

High level implementation plan

Jaap Kes, 18 October 2018

Management summary

- The Working Group on euro risk-free rates is now actively working on (1) the replacement of EONIA with ESTER and (2) the creation of an ESTER-based term structure that can be used as an alternative benchmark to EURIBOR.
- The BMR timelines and the end of the transition period by the 1st of January 2020, clearly is a challenge:
 - A legal and operational transition from EONIA to ESTER is quite complex to achieve and various steps need to be taken. It is currently highly uncertain if all these required steps can be taken in time by all market participants to ensure a smooth and timely transition before 2020.
 - The creation of an ESTER-based term structure that can be used as an alternative benchmark to EURIBOR cannot be completed before the 2020 deadline. In order to create this term structure a liquid derivative market based on ESTER is required. The market in ESTER based derivatives can only start after this new benchmark is published on a daily basis by its administrator the ECB. The planned daily publication of ESTER at the latest in October 2019 offers too little time for a liquid derivative market to be established before the 2020 deadline.
- The above stated challenges in combination with the potential instability in financial markets if market participants would not be prepared in time have led to the formulated call to the legislators as presented on the following page.

Call on the co-legislators

Based on the high-level implementation plan for the euro risk-free rate, the working group on euro risk-free rates requests the following legislative adjustments:

- 1. An extension of the transition period for index providers of a critical benchmark and the critical benchmark itself of 2 years until January 1, 2022:**
 - To anticipate a potential delay in the implementation of the EONIA transition towards the new euro risk-free rate ESTER;
 - to ensure sufficient time is reserved to create a well-functioning alternative benchmark to EURIBOR and;
 - to align BMR deadline with international initiatives.

- 2. The working group requests the EC to designate ESTER and the ESTER-based term structure as critical benchmarks thereby ensuring the market will understand these to be the successor rate(s) to non-BMR compliant benchmark(s).**

It must be noted that despite the challenging timelines, the Working Group continues to strive to achieve the transition from EONIA to the new euro risk-free rate before the 1st of January 2020.