

# **Eonia Review Data Exercise**

## **GUIDELINES**

**Eonia Review**

**6 July 2017**

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## 1 INTRODUCTION

On 22 July 2014, the Financial Stability Board (FSB) published its report on *Reforming Major Interest Rate Benchmarks*, summarizing the work undertaken by the Official Sector Steering Group (OSSG) and the Market Participants Group (MPG) in their efforts to ensure that widely-used benchmarks are held to appropriate standards of governance and transparency. In this context, the systemic importance of the Eonia® benchmark was acknowledged in this report,<sup>1</sup> where the OSSG noted that:

*“[Eonia is a] viable and actively used nearly-credit-risk-free reference interest rate, supported by a robust governance framework that is now being strengthened by the European authorities and its administrator. [...] It is directly anchored in the cash market, is based on real transactions and on a panel representing a wide range of banks across the Euro area. A derivatives market based on [Eonia] already exists [...] and is extremely relevant for the Euro market.”*

On 8 June 2016, the European Parliament and the European Commission adopted [Regulation 2016/1011 on indices used as benchmarks in financial instruments and financial contracts](#) (EU BMR) with the intent of introducing a common framework to ensure the accuracy and integrity of indices used as benchmarks. The Regulation will enter fully into application on 1 January 2018, although some Articles are applicable since 30 June 2016. By virtue of Article 20 in the EU BMR, the [European Commission declared Eonia critical](#)<sup>2</sup> on 28 June 2017 given its importance for the interbank market and the high number of derivatives in the EU referencing it: an analysis of the European Central Bank’s MMSR<sup>3</sup> data indicates that about EUR 450 billion (resp. EUR 400 billion) worth of unsecured (resp. secured) money market transactions reference Eonia, while the majority of trades in the euro OIS market are anchored in Eonia, with a notional amount of EUR 5.2 trillion.

### *Eonia Review*

In 2015, mindful of Eonia’s role as a major reference rate, EMMI initiated the so-called **Eonia Review**, with the intention of enhancing the transparency, robustness, reliability, and representativeness of the index. In August 2016 EMMI published its [Consultation Paper on Enhancements to the Eonia Benchmark](#), in which, together with a questionnaire on possible fall-back calculation methodologies for Eonia, EMMI provided a description of the Eonia Review program.

The Review was organized as a two-step process. In a first instance, EMMI would work on the implementation of stand-alone arrangements and policies for the administration of Eonia—in particular, establishing an independent governance framework for the benchmark in line with

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<sup>1</sup> On 22 July 2014, the Financial Stability Board published its Report on [Reforming Major Interest Rate Benchmarks](#).

<sup>2</sup> A benchmark is considered as being a *critical benchmark* where it is used directly or indirectly within a combination of benchmarks as a reference for financial instruments or financial contracts or for measuring the performance of investment funds, having a total value of at least EUR 500 billion on the basis of all the ranges of maturities or tenors of the benchmark, where applicable. (See Article 20, EU BMR.)

<sup>3</sup> MMSR refers to the ECB’s [Money Market Statistical Reporting Regulation](#), by which monetary financial institutions (MFIs) in the Eurozone are required to submit daily granular data of all their concluded secured, unsecured, and certain derivatives money market transactions whose counterparties are other MFIs, other financial institutions, general government, or non-financial corporations.

regulatory requirements, e.g. standards for the administration, calculation, and dissemination of Eonia; responsibilities of contributors; and documentation on the benchmark's methodology. In April 2017, the EMMI Board of Directors and the EMMI General Assembly approved the Eonia Governance Framework.<sup>4</sup>

The Governance Framework consists of the following components: (i) the [Governance Code of Conduct](#), which sets out the governance arrangements and control framework established by the Administrator, the selection of panel banks, and the general specification and approach for the determination of Eonia®; (ii) the [Eonia Code of Obligations of Panel Banks](#), which sets out the requirements for panel banks in acting as contributors of data to EMMI for the determination of the benchmark; and (iii) the [Eonia Benchmark Determination Methodology](#), which sets out the determination methodology for the calculation of Eonia under both regular and contingency circumstances.

The Governance Framework will enter into application at the beginning of 2018.

As a second part of the review of Eonia, EMMI planned for an extensive collection of unsecured short-term money market transaction-level data, with the aim of supporting any potential changes in the data input and/or calculation methodology of the Eonia benchmark. The Eonia Review Data Exercise (ERDE) will help EMMI understand and assess whether changes in the determination methodology of Eonia are required for it to remain representative and robust.

This note provides a description of the ERDE, information on the governance and oversight of the Review, EMMI's plans for the execution of this final phase of the Review, the role of banks participating in the exercise, and the data analyses that will be performed with the data collected. The format of this note is similar to that of the Guidelines for the 2016 Pre-Live Verification Program due to the synergies between both exercises.

## 2 GOVERNANCE OF THE EXERCISE

The progress of the Exercise is monitored by the **Euribor-Eonia Steering Committee** (the Steering Committee), which is the body responsible of the oversight of all aspects of the provision of the Eonia benchmark and, in particular, its governance and methodological aspects. The Steering Committee is an independent committee composed of a balanced representation of stakeholders, including end-users and benchmark contributors. Following the conclusion of the first phase of the Eonia Review, in which, as detailed above, an independent Governance Framework for Eonia was introduced by the EMMI Board of Directors and the EMMI General Assembly, and consistent with its oversight role over the Eonia benchmark, the Steering Committee was declared the authority

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<sup>4</sup> The [Eonia Governance Framework](#) and all its components have been drafted reflecting the requirements of Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts (EU BMR). As detailed in Article 2(2)(a) of the EU BMR, this Regulation—and as a consequence the Governance Framework—shall not apply to Central Banks.

responsible for developing and approving changes to the benchmark's methodology.<sup>5</sup> To this end, the Steering Committee is the main oversight body over the progress of the Eonia Review.

In addition to the Steering Committee and the EMMI Governing Bodies, which remain fully informed of the progress made by EMMI in the Eonia Review, EMMI established the **Eonia Task Force** (the Task Force) to support the Secretariat in the in-depth revision and enhancement of the benchmark. The Task Force is composed by members of the Steering Committee, panel bank representatives, public authorities, benchmark user professionals, other market practitioners, and third-party experts. Among its tasks the group is expected to:

- › Support the EMMI Secretariat and Steering Committee in the development of a stand-alone governance framework for Eonia;
- › Define contingency procedures related to the availability of the contributors (fallback provisions);
- › Review, and document in the governance framework, the operational and control arrangements to ensure the integrity and robustness of the benchmark; and
- › Review Eonia's technical design, including the clarification of the products and scope of transactions to be included in the Eonia calculation, to ensure it remains fit-for-purpose and reflective of the underlying interest the benchmark seeks to represent.

The Steering Committee and the Eonia Task Force are supported by the **EMMI Secretariat**, which broadly performs project management activities to ensure that the Review is kept on track. With regard to the ERDE, the EMMI Secretariat is responsible for managing the strategy and methodology development, collection of data, data storage, and data analysis. In addition, the EMMI Secretariat serves as the day-to-day liaison between the Steering Committee and EMMI Governing Bodies and participating banks on all matters relating to the ERDE, including data transmission, confidentiality arrangements, and general questions. The EMMI Secretariat is also primarily responsible for the drafting of the results of the ERDE and potential public consultations.

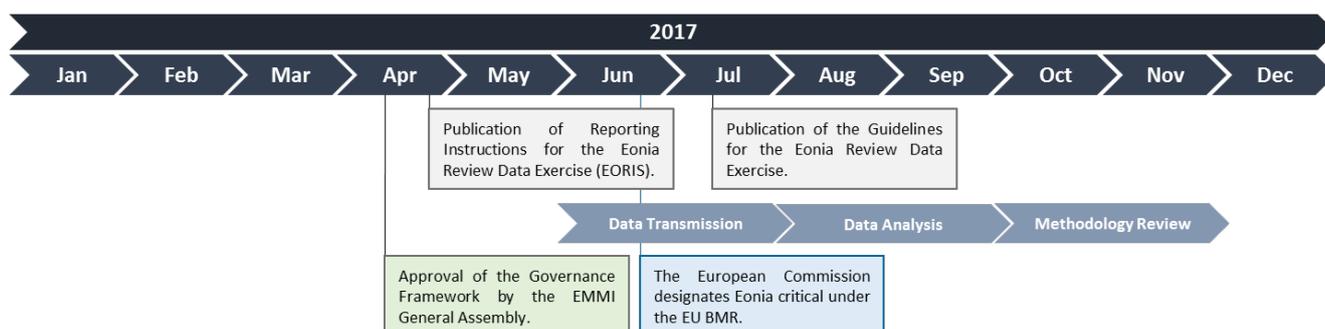
### 3 TIMELINE OF THE EONIA REVIEW DATA EXERCISE

The [summary of stakeholder feedback](#) to the Consultation Paper on Enhancements to the Eonia benchmark published by EMMI on 5 December 2016 included an indicative timeline for the second phase of the Eonia Review, and more concretely the Data Exercise. In this Section, EMMI provides further details on the timeline of the ERDE, as well as more information regarding potential public consultations on the methodological changes suggested by the Task Force and approved by the Steering Committee.

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<sup>5</sup> The Eonia Governance Framework, published on EMMI's website on 13 April 2017, summarizes the different authorities, and their respective responsibilities, with respect to the components of the Framework. While the approval of changes to the overarching Governance Framework and the Eonia Governance Code of Conduct is competence of the EMMI General Assembly, the Steering Committee is responsible for approving any changes in the Code of Obligations of Panel Banks, the Code of Obligations of the Calculation Agent, and the Benchmark Determination Methodology.

- i. **Eonia Review Data Exercise Reporting Instructions (EORIS)—April 2017.** The Eonia Reporting Instructions are only applicable to banks participating in the ERDE and provide more detailed information on the operational aspects and reporting format. Participating banks are asked to follow the ERDE to ensure a smooth progress of the Data Analysis Exercise.
- ii. **Eonia Review Data Exercise Guidelines—July 2017.** The Guidelines provide a description of the Exercise and establish the ERDE’s governance, detailing what are the different entities involved and what are their roles and participation in the oversight of the different elements.
- iii. **Data Transmission—June/July 2017.** Participating banks are asked to submit the transactions they performed during a six-month period from 1 September 2016 until 28 February 2017. Reporting will take place in one bulk data transmissions. More details are provided in Section 4 below.
- iv. **Data Analysis Exercise—August/September 2017.** During this two month period, EMMI will perform an in-depth analysis of the lending transactions received from participating banks. This enhanced visibility on the interbank lending money market in euro will provide a quantitative foundation for EMMI on which to propose modifications and refinements to the current Eonia methodology.
- v. **Methodology Review—October/November 2017.** Relying on EMMI’s analysis of the reported data, EMMI will discuss possible ways of enhancing the benchmark’s representativeness with the Eonia Task Force.



- vi. **Public Consultation—December 2017 – January 2018.** Contingent on the data analysis in point vi. and the subsequent conclusions drawn by the EMMI Secretariat and the Task Force, EMMI will conduct a public consultation asking for the market’s feedback on eventual (material) changes to the methodology of Eonia.<sup>6</sup>

<sup>6</sup> On 4 November 2014, the EMMI General Assembly adopted the [EMMI Consultation Policy](#). The definition of a material change in this context can be found on Section 2.2.

- vii. **Feedback Summary—February 2018.** Following the consultation on the proposed changes, EMMI will publish a memo with a summary of the feedback received, together with a precise implementation timeline if changes in the Eonia Governance Framework components are required.

## 4 PARTICIPATING BANKS

As part of the Eonia Review Data Exercise, participating banks will be requested to:

- › Collect and filter relevant transaction-level data in accordance with the Reporting Instructions for the ERDE;
- › Submit data to EMMI using submission methods outlined by EMMI;
- › Ensure the quality, integrity, and accuracy of their ERDE data submission(s);
- › Cooperate with EMMI in the event data submissions require revision or clarification.

All participating banks' activities undertaken with respect to the ERDE will be subject to confidentiality measures described below in Section 6.

### 4.1 DATA REPORTING GUIDELINES

Participating banks reporting of transaction data should be conducted for all EU and EFTA branches associated with the respective participating bank. Intragroup transactions should always be excluded from the scope of reporting.

Participating banks may choose to provide a single consolidated daily transmission or separate transmissions for individual participating bank's branches (Reporting Entities). The participating bank's preferred reporting method (i.e. consolidated or multiple entities) and, if using the multiple entities method, the list of Reporting Entities must be established in advance. EMMI will use this information to determine the participating bank's Reporting Entity or Entities for purposes of managing and monitoring the participating bank's expected submissions.

For each Reporting Entity within an individual participating bank, participating banks must provide a daily data submission. Those participating banks which will be transmitting MMSR data to the ECB during the ERDE reporting period may submit to EMMI their "Daily Unsecured Money Market Segment" data files to meet the ERDE reporting requirements. Participating banks may choose to anonymize the transactions included in the data file, as long as all other required data fields remain intact. No other filtering of the MMSR data file is needed prior to provision to EMMI—EMMI will disregard ineligible transaction records and data fields not reflective of Eonia's underlying interest.

During the Eonia Review Data Exercise reporting period, participating banks should provide, *at a minimum*, the rates, volumes, and other requested data fields for all transactions that meet the criteria 4.1.1 – 4.1.5 described below—the Eonia Review Data Exercise Reporting Instructions (EORIS) further describe the specific data fields required, that will largely align with those requested by the ECB in its MMSR instructions.

All reporting requirements should be considered according to the Euro money market convention. These refer to the TARGET<sup>7</sup> rate calendar, ACT/360 day count conventions, and modified following business day with month-end adjustment convention.

#### 4.1.1 Transaction Denomination and Timing

Participating bank's own euro-denominated lending transactions executed on a given day during TARGET opening hours and during the reporting period running from 1 September 2016 to 28 February 2017.

#### 4.1.2 Transaction Settlement Dates

Transactions with the following standard value date window for each TARGET day is T, T+1, T+2.

#### 4.1.3 Transaction Maturity

For the purposes of the Eonia Review Data Exercise, transactions with a maturity of up to 10 TARGET days after the settlement date are to be included in the transmission. Although maturities other than overnight are not currently eligible for the Eonia calculation, these should be nevertheless be included for analysis purposes.

#### 4.1.4 Transaction and Instrument Types

Lending transactions with credit institution counterparties conducted in the unsecured money market should be reported by participating banks. For relevant securities, reportable transactions are limited to trading in the primary markets and do not include trading in short-term securities on secondary markets.<sup>8</sup>

#### 4.1.5 Transaction Counterparties

Unsecured cash deposits placed at deposit taking corporations must be reported, irrespective of the geographic location. This classification aligns with the counterparty sector categorizing outlined in the ECB's MMSR reporting instructions and it corresponds to sector "S122 Deposit-Taking Corporations, except those of the Central Bank subsector" of the revised European System of Accounts (ESA 2010) developed by Eurostat.

Whenever the counterpart of the contributor lies outside the EU, the best possible approximation of the sector classification can be applied.

## 4.2 DATA TRANSMISSION

Participating banks are expected to contribute their transaction-level data in a single bulk submission due on 20 July 2017. These submissions will be done through a secure file transfer

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<sup>7</sup> TARGET stands for Trans-European Automated Real-time Gross settlement Express Transfer System. The Eurosystem maintains TARGET2, which is the second generation of TARGET and is a real-time gross settlement system. Throughout this document, references to "TARGET" should be read with respect to the Eurosystem's TARGET2 system.

<sup>8</sup> Limiting reportable activity to primary markets is consistent with the ECB's MMSR. Primary market transactions shall be considered as those executed on the issuance date directly with the issuer.

protocol established by EMMI and communicated to all participating banks. The specifications for the file transfer protocol were socialized with participating banks together with the EORIS.

## 5 DATA ANALYSIS EXERCISE

The Data Analysis Exercise (August – September 2017) is an important component of the ERDE and it will allow EMMI to have a better understanding of the market and dynamics underpinning Eonia's daily determination. The following is a non-exhaustive list of analysis that EMMI will perform with the received data.

### *Inclusion of Spot/Next (S/N) and Tomorrow/Next (T/N) settlements in the Eonia calculation*

EMMI will study the impact, if any, of including one-day transactions with settlement times T+1 (S/N) and T+2 (T/N) for a trade date of T. This will entail a breakdown of volume and number of transactions for the different settlements, and evaluating the magnitude of change on the daily fixing of inclusion or exclusion of each settlement time.

### *Inclusion of currently ineligible instrument types*

In order to evaluate whether the scope of eligible instruments for the Eonia calculation could be widened, EMMI will analyze what instruments are currently being used for the contribution of each Panel Bank. If there are instruments that are not currently taken into account, which could be incorporated into the Eonia calculation, or else if there is a need for harmonization of data inputs across the different members of the panel, EMMI will assess the impact on volumes, rate levels and number of transactions of including such transactions in Eonia processing.

### *Dynamics of transactions with maturity up to one week*

EMMI will look at volumes, rate levels and number of transactions of trades with maturity falling between Overnight (O/N) and one week. This assessment will highlight if these transactions contain meaningful information for the calculation of Eonia.

### *Activity concentration in the panel*

By looking at what percentage of the overall volume of the panel each Panel Bank constitutes, EMMI can determine how concentrated Eonia contributions are. The study will consist of a graphical analysis via the use of Lorenz curves, as well as utilizing the Herfindahl index as a metric of the concentration.

### *Geographical concentration of panel*

Further to the analysis of the share of volume individual banks constitute, EMMI will also study the breakdown of volume per country, in order to assess the geographical representativeness of the index. The analysis tools will be the same as those used in section 3).

### *Re-assessment of thresholds for triggering contingency procedures and fallback provisions*

At the time of the initiation of the Eonia contingency procedures and fallback provisions in December 2016, the metric chosen was the number of daily contributors with non-zero volume,

and the threshold was set at strictly less than 5 contributors. With a clearer visibility on the rate determination mechanism and market dynamics, EMMI will assess whether this metric is still the preferred one, or whether the threshold might need to be adjusted.

## 6 CONFIDENTIALITY

EMMI is committed to protecting confidential information and commercially sensitive data, and therefore, all data collected and analyzed by EMMI throughout the Eonia Review Data Exercise will be subject to EMMI's strictest confidentiality standards and protocols. Each EMMI employee is governed by and held accountable for compliance with the EMMI Confidentiality Policy, which establishes controls and protocols for the management and security of commercially sensitive information.

In addition, EMMI will enter into individual Non-Disclosure Agreements (NDAs) with all participating banks prior to the transmission of confidential data. The NDAs will govern all transmittal of data between participating banks and EMMI as well as the management of submitted data and any disclosure of analysis results. In particular, the NDAs will specify, at minimum, that:

- » EMMI will not use any submitted data in any manner beyond what has been agreed upon with the participating bank in the NDA without the prior written consent of the participating bank;
- » EMMI will ensure that each of the EMMI employees permitted to access the submitted data are bound by confidentiality requirements and other constraints designed to mitigate conflicts of interest or improper use of such information;
- » EMMI will be allowed to share reports and/or analysis of the submitted data following appropriate anonymization protocols, such that it is not possible to reverse engineer the submitted data; and
- » EMMI will be permitted to disclose submitted data if it is required to do so by law or any competent regulatory authority (in which case EMMI shall give participating banks prompt advance written notice of such disclosure).

Prior to the Eonia Review Data Exercise, the EMMI Secretariat has assessed potential conflicts of interest within the membership of key governance bodies and working groups. Any members who may be privy to reports or analysis resulting from the Eonia Review Data Exercise and whose participation in such governing bodies raises potential conflicts of interest may be bound to additional confidentiality restrictions.