

# **WG Euro RFRs Subgroup #4**

## **EONIA-RFR Transition**

Frankfurt 18 October 2018

# Agenda

1. Status of SG4 report
2. Next steps and actions
3. EONIA Potential Transition Paths

## Annexes:

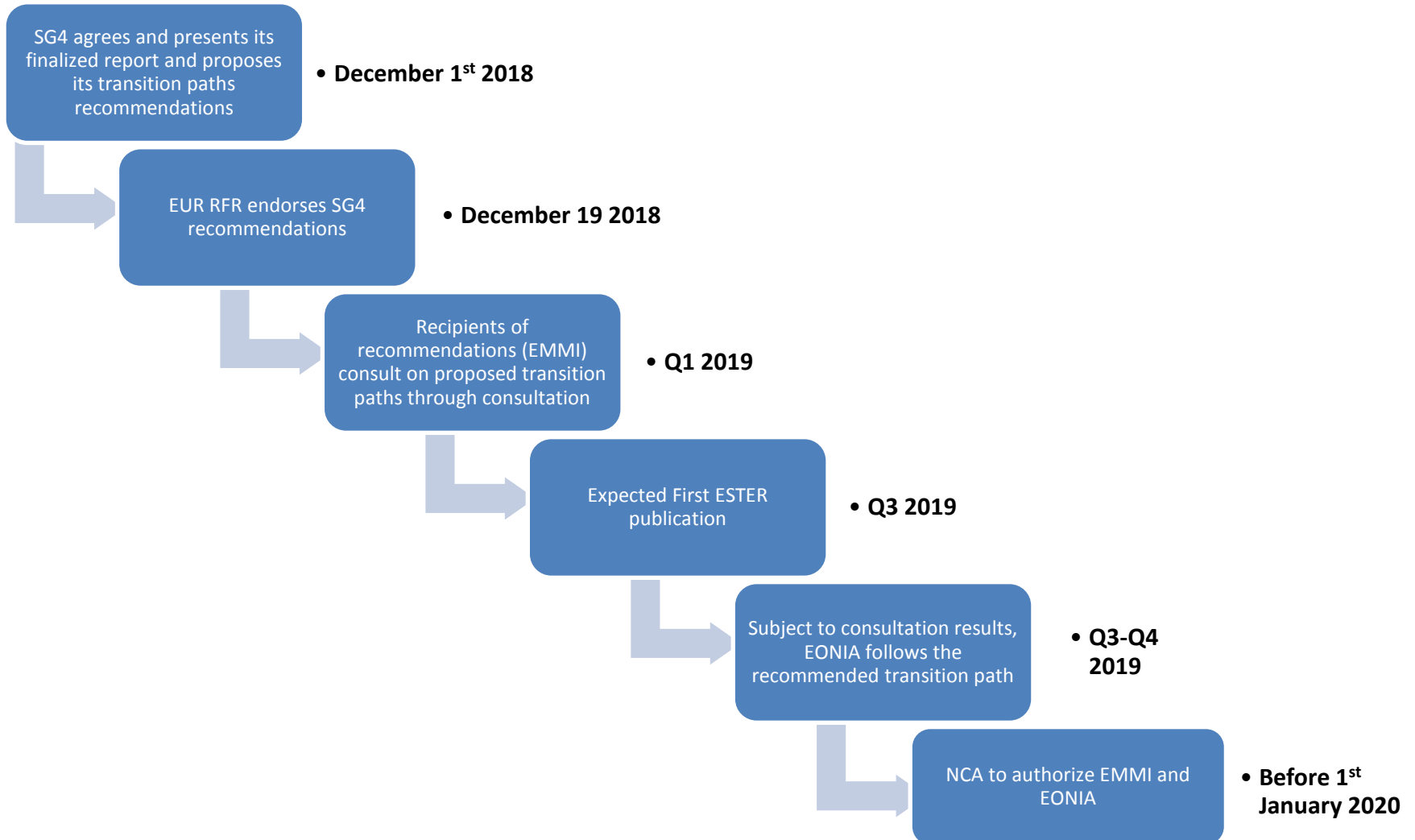
- ✓ 1- Report Skeleton
- ✓ 2- SG4 updated timeline
- ✓ 3- Detailed EONIA/ESTER Transition Paths

# 1. Status of SG4 report

- SG4 finished to draft Chapters II “**Background and objectives**” and soon IV “**Description of available transition options**”
- Chapter III “**Eonia use and liquidity**” is planned to be completed after our next SG4 telco on 25/10.
- Chapter V “**Comparative Analysis**” will be completed early November (November 5<sup>th</sup> week)
- SG4 will then focus on the conclusions, executive summary, and agree to propose a transition path(s) (deadline: early December). The report will then be reviewed internally in each SG4 institution
- **SG4 is on time to deliver its report and to propose one or two transition path(s) to the 19 December 2018 ECB Meeting to be endorsed by EUR RFR Group**

Please also refer to Annex I « report skeleton » and II « SG4 updated timeline ».

## 2.- Next steps and actions- proposal



# Pros and cons of a WG public consultation on the EONIA recommended transition paths

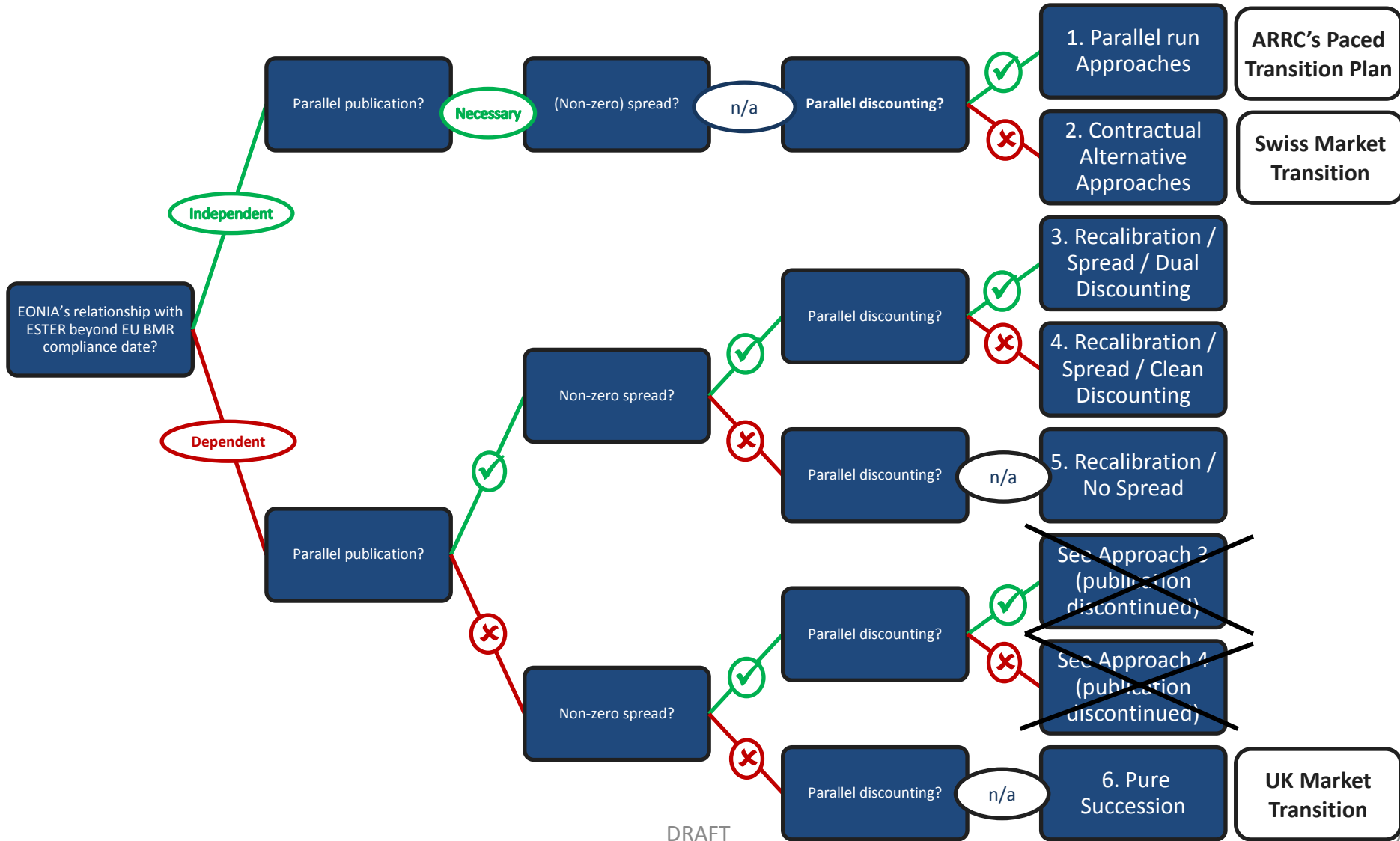
Pros	Cons
<p>The choice of an EONIA transition path is a matter with consequences way beyond the administrator itself</p>	<p>Legitimacy of questioning market participants of the private property of EMMI</p>
<p><b>Buy-in of the market:</b> market participants' involvement on the decision process, increasing transparency on the recommendation, legitimacy of the final recommendation by the WG</p>	<p><b>Delay of the decision process</b> (from Dec 18 to Feb 18 at best), with the following consequences:</p> <ul style="list-style-type: none"> <li>- Risk of a full reliance on a BMR extension for the EONIA transition, which as of today remains uncertain;</li> <li>- Risk of delaying subgroup 2 term structure consultation to keep on the logical sequencing</li> </ul>
<p><b>Adding value/argumentation through the market feedback.</b> This could be particularly useful if views are split within the WG</p>	<p><b>Difficulty to draft the consultation:</b> risk of conveying to the market an unclear message if the WG consultation is too broad</p>
<p><b>Raise awareness in the market, catalyst for the broad-based transition</b></p>	<p><b>Difficulty to interpret and leverage on the results:</b> risk of increased uncertainty if the market feedback is diverse and discordant from the path favoured by the WG</p>

# 3. Defining Characteristics of Transition Approaches

	Defining Characteristics				
	EONIA stays independent of ESTER beyond BMRCD?	Publication of EONIA beyond BMRCD in parallel with ESTER?	Dependent EONIA is set to ESTER flat?	Parallel ESTER and EONIA discounting regimes?	Time limit on use in contracts (e.g. cease publication)?
1(a) Open-ended parallel run	Yes	Yes		Yes	No
1(b) Time-limited parallel run	Yes	Yes		Yes	Yes
2(a) Open-ended contractual alternative	Yes	Yes		No	No
2(b) Time-limited contractual alternative	Yes	Yes		No	Yes
3(a) Open Recalibration / Spread / Dual Discounting	No	Yes	No	Yes*	No
3(b) Closed Recalibration / Spread / Dual Discounting	No	Yes	No	Yes*	Yes
4(a) Open Recalibration / Spread / Clean Discounting	No	Yes	No	No	No
4(b) Closed Recalibration / Spread / Clean Discounting	No	Yes	No	No	Yes
5 Recalibration / No Spread	No	Yes	Yes	No	Optional
6 Pure Succession	No	No	Yes	No	No

**BMRCD:** BMR Cut off date

# 3. EONIA/ESTER Transition Approaches: Decision Tree



# Annex 1 – Report skeleton (1/2)

## I. EXECUTIVE SUMMARY

1. Short background
2. Proposed Transition Option (s)
3. Proposed recommendations to stakeholders
4. Proposed Coordination and Timelines

## II. BACKGROUND AND OBJECTIVES

1. EONIA definition and short history
2. Impact of EONIA not EU BMR compliant 1 Jan 2020
3. Objectives of the Group

## III. EONIA USE AND LIQUIDITY

1. OIS : footprint, liquidity and term distribution of OIS Market (Cleared and OTC)
2. Collateral Remuneration (VM/IM)
3. Cash Flow Discounting (Cleared and non-cleared)
4. Risk Management / Stress Testing
5. Investment Objective for Funds
6. Loans including inter company
7. Debt Capital Markets
8. Deposits
9. EONIA Futures
10. Balance Sheet
11. Penalty Rate
12. Tax/Equity cash flow discounting/Others?



# Annex 1 – Report skeleton (2/2)

## IV. DESCRIPTION OF AVAILABLE TRANSITION OPTIONS

### a. Market Led

1. Pure Market led
2. Parallel with Cut Over

### b. Successor Rate

1. Pure Successor Rate
2. Tracker of EUR RFR
3. Potential Spread Methodologies

## V. COMPARATIVE ANALYSIS

1. Legal Perspective
2. Derivatives Valuation Impact
3. Collateral Impact
4. Risk Management Impact
5. Non Derivatives Impact
6. Readiness of systems and market infrastructures
7. Existence of a liquid RFR Curve
8. EU Level Playing Field
9. Stakeholder Coordination and timelines

## VI. CONCLUSIONS

## VII. ANNEXES

# Annex 2 – SG4 updated timeline

