

STATE OF PLAY OF THE EONIA REVIEW

In light of the conclusions of the analyses performed in the context of the Eonia Review Data Exercise, together with the information on the overnight unsecured segment of the euro money market published by the European Central Bank, EMMI's governing bodies have decided that pursuing a thorough Eonia Review is no longer appropriate.

- In 2016, EMMI, as administrator of the Euro OverNight Index Average (EONIA), launched the Eonia Review, a programme which sought to enhance the governance and control framework for the Eonia benchmark, and align it with the requirements of the EU Benchmarks Regulation¹ (EU BMR).

The EU BMR entered fully into application on 1st January 2018. As per this Regulation, benchmark administrators should ensure the benchmark determination methodology of the reference index they provide is robust, reliable, and resilient to guarantee the benchmark can be calculated in the widest set of possible circumstances, without compromising its integrity.

- The Eonia Review was organized in two different phases:
 - › The first phase aimed at establishing a robust stand-alone governance framework for Eonia, which included the formulation of contingency and fallback arrangements to enable the calculation of Eonia under periods of limited input data or market stress.
 - › The goal of the second phase was focused, in turn, on the enhancement of Eonia's methodology, which required a more in-depth analysis of unsecured interbank money market activity.
- In the Eonia Consultative Paper² of August 2016, EMMI presented the results of an initial analysis done with indicators derived from panel banks' submissions, spanning seventeen years of Eonia's life cycle from 1999 until the end of 2015. The data revealed the following main trends:
 - › A decrease in the aggregated notional value of underlying transactions;
 - › An increase in volume concentration;
 - › A decrease in the number of Eonia panel banks with daily non-zero submission volumes; and
 - › A reduction in the number of countries represented daily in the Eonia benchmark.
- The second phase of the Eonia Review started in summer 2017. As detailed in the Guidelines³ on the Eonia Review Data Exercise published by EMMI, an in-depth analysis on data covering a six-month period from 1st September 2016 to 28th February 2017 was performed. With this exercise, EMMI expected to gain a better insight on the market, and dynamics underpinning Eonia's daily determination. This exercise would enable EMMI to assess the introduction of any potential changes in the Eonia data input, or its current calculation methodology (e.g. the inclusion of alternative parameters and currently non-eligible financial instruments).

¹ EU Benchmarks Regulation <http://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX%3A32016R1011>

² EMMI Consultative Paper on Eonia August 2016
<https://www.emmi-benchmarks.eu/assets/files/D0200E-2016-Eonia%20Consultation%20Paper.pdf>

³ Eonia Review Data Exercise Guidelines <https://www.emmi-benchmarks.eu/assets/files/D0370A-2017%20ERDE%20Guidelines.pdf>

- According to the data received from participating banks, EMMI concluded that:
 - › Eonia presents a twofold concentration:
 - On the one hand, interbank lending activity captured by Eonia presents a fair degree of concentration, which may increase the influence of single contributors on the benchmark rate;
 - On the other hand, there is a geographical concentration.
 - › The inclusion of currently non-eligible financial instruments (e.g. transactions with spot/next, and tomorrow/next maturities) does not have a significant impact on the representativeness of the Eonia benchmark.
- The first conclusion above with respect to market concentration, is in line with the findings of the ECB in their analysis of the MMSR data, published in the First ECB⁴ public consultation on developing a euro unsecured overnight interest rate. This paper also gives an overview of other characteristics of the unsecured euro money market, such as its liquidity and size.
- The ECB's paper states that *"data availability for borrowing transactions is higher than that for lending transactions. MMSR data show that the number of active reporting agents each day is, on average, higher for borrowing than for lending, although the selection is limited to interbank transactions"* (see page 15). It is indicated that the banks are more active in the borrowing side than on the lending side.
- Additionally, it concludes that *"unsecured interbank funding has not been the main component of total unsecured overnight borrowing in the recent past as transactions with other financial corporations (including undertakings located outside the area) represent a sizeable portion of the unsecured borrowing"* (see page 16).
- On the basis of both EMMI's Data Analysis Exercise and the exhaustive analysis illustrated on the above-mentioned ECB's public consultation, redefining Eonia as an overnight wholesale borrowing benchmark would most likely allow for a more robust and representative interest rate, with a lower geographical concentration. These changes would require shifting to the borrowing side where higher volumes are captured, and including borrowing transactions with a broader range of counterparties.
- Moreover, the ECB's consultation seeks to gather the market's input on the usefulness of a rate which reflects banks' daily funding costs to be used (a borrowing rate) as a reference in financial contracts, including derivatives, and also for valuation purposes.
- EMMI believes that, should market conditions and dynamics remain unchanged, Eonia's compliance with the EU BMR by January 2020 cannot be warranted, as long as its definition and calculation methodology remain in its current format.
- In this context, EMMI's governing bodies have decided that pursuing a thorough Eonia Review is no longer appropriate. Nonetheless, EMMI is aware of the importance of the Eonia reference rate. EMMI, as a due diligent administrator, has recently adopted an updated version of the Eonia Governance Framework⁵, which sets a minimum set of standards to ensure the robustness of the benchmark. Moreover, in its efforts to enhance the benchmark's quality, and review its methodology on an annual

⁴ First ECB public consultation on developing a euro unsecured overnight interest rate
https://www.ecb.europa.eu/paym/pdf/cons/euoir/consultation_details_201711.pdf

⁵ Eonia Governance Framework
<https://www.emmi-benchmarks.eu/euribor-eonia-org/about-eonia.html>

basis (as foreseen in the BMR), EMMI could assess the possibility of adapting methodological parameters with the intention of enhancing Eonia's robustness, if deemed necessary.

- EMMI confirms that the daily publication of Eonia will continue "as-is".
- Eonia is a critical⁶ benchmark for which a College of Supervisors has been established. The Eonia College has the authority to ensure the stability of the Eonia Panel, and the continuity of the provision of the benchmark in accordance with Articles 21 and 23 of the BMR.
- Furthermore, following the BMR, Eonia may still be used as a reference rate until 31st December 2019 under the transitional provisions of the BMR. After 1st January 2020, the provision and use of Eonia in existing contracts may be permitted by the FSMA, under the conditions set out in Article 51(4) BMR.
- Nonetheless, in line with benchmark users' responsibilities foreseen in the EU BMR and with IOSCO's⁷ "Statement on Matters to Consider in the Use of Financial Benchmarks" published in January 2018, EMMI wishes to encourage users to assess whether their selected benchmarks meet their, or their clients', needs in both its initial selections and in its ongoing use. In addition to assessing the appropriateness of the selected benchmarks, users should give careful thought to contingency plans in the event a benchmark is no longer available. That is to say, as highlighted on the IOSCO statement, users should seek to put in place fallback provisions in their contractual arrangements.
- In the light of the pivotal role reference interest rates play in the global financial system, EMMI welcomes the involvement of public authorities. A collaboration between the public and private sector is beneficial for the identification of alternative interest rates, and EMMI is therefore happy to participate as an observer in the Working Group⁸ on Euro Risk-Free Rates, and share its expertise as an administrator of critical benchmarks.

⁶ EONIA was declared critical by the European Commission on 28th June 2017, given its extended use, both as a reference rate in secured and unsecured money market instruments (with a combined outstanding amount of EUR 850 billion), and in trades in the euro overnight index swap (OIS) market (with a notional amount of about EUR 5,2 trillion).

⁷ IOSCO Statement on Matters to Consider in the Use of Financial Benchmarks
<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD589.pdf>

⁸ The terms of reference of the working group on Euro Risk-Free Rates can be found [here](#).