



EUROPEAN CENTRAL BANK

EUROSYSTEM

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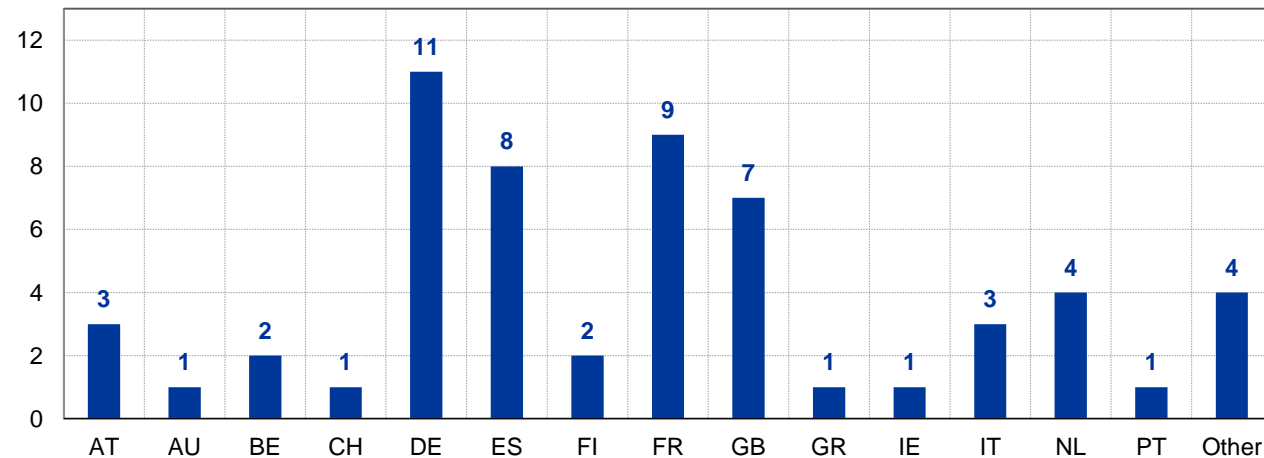
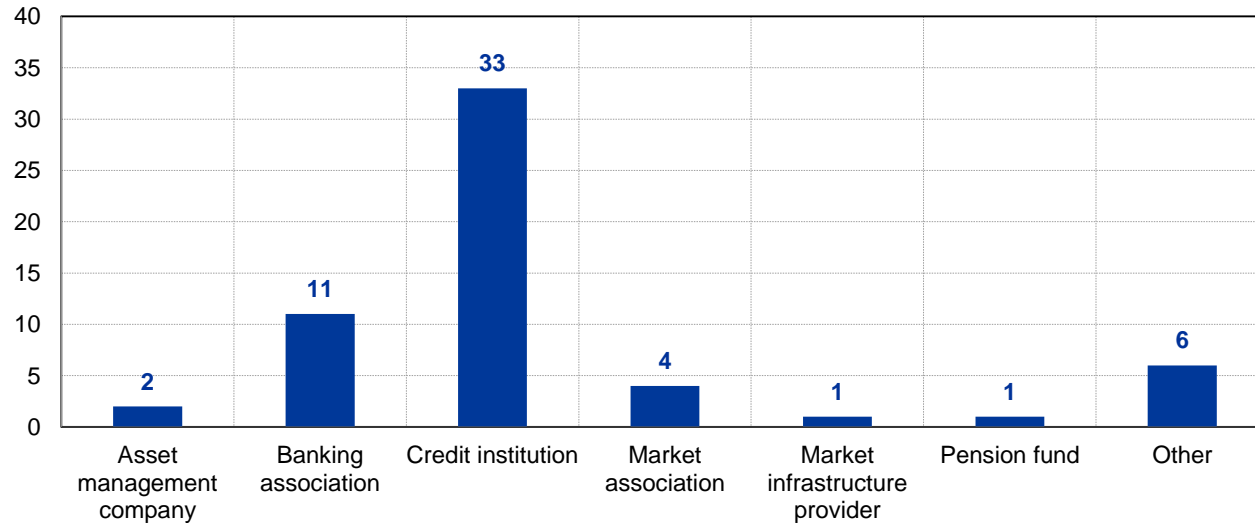
Consultation by the working group on euro risk-free rates on the EONIA to €STR legal action plan

Summary of responses

Meeting of the working group on euro risk-free rates
Frankfurt, 4 July 2019

Representativeness of response sample

The Summary of responses in the consultation on the EONIA to €STR legal action plan is available on the ECB web site ([link](#))



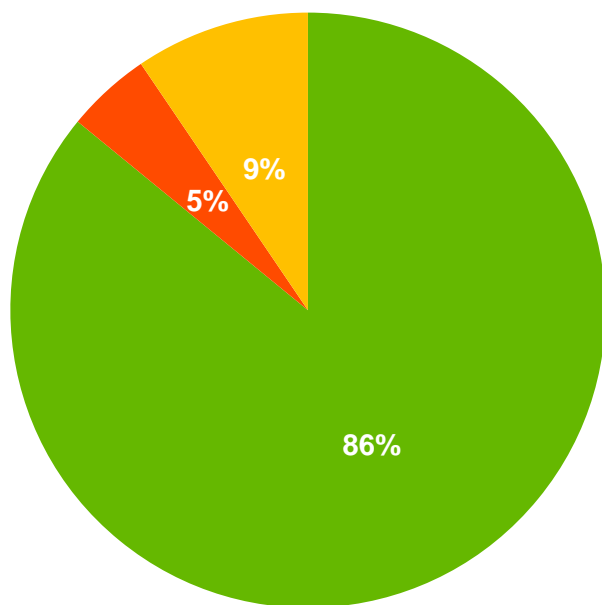
- 58 market participants provided responses and extensive comments
- Credit institutions were the main contributors to the third public consultation
- Contributors were widespread across the euro area
- Working Group to consider revised Recommendations on 4 July for final adoption and publication in July

Source: ECB Secretariat to the working group on euro-free rates

Overarching picture: Extent of agreement with proposals

The vast majority of respondents agreed with working group proposals

(Fraction of responses out of the total)



■ yes ■ no ■ no opinion

86% in agreement with WG proposals* across all macro-areas:

- 1 EONIA fallback rate recommendation
- 2 New derivative transactions
- 3 European local master agreements
- 4 New collateral agreements
- 5 New contracts for cash products
- 6 Legacy contracts
- 7 Legacy derivative transactions maturing after 2021
- 8 European local master agreements and legacy transactions
- 9 Additional considerations for legacy derivative transactions
- 10 Transition from EONIA to €STR for collateral agreements
- 11 Cash products and contracts maturing after 2021
- 12 Additional considerations for legacy contracts for cash products

*The overall extent of agreement consider only proposals submitted via closed-end questions

€STR plus a spread of 8.5 basis points as the primary fallback rate to be included in new and legacy contracts referencing EONIA (Q1)

57 out of 58 respondents agreed with the working group recommendation (one respondent expressed no opinion)

Comments made by respondents:

- Unified approach to new and legacy contracts across cash and derivative markets appreciated
- The fixed spread seen as positive as it will allow for a stable framework and mitigation of legal risks
- Support provided by the ECB and other public authorities appreciated, such as calculation and communication of the EONIA-€STR spread

Respondents also referred to:

- Potential risks if not all contracts can be repapered
- Need for further communication and additional support from EU and Member States' authorities

Amending the definition of EONIA in the 2006 ISDA Definitions so as to include a fallback rate to €STR plus Spread triggered by the cessation of EONIA

Definition of EONIA in the 2006 ISDA Definitions (Q2)

- 56 out of 58 respondents agreed with the WG recommendation that ISDA consider amending the definition of EONIA in the 2006 ISDA Definitions so as to include a fallback to €STR plus Spread triggered by the cessation of EONIA (one expressed a negative opinion, and one expressed no opinion)

CCPs and Exchanges (Q3)

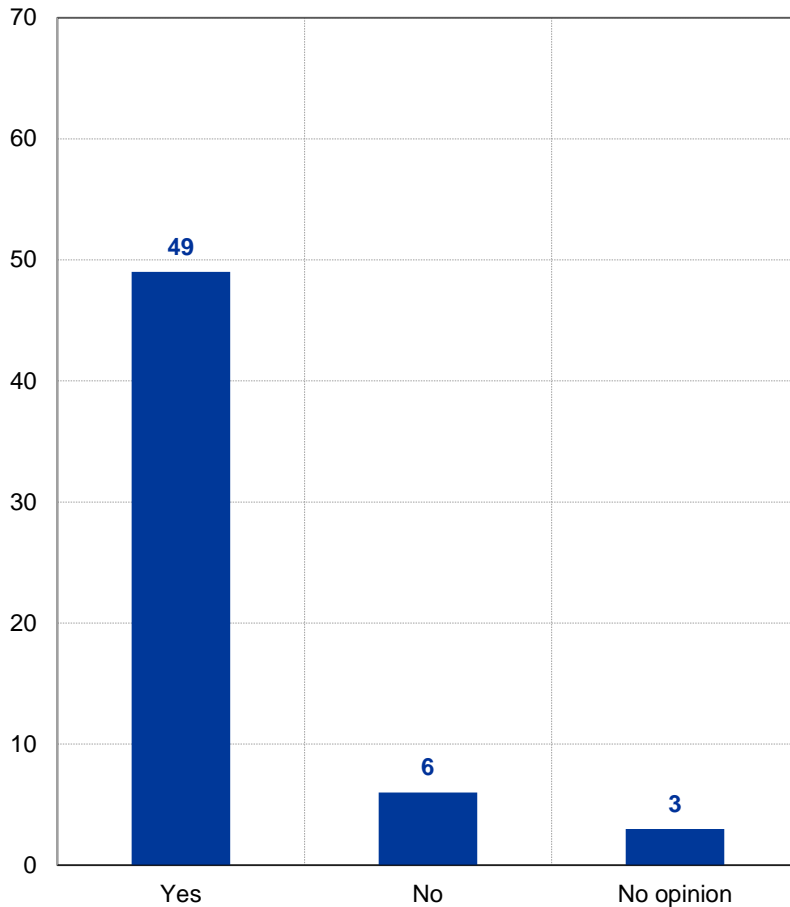
- 57 out of 58 respondents agreed that the WG should encourage CCPs and Exchanges to clarify their position with respect to the transition to €STR and modify their rulebook as detailed in the EONIA to €STR legal action plan

Amending European master agreements to include fallback provisions and changes in the EONIA methodology (Q4)

- 51 out of 58 respondents supported the working group recommendation that the sponsors of European master agreements should consider amending these agreements to include:
 - a) fallback provisions dealing with the permanent cessation of a benchmark;
 - b) an acknowledgment that the EONIA methodology is expected to change; however, while several respondents saw the acknowledgment as enhancing transparency, they did not see it as strictly necessary for contractual certainty, with some respondents even seeing it as risky.
- 4 respondents answered in the negative, and 3 expressed no opinion
- There were no proposals for an alternative course of action in general terms, although several respondents qualified their position on the proposed introduction of an acknowledgment or disagreed with it.

Market participants mainly valued robust fallback provisions in new collateral agreements (Q5)

(Number of responses)



- 49 out of 58 respondents would value robust fallback provisions in new collateral contracts
- 6 respondents answered “no”, while 3 expressed no opinion

Further comments:

- Many respondents did not see the introduction of such fallback provisions as urgent priority
- Respondents also considered a switch to €STR plus Spread prior to EONIA discontinuation as an option

New cash contracts maturing after 2021 should include fallback provisions (Q6)

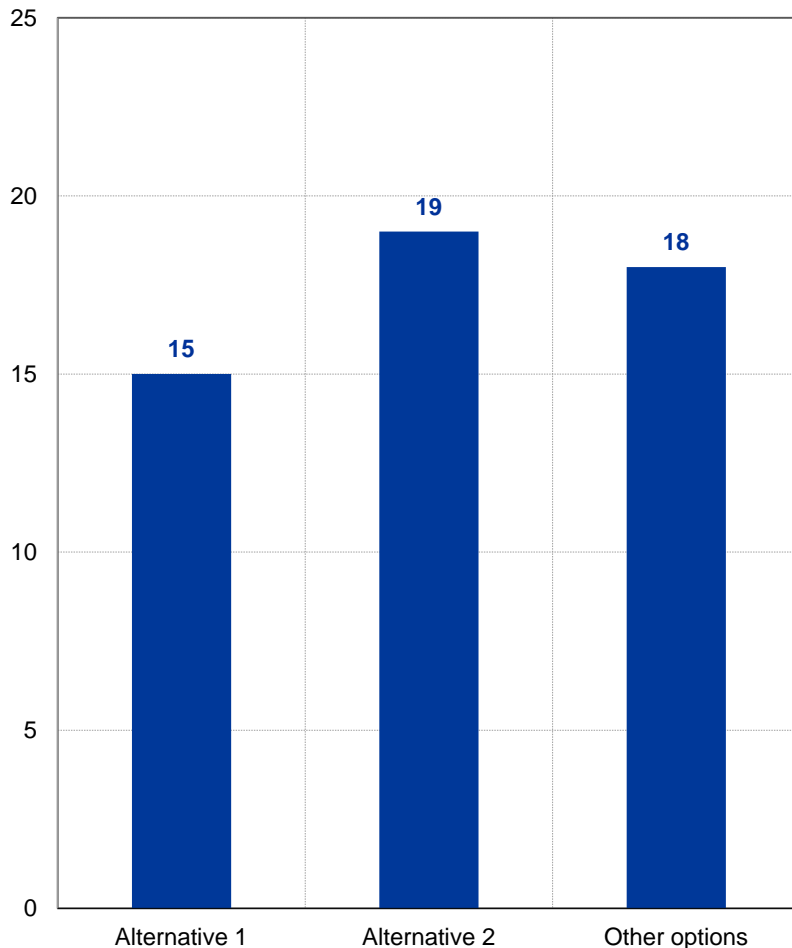
- 50 out of 58 respondents agreed with the working group proposal that new cash contracts and instrument that mature after December 2021 should include fallback provisions

The support for the proposal differed for different cash products:

- a) New short-term contracts: The short-term nature of some cash products implies that they will roll over before the permanent cessation of EONIA and new issuances may simply refer to €STR
 - b) Loans: Fallback provisions should be LMA market-accepted provisions
- 8 respondents expressed no opinion

Slight support for unified fallback provision relating to temporary or permanent unavailability of EONIA, but both alternatives useful (Q7)

(Number of responses in favour of the different alternative options)



Source: ECB Secretariat to the working group on euro-free rates

Alternative 1 (Annex 1)

“Different fallback provision relating to the temporary or permanent cessation of EONIA”

Alternative 2 (Annex 1)

“Unified fallback provision relating to temporary and permanent unavailability of EONIA”

Respondents underlined strengths and weaknesses of both alternatives:

- None of the proposed alternatives fully covers the diverse situations and rationale of all cash products
- Better to keep both options

Priority given to legacy contracts maturing after December 2021 (Q8)

- 56 out of 58 respondents supported the prioritisation of legacy contract maturing after December 2021 (2 respondents expressed no opinion)

Further comments:

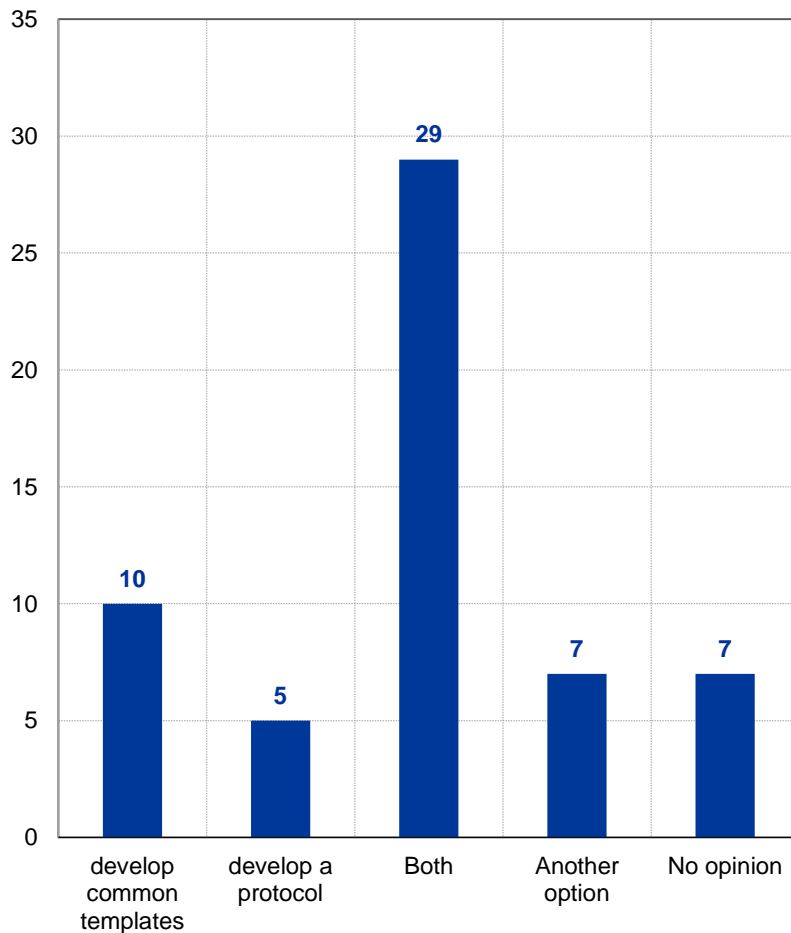
- Several respondents expressed the view that the change in EONIA methodology should not require an amendment of the contracts
- The insertion of an acknowledgement (that the change of methodology for EONIA will not affect the continuity of the contract) would enhance transparency, but is not necessary according to this view
- Many respondents would favour supporting statements by public authorities, for instance that the reformed EONIA represent the same economic reality, or even EU legislation endorsing the EONIA transition

Market participants appreciated the proposal to have documents and/or protocols for legacy derivative transactions (Q9)

- 56 respondents out of 58 found it useful to have documents and/or protocols which facilitate:
 - (i) the incorporation of the EONIA index cessation event trigger and related fallbacks, and/or
 - (ii) the amendment of legacy trades to switch from EONIA to €STR plus Spread
- Most respondents identified ISDA as the appropriate body to develop such “EONIA protocol” (unless reference was made to a local master agreement, for which local organisations would be responsible)
- Respondents suggested that any protocol facilitating the incorporation of fallback clauses or the change to the reference rate should also cover collateral agreements referencing EONIA

Support for amendment of legacy derivative transactions documented by European local master agreements through common templates and protocol (Q11)

(Number of responses in favour of the different alternative responses)



- 44 out of 58 respondents (76%) supported both the **development of common templates** and a **protocol** at the same time, or **one of the two**
- Only 7 respondents (12%) proposed a different option, arguing that only a legislative solution can guarantee a thorough reach or that none of the solutions are needed because local derivatives master agreements already include a BMR fallback process

Source: ECB Secretariat to the working group on euro-free rates

Additional regulatory or legal requirement or costs that may hamper the amendment of legacy contracts (Q12)

40 respondents out of 58 foresee additional regulatory or legal requirement or costs that may hamper the amendment of legacy contracts and which need to be clarified/waived (9 answered in the negative, 9 expressed no opinion)

Potential issues:

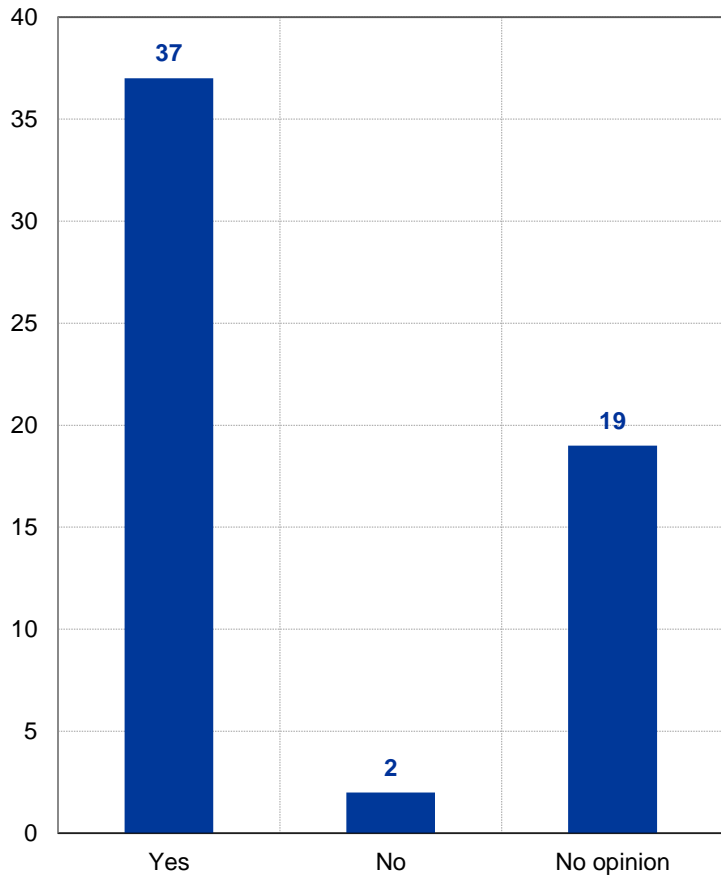
1. A majority of respondents emphasised that European and Member States' competent authorities have not yet clarified whether amendments to legacy derivative contracts require the application of margin and clearing requirements under the EMIR regime
2. Another issue raised is the documentation of investment funds (prospectuses and key information documents - KIDs) and the implications for it of both the evolution of EONIA methodology and the shift from EONIA to €STR.
3. Client education seen as source of additional costs, together with repapering of legacy contracts and operational costs, such as adopting new discounting curves and updates to internal systems.

Critical elements to consider when transitioning from EONIA to €STR in collateral agreements from a legal, operational and valuation standpoint (Q13)

Main issues mentioned by market participants:

- The absence of fallback provisions in currently used collateral agreements;
- The timing of the transition and its operational implication on the calculation of interest under collateral agreements;
- The introduction of a new discount curve that will replace the current curve based on EONIA, with possible value transfer implications.

General consensus in support of the bilateral amendment agreement template for cash products (Annex 2) (Q14)



Bilateral agreement template for cash products represent the best choice (37 out of 58 respondents)

Respondents suggested some improvements:

- Align fallback clauses of cash products with the ones that apply to derivatives
- Parties intending to use the template should consider dealing with different classes of cash products/assets in separate amendment agreements in order to be more precise

Regulatory or legal requirements that may hamper the amendment of legacy cash contracts and which need to be clarified/waived (Q15)

33 respondents out of 58 did foresee some regulatory or legal requirement or costs that may hamper the amendment of legacy cash contracts and which need to be clarified/waived (9 answered in the negative and 16 expressed no opinion)

The most common responses referred to support by public authorities to:

- the evolution of EONIA's methodology as a tracker of €STR; and
- the substitution of EONIA by €STR plus Spread when EONIA is discontinued.

Further suggestions:

- EU or local authorities should clarify that the amendment of legacy cash contracts will not alter tax or accounting treatment of those contracts.