



EUROPEAN CENTRAL BANK

EUROSYSTEM

# PRESS RELEASE

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## Working group on euro risk-free rates seeks feedback on Swaptions impacted by transition from EONIA to the €STR

- The CCP discounting switch from EONIA to the €STR, planned for June 2020, will raise specific issues for swaption products if the exercise date of these contracts is after the CCP transition date
- Feedback sought on whether to recommend a voluntary compensation for legacy swaptions impacted by the CCP discounting transition to €STR

Today the working group on euro risk-free rates has launched a [public consultation](#) on whether to issue recommendations to address specific issues for swaption<sup>1</sup> products as a result of the proposed transition from EONIA to the euro short-term rate (€STR).

The CCP discounting switch from EONIA to the €STR, planned for June 2020, will raise specific issues for such swaption products. If the exercise date of these contracts is after the CCP transition date, their valuation may change as a result of the discounting switch from EONIA to the €STR. However, the CCP compensation mechanism will not apply to them because the contracts are bilateral, not cleared.

This consultation from the working group on euro risk-free rates is seeking feedback as to whether it should issue recommendations regarding the voluntary exchange (or lack thereof) of a cash compensation between bilateral counterparties to such swaption contracts.

While this consultation only focuses on euro-denominated contracts, a similar consultation is being carried out by the US Alternative Risk-free Rate Committee (ARRC) for contracts denominated in US dollars containing similar statements and questions to allow market participants to respond in a consistent way.

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<sup>1</sup> An interest-rate swaption is type of derivative contract that, in exchange for a premium, gives the buyer the right but not the obligation to enter into a specific interest-rate swap agreement with the seller at or up to a specific future date.

This consultation follows the publication of a report on the transfer of EONIA's cash and derivative markets liquidity to the €STR, which the working group issued in February 2020.

**Please send responses to the consultation to [EuroRFR@ecb.europa.eu](mailto:EuroRFR@ecb.europa.eu) by 17:00 CET on 3 April 2020.** The ECB and the European Commission will summarise the feedback received and this summary will be published on the ECB's website and considered by the working group at its meeting on 21 April 2020.

*On the working group on euro risk-free rates:*

The working group on euro risk-free rates, for which the European Central Bank provides the secretariat, is an industry-led group established in 2018 by the ECB, the Financial Services and Markets Authority, the European Securities and Markets Authority and the European Commission. Its main tasks are to identify and recommend alternative risk-free rates and transition paths. On 13 September 2018 the working group recommended the €STR as the new euro risk-free rate. The €STR reflects the wholesale euro unsecured overnight borrowing costs of euro area banks and has been produced by the ECB since 2 October 2019. The working group now focuses on the adoption of the €STR in place of EONIA and on analysis of fallbacks for EURIBOR.

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