

EONIA questions and answers

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BACKGROUND

1. What is EONIA?

The euro overnight index average (EONIA) is a daily reference rate, published by the European Money Markets Institute (EMMI), representative of the rate at which credit institutions in the EU lend overnight funds to each other in the unsecured money market in euro.

2. What is a benchmark specification?

A benchmark specification consists of two components, namely:

- a) The **Underlying Interest**, which defines the economic variable that a benchmark seeks to measure; and
- b) The **Determination Methodology**, which is applied to make a practical measurement of the Underlying Interest.

3. What is the Underlying Interest of a benchmark?

The **Underlying Interest** defines the market or economic reality that the index seeks to measure. It represents the more fundamental element of a benchmark's specification, as it defines the objective for establishing the benchmark, and is intended to be an enduring statement of the economic concept of what the benchmark seeks to represent.

EONIA represents *“the rate at which banks of sound financial standing in the European Union and European Free Trade Area (EFTA) countries lend funds in the interbank money market in euro.”*

4. What is the unsecured money market?

The unsecured money market consists of lending or borrowing cash-only transactions (i.e. not collateralised) that bear a fixed or floating interest rate which are redeemable and have maturity up to one year.

5. What is the EU Benchmarks Regulation (EU BMR)?

The EU Benchmarks Regulation introduces a regime for benchmark administrators, contributors and users, in order to ensure accuracy and reliability of indices used as benchmarks in financial instruments and contracts, or to measure the performance of investment funds in the EU.

It was published in June 2016 and most rules have started to apply as of 1 January 2018, with transitional provisions until 1 January 2020.

6. [What is the authorisation of a benchmark administrator under the EU Benchmarks Regulation \(EU BMR\)?](#)

A benchmark administrator is the entity that has control over the provision of a benchmark and, in particular, administers the arrangements for its determination, collecting and analysing the data used to define the index. The administrator is also responsible for the calculation and publication of the benchmark.

The authorisation of an administrator under the EU BMR is the evaluation, by the administrator's National Competent Authority, of the administrator's compliance with the requirements set out by the EU BMR. These requirements include governance, control and accountability frameworks, but also tackle issues related to the benchmark(s) provided by the administrator, such as the benchmark's methodology and input data.

7. [Who is the National Competent Authority responsible for EMMI's authorisation and supervision?](#)

The Belgian Financial Services and Markets Authority (FSMA) is responsible for EMMI's authorisation and supervision.

8. [Is EMMI an authorised benchmark administrator?](#)

Yes, EMMI is an authorised administrator of the EURIBOR benchmark. On 10 April 2019, EMMI applied for authorisation as administrator of EURIBOR. On 2 July 2019, following the positive advice of the EURIBOR College of Supervisors, the FSMA granted the authorisation to EMMI for the administration of EURIBOR.

EONIA was not part of the authorisation file submitted by EMMI in April 2019.

9. [When is EMMI filing for authorisation as administrator of EONIA to its National Competent Authority?](#)

EMMI will file for authorisation to the Belgian Financial Services and Markets Authority (FSMA) by Q4 2019.

10. [Why is 1 January 2020 so relevant for financial benchmarks, like EONIA?](#)

The EU Benchmark Regulation (EU BMR) has set the deadline of 1 January 2020 for benchmark administrators to apply for authorisation. After the 1 January 2020 deadline, only EU BMR compliant benchmarks provided by an authorised or registered administrator may be used in new financial instruments or financial contracts.

As part of the political agreement reached by the European Parliament and Member States on a new generation of low-carbon benchmarks, the EU institutions have also agreed to grant administrators of critical benchmarks two extra years until 31 December 2021 to comply with the new EU BMR requirements. The European Parliament and Council still have to formally approve these rules.¹

EONIA REFORM

11. Why did EMMI undertake a EONIA Reform?

Even though EONIA is already a fully transaction-based reference rate, calculated on the basis of the submissions from 28 credit institutions (the Panel Banks) across the EU and EFTA countries, it presents some methodological shortcomings as a result of the continuous decrease in unsecured interbank short-term lending since after the 2007-09 crisis. These methodological vulnerabilities do not ensure EONIA's robustness and resilience.

As a result, and in order for EONIA to be compliant with the EU BMR, EMMI needs to implement changes to its current methodology.

EMMI is reforming the benchmark for two main reasons: 1) to guarantee EONIA's continued used in legacy contracts after the 1 January 2020 deadline imposed by the EU BMR (see question 10); and 2) to facilitate the market's [transition away from EONIA and onto the €STR](#), as recommended by the Working Group on euro risk-free rates.

RECALIBRATED METHODOLOGY

12. What is the recalibrated methodology for EONIA?

The recalibrated methodology for EONIA calculates the benchmark as the sum of the euro short-term rate² (€STR) and a fixed parameter (*spread*) of 0.085% (8.5 basis points).

13. What is the spread in the new calculation methodology for EONIA, and how was it determined?

The *spread* of 8.5 basis points mentioned in question 12 represents a measure of the economic difference between the underlying interests of EONIA (see question 3) and the €STR.

The *spread* was fixed on 31 May 2019 and was computed by:³

- calculating the daily spread between EONIA and pre-€STR for the most recent year of publicly available pre-€STR data (from 17 April 2018 until 16 April 2019);
- ordering the spread series from the lowest to the highest spread;

¹ The press release from the European Commission on this topic can be found [here](#).

² The €STR is the new short-term rate for the euro. The ECB is the €STR's benchmark administrator. More information can be found on the ECB's [website](#).

³ The European Central Bank calculated the *spread* based on the methodology as recommended by the Working Group on euro risk-free rates. More details on the ECB's calculation can be found in the ECB's corresponding [press release](#).

- removing exactly 15% of observations from the top and the bottom of the sorted series (with partially weighted inclusion of the observations at the border, if relevant);
- calculating the arithmetic average of the remaining 70% of observations.

14. What are the operational implications of this change in methodology? When will the new methodology be implemented?

Considering that the €STR will be published on the day following the execution of the overnight trades underlying its determination (i.e. day T+1), EONIA’s publication time under the recalibrated methodology should be deferred from day T to T+1. In order to avoid the publication of two rates representing the same day, at the time the change in calculation methodology will be implemented (one calculated under the current methodology and another one calculated under the recalibrated methodology) there should be a day in which no EONIA is published.

Monday 30 September 2019	Tuesday 1 October 2019	Wednesday 2 October 2019
Day before move	Day of move	Day after move
T_{M-1}	T_M	T_{M+1}
EONIA is calculated under the current methodology. Published at or shortly after 7:00 p.m. CET EONIA published on day T_{M-1} reflects the market on day T_{M-1} .	No EONIA rate is published	EONIA is calculated under the recalibrated methodology. Published at or shortly after 9:15 a.m. CET EONIA published on day T_{M+1} reflects the market on day T_M .

The first day of publication of EONIA under the new methodology will be Wednesday, 2 October 2019, and it will be reflective of the market on Tuesday, 1 October 2019. Hence, there will be no gap in the EONIA time series.

15. What will be EONIA’s publication time under the new methodology?

Considering that the €STR methodology and policies contemplate the possibility that the €STR is republished at 9:00 a.m. CET in case errors of more than 2 basis points are detected in the rate initially published at 8:00 a.m., EONIA should be published every day at the end of the €STR’s republication window, in order to minimize operational burden. Therefore EONIA will be published at or shortly after 9:15 a.m. CET, starting on 2 October 2019.

16. Will EONIA volumes continue to be published after the implementation of the recalibrated methodology?

No. As the determination of EONIA will become solely dependent on the daily rate value of the €STR, the publication of EONIA after the implementation of the new methodology will not be accompanied by any information related to underlying notional volume.

17. Is EONIA calculated under the recalibrated methodology still EONIA?

With the change in methodology, EMMI has made changes to the Benchmark Methodology, i.e. the part of a benchmark's specification that defines how the Underlying Interest is measured.

With the EONIA reform, EMMI does not change EONIA's Underlying Interest, but adapts its methodology to guarantee EONIA's compliance with the EU BMR.

18. Will there continue to be a Panel of contributing banks after the implementation of the recalibrated methodology for EONIA?

No. The EONIA Panel will be dissolved on Tuesday, 1 October 2019, following the Panel Banks last contribution toward the determination of EONIA on Monday, 30 September 2019.

19. Will the European Central Bank continue to perform the Calculation Agent function for EONIA?

No. After the implementation of the recalibrated methodology, EMMI will assume the Calculation Agent role for EONIA.

20. For how long will EMMI continue publishing EONIA under the recalibrated methodology?

The implementation of the recalibration methodology for EONIA should be understood as a temporary solution to facilitate and ensure that the market and all users can achieve a transition to the €STR in a smooth manner.

EMMI will provide EONIA under the recalibrated methodology up until 3 January 2022, the date on which EONIA will be discontinued. This date should act as an incentive for the market to fully adopt the €STR as EONIA's replacement.

21. Will the recalibrated EONIA be published under different identification codes, i.e. Reuters Instrument Code or Bloomberg ticker?

EMMI has not requested any changes to the identification codes in any of the vendors that currently distribute EONIA.

22. What is the difference between EONIA and the €STR?

EONIA is administered by EMMI, and reflects the rate at which banks of sound financial standing in the European Union and European Free Trade Area (EFTA) countries lend funds in the interbank money market in euro. The euro short-term rate (€STR), will be administered by the ECB and will reflect the wholesale euro unsecured overnight borrowing costs of euro area banks and will complement existing benchmark rates produced by the private sector.