

*European Money Markets Institute*

**CONSULTATION PAPER  
ON  
ENHANCEMENTS TO THE EONIA BENCHMARK**

**SUMMARY OF STAKEHOLDER FEEDBACK**

5 December 2016

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## 1 Introduction

On 7 August 2016, the European Money Markets Institute (EMMI) published its *Consultation Paper on Enhancements to the Eonia benchmark* (the Paper).<sup>1</sup> In the Paper, EMMI described the Eonia Review program that EMMI launched earlier this year. This program is intended to enhance the transparency, robustness and reliability of the benchmark. EMMI also consulted stakeholders on two topics:

1. the introduction of arrangements for the determination of the Eonia benchmark under contingency circumstances (with two questions, on contingency triggers and fallback arrangements respectively); and
2. the use of the Eonia benchmark as a reference in financial instruments and contracts to which the respondents are parties.

The public consultation closed on 5 September 2016, and EMMI received 36 responses from a range of institutions including Eonia Panel Banks, other banks, corporates, asset managers, and Central Banks (see Annex 1).

This document provides a summary of the stakeholder feedback received in response to the consultation on contingency triggers, fallback arrangements, and the usage of Eonia. During 2017, EMMI will perform a larger-scale structured survey in order to analyze the use of Eonia. This survey will serve to inform EMMI's work in further enhancing Eonia as part of the review program, in order to ensure that that the benchmark remains adapted to user needs and market conditions.

EMMI wishes to emphasize that activity supporting the benchmark determination is monitored on a monthly basis by the EMMI Secretariat and reported to the Steering Committee. Methodological aspects of the Eonia benchmark, including contingency arrangements, are formally reviewed by the Steering Committee on a yearly basis, and more frequently if circumstances so require.

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<sup>1</sup> Eonia Consultation Paper, <http://www.emmi-benchmarks.eu/assets/files/D0200E-2016-Eonia%20Consultation%20Paper.pdf>

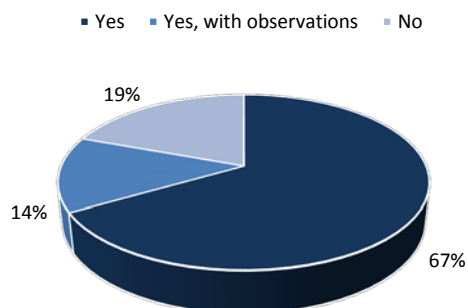
## 2 Consultation Feedback and EMMI Decisions

### (a) Contingency Triggers

**Consultative  
Question  
#1**

*Do you agree that the Eonia contingency triggers should be based on maintaining a minimum number of non-zero volume Panel Bank contributors?*

*If not, please elaborate your reasons and offer your preferred alternative.*



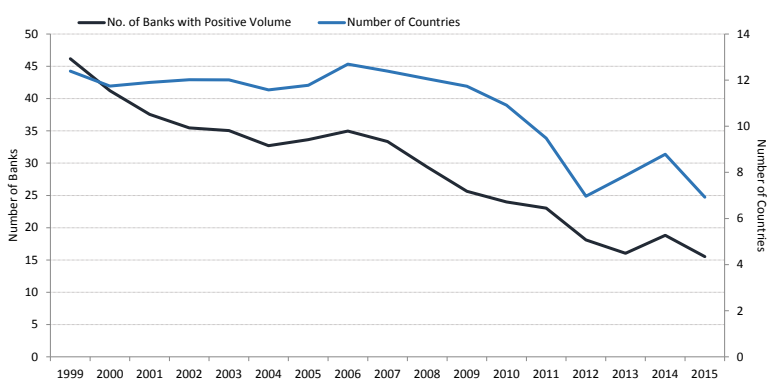
The majority of respondents provided feedback that EMMI’s proposed **contingency trigger based on the number of non-zero volume Panel Bank contributors** on a given trading day was appropriate. Following the analysis of contribution data summarized on the Consultation Paper (pp. 8 to 11), EMMI proposed setting the contingency trigger at **four** non-zero Panel Bank contributors.<sup>2</sup> **Based on the feedback, EMMI has therefore decided to implement this contingency trigger.**

### Consultation Responses

A number of respondents offered suggestions for alternative indicators to serve as triggers for invoking the contingency arrangements. The alternatives suggested focused on geographic diversity and volume sufficiency, as well as combinations of these indicators with the number of contributors. Information on some of these

indicators had already been provided by EMMI in the Paper.

**Chart 1** Number of Panel Banks vs. Number of countries represented



1999 – 2015 (no. of Panel Banks, no. of countries, average yearly)

(i) Specifically, some respondents suggested including the number of countries represented in the Eonia determination as one of the factors to be considered in the triggering of the contingency measure. As outlined in the Paper, EMMI has observed a decrease in the number of countries represented in the daily determination of Eonia (Chart 1). In 2015 Banks from seven different countries participated, on average, on

<sup>2</sup> I.e. if, on a given day, only four or fewer Panel Banks participate in the determination of Eonia with positive aggregate volumes, the contingency calculation methodology will be enacted.

Eonia’s daily determination.<sup>3</sup> However, based on the data currently available to EMMI, precise jurisdictions cannot be determined. As part of the Phase 2 of the Eonia Review, when EMMI intends to conduct the structured survey of the relevant money market activity, an in-depth analysis will be performed and to assess the impact of the geographical profile of contributors on the benchmark.

(ii) Other respondents also recommended that EMMI consider **volume-based thresholds** as a contingency trigger, either in the form of a required minimum aggregated volume, or in the form of the percentage of the Eonia volume represented by each non-zero contributing bank.

The first of these options was indeed considered and studied by EMMI as part of the analysis undertaken prior to the publication of the Paper and conclusions were published in the Paper itself. The analysis showed a positive correlation between the number of non-zero contributors and the aggregated non-zero Eonia volume, as would be expected. Consequently, a volume-based trigger contains similar information to a trigger based on number of contributors. However, aggregate volume tends to be more volatile than the number of contributors, posing challenges for use of the indicator as a sole contingency trigger.

(iii) Finally, a respondent suggested a threshold based on the maximum percentage of total Eonia volume represented by each non-zero contributing bank arguing that it would avoid potential risks of unrepresentativeness arising from high market concentration. However, EMMI considers that basing the trigger on a minimum number of contributors mitigates this concentration risk in practice. Nonetheless, as part of the analysis to be conducted under Phase 2 of the Eonia Review, EMMI will assess risks of representativeness arising from underlying market concentration.

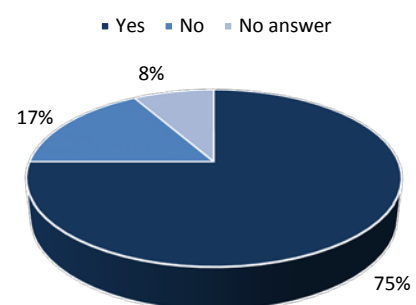
## (b) Fallback Arrangements

### Consultative Question #2

*Do you agree with EMMI’s recommendation that the formulaic approach (option 3) should be used as the fallback arrangement?*

*If not, please elaborate your reasons and offer your preferred alternative form among the other options.*

In the Paper, EMMI presented four alternatives for fallback arrangements to be invoked upon breach of the contingency trigger. The recommendation made by EMMI had the form of a volume-weighted average that incorporates volume and rates submitted on the preceding days of the contingency period to increase volume sufficiency, while taking account of such market information as is available on the current day. The majority of respondents provided feedback that EMMI’s proposed contingency arrangement was appropriate.



<sup>3</sup> Fourteen geographies were represented in the then-current Eonia Panel.

Based on the feedback, EMMI has therefore decided to implement the formulaic approach on days in which the contingency threshold is not reached.

Furthermore, EMMI has decided to limit the initial application of the contingency arrangement to four (4) business days. Within this timeframe, the Steering Committee will be convened to decide on the most appropriate further course of action.

#### Fallback Arrangement – Formulaic Benchmark Determination

Assuming that  $v_t$  is the raw volume on day  $t$ ;  $v_{t-1}$  is the volume on day  $t-1$ ;  $r_t$  is the Eonia rate calculated using only non-zero volume contributions on day  $t$ ;  $E_{t-1}$  is the Eonia rate calculated using the standard determination methodology on day  $t-1$ ; and  $E_t$  is the final published Eonia rate on day  $t$ .

If the fallback arrangement is triggered on day  $t$ , this arrangement relies on the following formula on the first day of contingency:

$$E_t = \frac{r_t v_t + E_{t-1} v_{t-1}}{v_t + v_{t-1}}$$

In such a scenario, note that as the ordinary volume on day  $t$  ( $v_t$ ) approaches 0, the calculated rate ( $E_t$ ) approaches the previous day's rate. Critically, the formulaic approach takes into consideration the volume reported on the most current trade date.

#### **Consultation Responses**

While the great majority of respondents to the consultation agreed with EMMI's proposed formulaic approach for the calculation of the Eonia benchmark in case of contingency, a number of respondents suggested EMMI to consider other solutions.

- (i) Some respondents suggested EMMI to establish the European Central Bank's (ECB) key policy rate on the deposit facility as a second level of contingency, once the Steering Committee decides that the formulaic approach is no longer a suitable representation of the market. Respondents argued that in times of market stress and disruption, only the ECB's deposit facility is guaranteed. EMMI may well consider the use of the deposit facility rate as a secondary fallback measure, but wishes to maintain flexibility to use other alternatives depending on the market circumstances that give rise to the contingency.
- (ii) A number of respondents expressed their preference for a hybrid approach that considers both the ECB's rate on the deposit facility, and the volume-weighted average rate formula suggested by EMMI in the Consultation Paper. EMMI and the Eonia Task Force will further analyze this approach as part of Phase 2 of the Eonia Review.
- (iii) One respondent suggested to align the Eonia methodology to that of the transaction-based Euribor and, more concretely, use data-fattening techniques to guarantee that enough volume supports the benchmark calculation. EMMI understands that the value of overnight benchmarks resides in their significance and representativeness of market conditions on a given day, e.g. monetary policy decisions and market events are typically reflected on the benchmark immediately. The introduction of data-fattening

techniques in the normal daily calculation of the index would not be consistent with preserving the Eonia concept as an overnight rate.

(iv) Finally, a number of respondents asked for further explanation on the envisaged duration of a fallback arrangement, due to concerns about representativeness of an overnight index calculated using previous days' data over an extended period of time. To this end, EMMI has decided to restrict the initial use of the formulaic fallback solution to four (4) business days. Within this period, the Steering Committee will have to be convened in a special session, and a decision on the determination of the benchmark, should the contingency period continue, will have to be made.

### (c) Use of the Benchmark

Consultative  
Question  
#3

*Please describe the types of financial contracts for which you use the Eonia benchmark as the primary reference rate (e.g. hedging fixed rate liability issuance, OIS, Loans, Issuance of floating rate notes, and asset purchases). For each class of financial contracts, please provide an estimate of your typical annual turnover.*

Feedback received by EMMI on the use of Eonia as primary reference rate in contracts indicates a wide use of the benchmark on Overnight Index Swaps (OIS), where the aggregated notional size across respondents exceeds by far the use in any other derivatives contracts. Respondents emphasized the importance of Eonia beyond its use in financial contracts or trades, but also as a tool to measure risk and economic performance of different business areas within financial institutions. This preliminary study as part of the Eonia Consultation lays the groundwork for a more detailed quantitative survey over the course of 2017.



### 3 Next Steps

#### Phase 1 of the Eonia Review

During Phase 1 of the Eonia Review, EMMI will establish stand-alone arrangements and policies for the administration of Eonia. This includes the development of an Eonia Code of Conduct aligned with the IOSCO Principles and the EU Regulation on Benchmarks, and an accompanying Code of Obligations of Panel Banks. The Code will cover:

- (i) governance standards and control framework requirements for the administration, calculation, and dissemination of Eonia;
- (ii) responsibilities of Panel Banks and the Eonia Calculation Agent; and
- (iii) documentation of the Eonia benchmark methodology, including contingency triggers and fallback arrangements to be applicable in periods of market stress or periods of data insufficiency.

Based on initial stakeholder feedback, EMMI now plans to publish the standalone Code of Conduct during Q1 2017, after ratification by the Steering Committee and EMMI's governing bodies. Phase 1 of the Eonia Review is planned to be fully completed by the end of Q2 2017, at which point all Eonia Panel Banks will be expected to have implemented and be in compliance with the Eonia Code of Conduct, including the Code of Obligations of Panel Banks.

#### Phase 2 of the Eonia Review - Market Analysis and Benchmark Methodology

As mentioned in the Consultation Paper, EMMI intends to conduct an extensive data collection and analysis of unsecured short-term money market activity to support any potential changes in the data input and/or calculation methodology of the Eonia benchmark. EMMI will leverage the data collection exercise that is currently being undertaken as part of the Euribor Pre-Live Verification Program.<sup>4</sup> However, EMMI believes that a very broad sample of banks should be involved in the Phase 2 data collection in order to obtain an accurate picture of market conditions. In particular, all Eonia Panel Banks will be called upon to participate in this effort.

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<sup>4</sup> Pre-Live Verification Program Guidelines, 21 June 2016, <http://www.emmi-benchmarks.eu/assets/files/D0264G-2016%20Pre-Live%20Verification%20Program%20Guidelines.pdf>

## Indicative timeline

Date	Action	Comment
5 December 2016	Publication of the Summary of Stakeholder Feedback to the Consultation Paper on Enhancements to the Eonia Benchmark	EMMI
21 December 2016	Implementation of the contingency triggers and arrangements as detailed in this Paper	EMMI and Eonia's CA
Q1 2017	Adoption of the (stand-alone) Eonia Code of Conduct	EMMI's Governing Bodies
During Q2 2017	Compliance with the Eonia Code of Conduct and Code of Obligations for Panel Banks	Panel Banks
April 2017	Publication of Reporting Instructions and Guidelines for the Eonia Review Data Exercise (ERDE)	EMMI
During Q2 2017	Data request to Eonia Panel Banks and other monetary financial institutions to support the Phase 2 of the Eonia Review	EMMI
July-December 2017	In-depth analysis of the data collected to support a change in the Eonia benchmark determination methodology	EMMI and Eonia Task Force

#### 4 Consultation Respondents

The European Money Markets Institute (EMMI) thanks all respondents for their feedback on EMMI’s plans on enhancements to the Eonia benchmark. Twenty-nine (29) out of the thirty-six (36) organizations that responded to the consultation requested anonymity in their responses. In accordance with EMMI’s Consultation Policy<sup>5</sup>, their names are not included in the list below.

Organization	Sector
Amundi Asset Management	Asset Management
Associates in Capital Markets (ACAPM)	Consultancy
Assiom Forex	Association
Banque et Caisse d'Epargne de l'Etat	Eonia Panel Bank
Caixa Geral de Depósitos	Eonia Panel Bank
DZ Bank	Eonia Panel Bank
PKO Bank Polski	Bank

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<sup>5</sup> EMMI’s Consultation Policy and Procedures, 28 November 2014, <http://www.emmi-benchmarks.eu/assets/files/D0365C-2014-EMMI%20Consultation%20Policy-procedures.pdf>