

Working Group on euro risk-free rates
Newsletter March 2020



This newsletter provides an update on the work of the working group on euro risk-free rates (hereafter the working group or WG), and also refers to developments in international markets. If you have questions about the content or would like to subscribe, please contact CommunicationsEuroRFR@ecb.europa.eu. Feel free to share this newsletter with others!

In these trying times many of us are dealing with issues that are far more important than benchmark rates. The chair of the working group on euro risk-free rates, Steven van Rijswijk, would like to wish everyone all the best in dealing with the challenges ahead. Stay healthy!

Market and regulatory developments

- [Eurex](#) and [LCH](#) have announced that EUR discounting will switch from EONIA to €STR on 22 June 2020. [CME](#) announced its intention to switch their discounting curve from EONIA to the €STR on 19 June 2020.
- ISDA launched a [supplemental consultation](#) on the spread and term adjustments that would apply to fallbacks for derivatives referencing euro LIBOR, EURIBOR, and other less widely used IBORs. As a result, ISDA published a [statement](#) summarizing responses to a supplemental consultation that would apply to fallbacks for derivatives referencing euro LIBOR and EURIBOR.
- The EU Commission [published](#) the endorsement of the IASB phase 1 IBOR amendments in the Official Journal. They provide temporary and narrow exemptions to the hedge accounting requirements of IAS 39, IFRS 9 and IFRS7, so that companies can continue to meet the requirements assuming that the existing interest rate benchmarks are not altered because of the interbank offered rate reform.
- [Regulation \(EU\) 2019/2089](#) published in the Official Journal in November 2019. This Regulation extends the transitional period for critical and third country benchmarks until 31 December 2021. This means that providers of critical benchmarks have time until this date to comply with the EU Benchmarks Regulation. The Regulation entered into force on 10 December 2019.
- The FSB published the 'Reforming major interest rate

Recent WG publications

Fallback arrangements for users of the €STR

The working group has published a [report on €STR fallback arrangements](#). The report explains that the working group has assessed two options for possible fallback arrangements for €STR products.

Fallback provisions in contracts referencing EURIBOR

The working group [recommends](#) market participants to incorporate fallback provisions in all new contracts referencing EURIBOR. Legacy contracts referencing EURIBOR entered into after 1 January 2018 and falling under EU Benchmarks Regulation should be covered by robust written plans. In legacy contracts without appropriate fallback provisions, EURIBOR fallback provisions should be introduced or existing provisions enhanced when they are next amended or updated.

Recommendations [report](#) to support smooth transfer of EONIA's liquidity to the €STR

- Working group issues recommendations for a seamless transition from EONIA to €STR products
- All stakeholders should be made aware that EONIA-linked contracts with maturities beyond 3 January 2022 entail significant risks.
- This report supplements earlier report of the working group from August 2019

Feedback on Swaptions impacted by transition from EONIA to the €STR

The working group on euro risk-free rates has launched a [public consultation](#) on whether to issue recommendations to address specific issues for swaption products as a result of the proposed transition from EONIA to the euro short-term rate (€STR).

benchmarks' [Progress report](#).

Working group communication toolkit

Update of the communication toolkit:

- [Frequently asked questions](#)
- [Standard set of slides](#)

New documents:

- [EONIA to €STR key messages](#)
- [Understanding the Euribor fallbacks](#)

Non-euro working groups status

- The Bank of England (BoE), FCA, and the Working Group on Sterling Risk-Free Reference Rates [published](#) a set of documents, outlining [priorities and milestones for 2020](#) on LIBOR transition.
- The US Alternative Reference Rates Committee (ARRC) released a consultation on spread adjustment methodologies for fallbacks in cash products, and published a new [newsletter](#) which provides recent working group updates, publications, and information on SOFR Market Liquidity.

The working group on euro risk-free rates was established in February 2018 to identify and recommend risk-free rates that could serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area, such as the euro overnight index average (EONIA) and the euro interbank offered rate (EURIBOR).