

WG Euro RFRs Subgroup #4

EONIA-RFR Transition

Frankfurt 13 September 2018

1.- SG4 Organisation

- 24 members representing Banks, Market Infrastructures, Corporates and Institutional Investors.
- Two members ensure coordination with SG2 (BNPP) and SG3 (BBVA)
- ECB ensures secretariat. A telco is set every 2 weeks. 4 telcos already took place
- SG4 received presentations from administrators with practical Benchmark transition experiences (ICE BA and Bank of England)

2.- SG4 Deliverables and Deadlines

- Main deliverable: SG4 report by December 2018 with recommendations to be endorsed by EUR RFR Group ([annex 1: draft report chapters](#))
- Each member was assigned sub-parts to draft with a precise deadline ([annex 2 – SG4 timeline](#))
- SG4 report will be based on working assumptions ([annex 3 – working assumptions](#))

3.- EONIA Potential Transition Types

1. **Market Led** : RFR coexists with current panel based EONIA and market participants voluntarily transition to the new RFR

2. **Successor Rate (example):**
 - I. Administrator changes EONIA methodology to become RFR dependent through a simple formula :
 - a. $EONIA = RFR$
 - b. $EONIA = RFR + X$
 - II. EONIA continues to be published with no panel bank dependency
 - III. RFR and EONIA coexist but are interchangeable through simple calculation so RFR and EONIA share the same liquidity pool
 - IV. Administrator discontinues EONIA publication after a transition period

4.- SG4 take outs to date

- **The worst action is no action** : leading to major impact on market integrity (risk management and valuation of legacy books) affecting EURIBOR and EONIA users even if EONIA is allowed for use in legacy contracts
- **No other transition paths** were identified by SG4
- Private sector plan is possible with Public sector support

Annex 1 – draft report skeleton (1/2)

I. EXECUTIVE SUMMARY

1. Short background
2. Proposed Transition Option (s)
3. Proposed recommendations to stakeholders
4. Proposed Coordination and Timelines

II. BACKGROUND AND OBJECTIVES

1. EONIA definition and short history
2. Impact of EONIA not EU BMR compliant 1 Jan 2020
3. Objectives of the Group

III. EONIA USE AND LIQUIDITY

1. OIS : footprint, liquidity and term distribution of OIS Market (Cleared and OTC)
2. Collateral Remuneration (VM/IM)
3. Cash Flow Discounting (Cleared and non-cleared)
4. Risk Management / Stress Testing
5. Investment Objective for Funds
6. Loans including inter company
7. Debt Capital Markets
8. Deposits
9. EONIA Futures
10. Balance Sheet
11. Penalty Rate
12. Tax/Equity cash flow discounting/Others?

Annex 1 – draft report skeleton (2/2)

IV. DESCRIPTION OF AVAILABLE TRANSITION OPTIONS

a. Market Led

1. Pure Market led
2. Parallel with Cut Over

b. Successor Rate

1. Pure Successor Rate
2. Tracker of EUR RFR
3. Potential Spread Methodologies

V. COMPARATIVE ANALYSIS

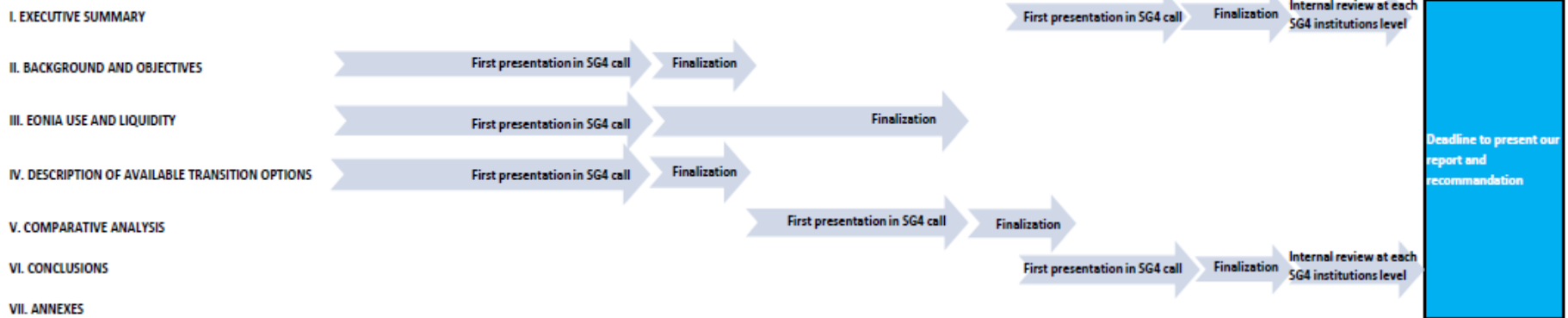
1. Legal Perspective
2. Derivatives Valuation Impact
3. Collateral Impact
4. Risk Management Impact
5. Non Derivatives Impact
6. Readiness of systems and market infrastructures
7. Existence of a liquid RFR Curve
8. EU Level Playing Field
9. Stakeholder Coordination and timelines

VI. CONCLUSIONS

VII. ANNEXES

Annex 2 – SG4 draft timeline

11/09/2018	13/09/2018	24/09/2018	Week of the 08/10/2018	18/10/2018	Week of the 22/10/2018	Week of the 05/11/2018	Week of the 19/11/2018	Week of the 03/12/2018	Week of the 17/12/2018	19/12/2018
SG4 Call #4	ECB Meeting	SG4 call #5	SG4 call #6 (date to be determined)	ECB Meeting	SG4 call #7 (date to be determined)	SG4 call #8 (date to be determined)	SG4 call #9 (date to be determined)	SG4 call #10 (date to be determined)	SG4 call #11 (date to be determined)	ECB Meeting



Annex 3 – working assumptions (1/2)

For the purpose of facilitating the rails to guide the SG4 report, these are the proposed working assumptions that will be used as a starting reference point that may change following further findings by the group.

1. Underlying activity in the market EONIA represents will not pick up before January 2020
2. As of 1 Jan 2020, EONIA in its current form (non-reformed) will not be EU BMR compliant. Consequently, EU regulated firms and market infrastructures will be prohibited to use EONIA for new financial instruments and contracts. Therefore firms must find alternatives for using EONIA and EONIA OIS curve for :
 - a. reference rate for new financial instruments or contracts
 - b. discount rate for valuing legacy instruments and contracts referenced to EONIA and EURIBOR
 - c. stress testing for legacy book referenced to EONIA and EURIBOR
3. As of 1st Jan 2020 NCA will allow EONIA in its current form to be used as a reference rate for legacy financial instruments and contracts and CSA usage.
4. Powers of compulsion for EONIA contributors will continue to be limited to two years
5. Fall back provisions for EONIA will take beyond 2020 to be widely and uniformly implemented reducing the basis risk of a potential EONIA prohibition or discontinuity
6. ESTER is recommended and accepted as the new EUR RFR for a wide range of products and users

Annex 3 – working assumptions (2/2)

7. ESTER will be published on a T+1 daily basis by Q3 2019 at earliest
8. ESTER and EONIA fixings will keep a reasonable correlation and stable spread until 1 Jan 2020. However they might be subject to idiosyncratic movements if EONIA in its current form is allowed to coexist for a longer period
9. Participants and market infrastructures can reasonably adapt their systems to a change in EONIA publication date from T to T+1 with a notice of [9-12months]
10. PAI / discounting regime for centrally cleared and bilateral swaps will change to being ESTER-based for new & legacy trades 2020 onwards and an ESTER-based regime could be introduced sooner. The use of ESTER flat for new at the same time as ESTER plus Spread for legacy needs further evaluation
11. EONIA footprint will show that although it is used in a wide range of products, in terms of risk, consumer protection and market integrity impacts it is highly concentrated in the derivatives industry