

**CONSULTATION PAPER
ON THE
RECOMMENDATIONS FOR EONIA
OF THE
WORKING GROUP ON EURO RISK-FREE RATES**

Summary of stakeholder feedback

31st May 2019

The **European Money Markets Institute (EMMI)**, formerly known as Euribor-EBF) is an international non-profit making association under Belgian law founded in 1999 with the launch of the euro and based in Brussels (56, Avenue des Arts, 1000 Brussels).

As per EMMI's statutes, its purpose is twofold:

- I. *The development and support of activities related to the money and interbank markets. To that end, the association shall have the task of making an evaluation of fluctuations in the interest rates in the money and interbank markets of the euro area and of providing the results of its research to the monetary authorities and interested parties who are active in these markets.*

- II. *In ancillary, the association shall also serve to support other practical initiatives fostering the integration of the European financial market such as but not limited to the improvement of the liquidity, safety and transparency of the European short term debt market by means of a harmonized framework for short-term European paper 'STEP'.*

EMMI currently provides the following two indexes: EURIBOR, the money market reference rate for the euro and EONIA, the effective overnight reference rate for the euro.

EMMI is continuously working to enhance its governance framework and to improve the quality, integrity, and transparency of its benchmarks. Moreover, EMMI strives to develop suitable benchmarks adapted to the latest regulatory requirements context.

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1 Introduction

EONIA is a major reference rate for the European money markets. It represents the rate at which banks lend funds in the overnight interbank money markets in euro. On 14 March 2019, the Working Group on euro risk-free rates ('the Working Group') [recommended market participants to gradually](#)

[replace EONIA with the ECB's €STR for all products and contracts](#), making the €STR their standard reference rate. In addition, the Working Group recommended EMMI to modify the current EONIA methodology in order to guarantee the continuous publication of EONIA during the interim until market participants have made arrangements to smoothly transition to the new €STR rate.

Box 1. Recommendations of the Working Group on euro risk-free rates and EMMI's Consultation

1. The working group recommends that the European Money Markets Institute (EMMI), as the administrator of EONIA, takes the following steps before 1 January 2020:
 - a. Modify the current EONIA methodology to become the €STR plus a spread for a limited period, in accordance with Financial Stability Board (FSB) recommendations and IOSCO Principles for Financial Benchmarks to further anchor EONIA's methodology in transactions;
 - b. Engage with the relevant authorities to ensure the compliance of EONIA, under its evolved methodology, with the EU Benchmarks Regulation;
 - c. Consider and consult market participants on discontinuing the publication of EONIA under its evolved methodology, after a transition period that ensures firms can achieve transition to the €STR in a smooth manner and that pays due regard of the existing EONIA legacy book. This transition period should last until the end of 2021, which is consistent with benchmarks transitions in other jurisdictions.
2. The working group also invites EMMI to take the following considerations into account:
 - a. Consider an EONIA-€STR spread methodology based on a simple average with an observation period of at least 12 months, combined with a 15% trimming mechanism;
 - b. That the recalibration methodology and the effective determination of the spread are announced at the same time before the €STR's first day of publication;
 - c. That the recalibration date is on the first day of the €STR's publication for simplicity reasons.

Source: [Report on the transition from EONIA to the €STR](#), 2018.

The recommendation of the Working Group on euro risk-free rates served as the basis for [EMMI's Consultation Paper on EONIA](#), which was published on 20 March 2019. The Consultation Paper contained seven questions, addressing aspects related to:

- › the feasibility and adequateness of the Working Group's proposal;
- › the impact of these recommendations on EMMI's business and operational activities; and, ultimately,

- › the limitations that the €STR's calendar and daily production would impose on the implementation plan of the Working Group's recommendations and EONIA's daily process.

The consultation period closed on Monday, 15 April 2019, and EMMI received 58 responses from a broad range of institutions, including banks, trade associations, infrastructure providers, consultancy firms, and other respondents.¹ This document provides a summary of the feedback received. The

¹ A list of respondents can be found on page 7.

last section summarizes EMMI's final decisions following the public consultation.

The changes in EONIA's methodology follow the [recommendations of the Working Group on euro risk-free rates](#). All implementation decisions arising from these recommendations have been made after careful consideration of the feedback received in response to the Consultation, and with the objective of providing a solution which facilitates the market's transition from EONIA to the €STR.

2 The proposed change in EONIA's methodology and the EONIA-€STR spread (1.a., 2.a., 2.b.)

The first question in EMMI's Consultation Paper on EONIA intended to obtain feedback on the implementation of the Working Group's recommended methodology for EONIA, whereby EONIA will be defined as the €STR plus a spread. EMMI received **unanimous** support to the proposed change in EONIA's determination methodology.

With the implementation of this methodology, **EMMI considers that the economic value that EONIA seeks to represent is not altered by the change in methodology**, and so it will continue to provide a proxy for the rate at which banks of sound financial standing lend funds in the overnight interbank money market in euro. As mentioned in the Consultation Paper, the spread between EONIA and the €STR is to be understood as a measure of the economic difference between the underlying interests of the two benchmarks (interbank lending rate vs. wholesale borrowing rate). As the Working Group indicated in its recommendation on the methodology, the objective of the EONIA-€STR spread is to mitigate potential value transfers between market participants. As the spread measures the observed differences between the two benchmarks, it provides a stable framework to facilitate a smooth transition to the €STR, as the recommended euro RFR.

Spread calculation. On 31 May 2019 the ECB provided the market with a one-off calculation of the spread between the €STR and EONIA, following the calculation methodology recommended by the Working Group on euro risk-free rates and based on publicly available data. This computation was made public at the same time EMMI published this Feedback Summary, as well as the formal announcement and decision on the implementation plan for the recalibrated methodology.

This spread will remain **fixed at the level computed and published by the ECB** until the final discontinuation of EONIA, on 3 January 2022 (see Section 3)

3 Publication of EONIA until 3 January 2022 (1.c.)

The use of the recalibration methodology proposed by the Working Group 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. The Working Group advised EMMI to contemplate a *transition period* of approximately two years prior to EONIA's discontinuation in order to allow the market sufficient time to progressively adopt the €STR in all those cases for which EONIA had been considered the standard (nearly) risk-free rate.

In the Consultation Paper, EMMI sought the market's feedback on the proposal to continue with the publication of EONIA under the recalibrated methodology up until 3 January 2022, date in which EONIA would be discontinued. This date should act as an incentive for the market to fully adopt the €STR as EONIA's replacement within the 24 months following the €STR first day of publication, while still allowing an orderly transition.

While the majority of respondents considered that the two-year long proposed period should provide sufficient time to guarantee an orderly transition from EONIA to the €STR, eleven respondents expressed their concern with the suggested timeframe. Three of the respondents referred to

the challenges and costs firms may face when adapting those contracts currently referring to EONIA that mature past the 3 January 2022 proposed deadline ('legacy contracts'). Feedback from these eleven respondents suggested to either introduce some flexibility in the discontinuation date, or for a more prudent approach to be adopted, whereby EMMI would recommend the use of EONIA only in legacy contracts as of 3 January 2022.

Some of the eleven respondents highlighted the many possible dependencies that may have to be studied in order to guarantee a successful transition to the €STR by 3 January 2022, e.g. the change in date of publication from T to T+1, as discussed in Section 5, will have impacts on the use of EONIA in cash and derivative products. While discussions around topics like the impact of recalibrated EONIA on discount rate methodologies or ISDA protocols will be the focus of one of the substructures of the Working Group, respondents indicated that there has not yet been sufficient progress in that front in order to assess implications.

While EMMI is aware and understands the challenges that EONIA users may face at the time of the discontinuation of the rate, the introduction of any flexibility in the communication of the discontinuation of EONIA might counter the objectives of a timely transition toward the €STR, as recommended/expected by the Working Group, hence frustrating the transition efforts and creating uncertainty in the market. It has also to be noted that EMMI has no authority to recommend or enforce the use, or not, of its benchmarks.

EMMI is willing and ready to support the market in the transition to the €STR—recommended as EONIA's alternative by the Working Group—and carries out its activities aware of the responsibilities derived from the administration of a critical benchmark.

The Working Group released a [public consultation](#) on the EONIA to €STR legal action plan on 15 May. In order to understand implications on the change,

EMMI encourages EONIA users to carefully read the paper and provide their feedback to the Working Group.

4 The implementation date of EONIA's recalibrated methodology (2.c.)

As described above, the recalibrated methodology makes the determination of EONIA dependent of the €STR's daily calculation. The ECB has publicly [announced](#) that the first day of publication of the €STR will be 2 October 2019. As a result, and following the recommendations of the Working Group, **EMMI proposed that the first publication of EONIA under the recalibrated methodology happens on the same day, i.e. 2 October 2019**, for the rate reflective of the previous day's market, hence avoiding the parallel publication of EONIA under the current methodology.

EMMI received almost unanimous support for the decision not to continue providing EONIA under the current methodology once the €STR starts being published. The feedback confirmed that by adapting EONIA's methodology on the first day of publication of the €STR, apart from promoting the adoption of the €STR, the opportunity of arbitrage will be minimised and liquidity will not be split between the EONIA- and €STR-linked markets. Only one respondent did not agree with EMMI's proposal.

In the Consultation, EMMI also sought feedback with regard to issues that may arise from the projected implementation date of EONIA's recalibrated methodology on 2 October 2019. While about 58% of the respondents indicated that, in a first analysis, they did not foresee significant issues arising from the proposed calendar, overall feedback expressed concerns regarding the work required to recalibrate and update systems and processes following the move of EONIA's publication from T to T+1. Further details on this issue are provided in the next Section.

5 Operational implications from the implementation of the recalibrated methodology

The implementation of the Working Group’s proposed methodology requires changes in the publication date and time of EONIA. EONIA is currently published by 7:00 p.m. CET every day on which the TARGET2 system is open. The calculation relies on transactions executed by Panel Banks on the same day of publication, before markets have closed (day T). Under the recalibrated methodology, EONIA can only be calculated once the €STR has been published. In the Consultation Paper, EMMI made the following proposals:

- (i) **Moving EONIA’s publication to T+1.** 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;
- (ii) **Transition calendar.** In order to avoid the publication of two rates representing the same day, 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, i.e. 1 October 2019. EONIA reflective of the market on 1 October 2019 will be published in the morning of 2 October 2019, under the new methodology;
- (iii) **Publication time on T+1.** Considering that the [€STR methodology and policies](#) contemplate the possibility that the €STR is republished no later than 11:00 a.m. CET in case errors of more than 2 basis points are detected in the rate initially published at 9:00 a.m., EONIA should be published every day at the end of €STR’s republication window, in order to minimize operational burden.

The feedback received in response to the first proposal, and in particular on the impediments for the preparation and implementation of changes in IT or valuation systems, clearly indicates that users will have to dedicate a significant amount of resources and time to guarantee a smooth transition from EONIA published at the end of the day to a morning publication. Respondents agree that any changes in this respect derive from the nature of the recalibrated methodology recommended by the Working Group, and its dependency on the €STR. Feedback indicated that CCPs will play a major role in the smooth adoption and adaptation of the change in publication date and time of EONIA, especially for issues related to collateral remuneration and the handling of floating-rate secured transactions (repos) referencing EONIA. Respondents agreed that the experience of the Sterling market with the SONIA reform should help market participants identify all required changes, and facilitate the move from T to T+1 publication. All other feedback regarding IT issues referred to the transition calendar put forward by EMMI (proposal (ii) above), whereby the transition would occur on Tuesday, 1 October 2019, when no EONIA rate would be published.

Table 1. EMMI’s original proposal in the Consultation Paper on EONIA, March 2019

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.	No EONIA rate is published.	EONIA is calculated under the recalibrated methodology at 11:00 a.m. CET.
EONIA published on day T_{M-1} reflects the market on day T_{M-1} .		EONIA published on day T_{M+1} reflects the market on day T_M .

Slightly more than half of the respondents commented that a transition over a weekend would

be preferable in order to enable changes in institutions' systems to be fully completed and operational. EMMI would like to highlight that the proposal put forward in the Consultation reflected and took into account both the implementation calendar of the €STR, as well as the Working Group's recommendation 2.c. Following the closing of the Consultation, EMMI explored a variety of implementation plans to try and avoid a change in the publication time midweek, in order to reduce risks highlighted in the feedback. However, a careful review of those alternatives gave rise to the identification of additional issues for market participants, for instance related to the proximity of the implementation date to an end-of-quarter, or to the very tight timeframe between EMMI's official communication on 31 May 2019 and the intended implementation date.

Taking all this into consideration, as well as aiming at meeting the recommendations issued by the Working, EMMI believes that the implementation plan as suggested in the Consultation Paper limits the impacts arising from the move of publication time derived from the changes in methodology recommended by the Working Group. To this end, the following calendar will apply (see Table 2):

- › **EONIA's change in publication time shall be implemented on Wednesday, 2 October 2019**, so that on Tuesday, 1 October 2019 there will be no publication of EONIA at the end of the day.
- › The rate reflective of the market on 1 October 2019 will be published on 2 October 2019, and it will be **calculated under the recalibrated methodology**.

With regard to the third proposal, referring to the publication time of EONIA under the recalibrated methodology, about half of the respondents expressed their disagreement with EMMI's suggested publication time for recalibrated EONIA no later than 11:00 a.m. CET. According to the feedback received, the two hour difference between the €STR and EONIA's publication may pose significant challenges, as it would reduce, for

example, the window available for data collection, calculation, matching and payment processing. Respondents also indicated that if the goal of the recalibration of EONIA's methodology is to facilitate the transition away from EONIA to the €STR, the processes of both benchmarks should be matched as closely as possible.

Table 2. EMMI's implementation calendar for EONIA's recalibrated methodology

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.	No EONIA rate is published	EONIA is calculated under the recalibrated methodology.
Published at or shortly after 7:00 p.m. CET		Published at or shortly after 9:15 a.m. CET
EONIA published on day T_{M-1} reflects the market on day T_{M-1} .		EONIA published on day T_{M+1} reflects the market on day T_M .

Following the feedback received in writing, and after discussions with some of the respondents that expressed stronger views against a permanent publication past the ECB's republishing window for the €STR, EMMI has decided to align the publication time of recalibrated EONIA with the €STR's. In order to allow for a robust process, **starting on 2 October 2019, EONIA will be published at or shortly after 9:15 a.m. CET on the day following the day whose market the benchmark intends to represent.**

6 EONIA's authorisation

The Consultation Paper did not include any reference to EMMI's plans for authorisation for EONIA under the recalibrated methodology by EMMI's supervisor, the Belgian Financial Services and Markets Authority. Respondents highlighted the recommendation made by the Working Group in this regard. EMMI understands that the authorisation of recalibrated EONIA would facilitate a smoother and more orderly adaptation of agreements and contracts, providing more legitimacy to the new methodology. To this end, EMMI is currently working toward this goal, with the intention of obtaining an authorisation for EONIA that eases the market's adoption of the new methodology.

7 Summary of EMMI's decisions— implementation plan and way forward

Methodological change. From 2 October 2019 onwards, EONIA will be calculated as the €STR plus a spread. The reliance on the €STR for EONIA's determination, makes it necessary for EONIA to be calculated and published after the €STR calculation. To this end, EONIA will be published at or shortly after 9:15 a.m. CET on the TARGET day following the TARGET day whose market it intends to represent (days T+1 and T, respectively). EONIA will be calculated on every TARGET day in which the €STR is published.

EMMI considers that the economic value that EONIA seeks to represent is not altered by the change in methodology.

On 31 May 2019 the ECB provided the market with a one-off calculation of the spread between the €STR and EONIA that will be used as of 2 October 2019 for the calculation of EONIA. This spread will remain fixed at the level computed and published by the ECB until the final discontinuation of EONIA.

Implementation plans. On 2 October 2019, EONIA will change its publication date and time from the current 7:00 p.m. CET on day T to 9:15 a.m. CET on

day T+1. In order to avoid the publication of two indices representing the same TARGET day, there will be no EONIA published on 1 October 2019 (see Table 2).

Following the implementation of the new methodology, the EONIA Panel will be dissolved.

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

8 List of respondents

The European Money Markets Institute (EMMI) thanks all consultation respondents for their feedback on EMMI's proposals on EONIA's change of methodology, following the recommendations of the Working Group on euro risk-free rates. Thirty-two (32) out of the fifty-eight (58) organisations that responded to the consultation requested anonymity. In accordance with EMMI's Consultation Policy², their names are not included in the list below.

Organisation	Sector	Organisation	Sector
Asociación Española de Banca	Trade Association	HSBC	Panel Bank
Association Française de la Gestion Financière	Trade Association	IKB Deutsche Industriebank	Financial Institution
Amundi	Asset Management	ISDA	Trade Association
Bankhaus Lampe	Financial Institution	JCDecaux	Corporation
Blackrock	Investment manager	KBC	Financial Institution
BNP Paribas	Panel Bank	KPMG	Consultancy Firm
Caixa Geral de Depósitos	Panel Bank	Morgan Stanley	Financial Institution
Dexia	Financial Institution	Nordea	Financial Institution
EFAMA	Trade Association	PGGM	Pension Fund
Eurex Clearing	Clearing House	RBI International	Financial Institution
European Financial Congress	Research Institute	Société Générale	Panel Bank
European Savings and Retail Banking Group	Trade Association	WSBI ESBG	Trade Association
Fédération Bancaire Française/ACI	Trade Association		
Finance Finland (FFI)	Trade Association		

² Benchmarks Consultation Policy and Procedure, 29 March 2019, https://www.emmi-benchmarks.eu/assets/files/D0014D-2019-Benchmarks%20Consultation%20Policy%20and%20Procedure_clean.pdf

