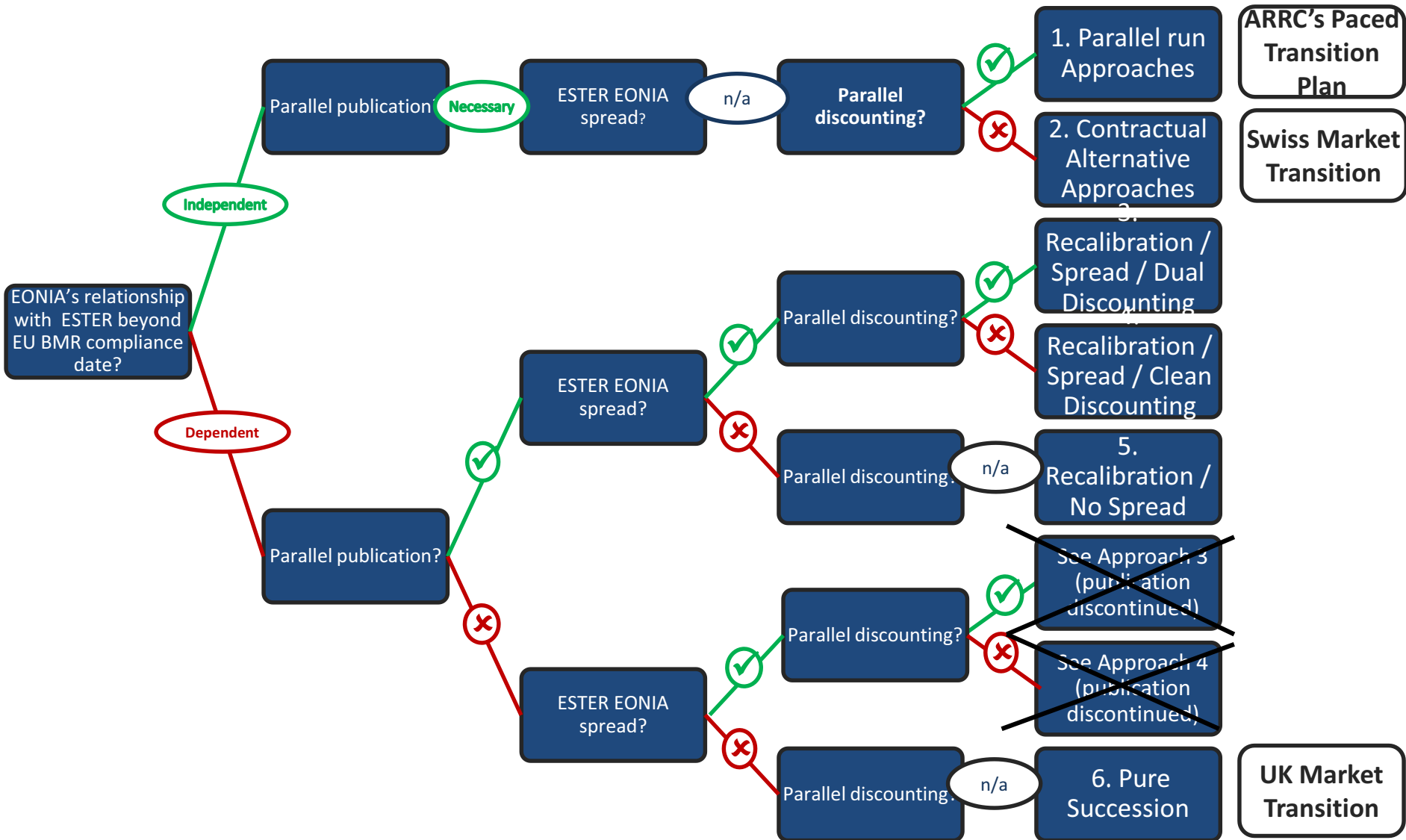
3b. From A to B : EONIA/ESTER Transition Paths

Key questions to determine suitable EONIA/ESTER Transition Paths:

- Will EONIA and ESTER be published in parallel or will ESTER succeed EONIA beyond the BMR transition date?
- Will EONIA and ESTER be independent rates or will the methodology of EONIA evolve to become dependent on ESTER beyond the BMR transition date?
- Can an EONIA-ESTER spread smoothen the transition?
- Can both EONIA OIS and ESTER OIS discounting curves coexist?

Where the market has to keep in mind that the end of the BMR transition period is currently set on 1 January 2020

3b. From A to B : EONIA/ESTER Transition Paths



4. Envisaged next steps and actions Subgroup #4

