

PRESS RELEASE

19 August 2019

Private sector working group issues recommendations on the transition from EONIA to €STR for cash and derivatives products

- Transition from EONIA to €STR has impact on broad variety of financial products and processes
- Market participants urged to actively prepare for change in publication time of EONIA effective as of 2 October 2019
- CCPs encouraged to switch their discounting regime from EONIA to €STR towards end of second quarter of 2020

The private sector working group on euro risk-free rates has today published a [report](#) containing a set of recommendations addressing the impact of the transition from the euro overnight index average (EONIA) to the euro short-term rate (€STR). The recommendations take an operational and valuation perspective, taking into account EONIA's wide use as a reference rate and as a collateral remuneration and cash flow discounting rate. The report analyses the various financial products and processes affected by the transition, covering secured (e.g. repos) and unsecured (e.g. current accounts) cash products, securities, investment funds, derivatives and models referencing EONIA. The report urges market participants to prepare for: (i) the change in EONIA's publication time from day T at 19:00 CET to the next business day T+1 at 9:15 CET that will follow the change in EONIA's methodology as of 2 October 2019 (representing transactions executed on 1 October 2019); and (ii) the discontinuation of EONIA on 3 January 2022.

Regarding the change in EONIA's publication time, the working group encourages market participants, among other things, to:

- screen their inventory of affected transactions and system environments to assess the modifications needed to cope with the change in EONIA's publication time and prepare relevant teams for enhanced oversight during the cutover period;

- design a communication strategy geared towards internal and external stakeholders (clients in particular) to ensure awareness of impending changes;
- consider adjusting the default settlement time (i.e. the lag between the last fixing date and the settlement date) in certain cases.

Regarding the transition period until EONIA is discontinued on 3 January 2022, the working group recommends, among other things, that:

- market participants actively transition floating rate options (FROs)¹ referencing EONIA to €STR FROs before the end of 2021;
- central counterparty clearing houses (CCPs) align their discounting switch dates as much as possible to transition from an EONIA discounting regime to a €STR discounting regime, and set the discounting switch date as early as possible, preferably towards the end of the second quarter of 2020;
- market participants introduce all necessary modifications in order to be able to issue, buy, trade and manage new securities indexed to the €STR and avoid issuing new securities indexed to EONIA with maturities going beyond the transition period.

Please refer to the full report for the detailed set of recommendations, as well as the underlying analyses. The working group's recommendations are not legally binding; however, they provide guidance to market participants which are preparing for the transition from EONIA to the €STR.

The report was prepared following the working group's recommendation of 14 March 2019 that market participants gradually replace EONIA with the €STR as a reference rate for all products and contracts and make all necessary adjustments for using the €STR as their standard benchmark, as well as the announcement by EONIA's administrator, the European Money Markets Institute, that it would modify the current EONIA methodology to become the €STR plus a fixed spread of 8.5 basis points from the first publication date of the €STR, i.e. 2 October 2019, until the discontinuation of EONIA on 3 January 2022. On 16 July 2019, the working group also recommended a legal action plan for the transition from EONIA to the €STR, including recommendations on how to address the legal implications for new and legacy contracts that reference EONIA.

For media queries, please contact [William Lelieveldt](#), tel.: +49 69 1344 7316.

¹ The term "floating rate option" is defined under the International Swaps and Derivatives Association's 2006 Definitions and refers to the methodology used to determine the floating rate that is applicable to a swap transaction for a particular day.

PRESS RELEASE / 19 August 2019

Private sector working group issues recommendations on the transition from EONIA to €STR for cash and derivatives products

Notes:

The working group on euro risk-free rates, for which the European Central Bank (ECB) 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 will be produced by the ECB as of 2 October 2019.

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.ecb.europa.eu

Reproduction is permitted provided that the source is acknowledged.