

PRESS RELEASE

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Working group on euro risk-free rates seeks feedback on EONIA to €STR legal action plan

- Feedback sought on recommendations for new and legacy contracts referencing EONIA
- Consultation addresses methodology change for EONIA in October 2019 and its discontinuation at the end of 2021
- Working Group recommends that all market participants switch to €STR as soon as possible

Today the working group on euro risk-free rates has launched a public consultation on its draft recommendations to address the legal implications for new and legacy contracts referencing the euro overnight index average (EONIA) as a result of the proposed transition from EONIA to the euro short-term rate (€STR).

The EONIA legal action plan addresses two events: (i) the proposed change to the methodology for computing EONIA on 2 October, whereby it will become €STR plus a spread; and (ii) the discontinuation of EONIA at the end of 2021.

The working group recommends that market participants consider replacing EONIA with €STR as a reference rate for all products and contracts and that they make all operational adjustments necessary for using €STR as their standard benchmark as soon as possible. In particular, it is recommended that new contracts referencing EONIA include robust fallback provisions and an acknowledgement that references to EONIA will be understood to be references to EONIA as modified after the change to its methodology on 2 October 2019. For legacy contracts referencing EONIA and maturing after December 2021, market participants should consider replacing EONIA as a primary rate as soon as possible or embedding robust fallback clauses referencing the recommended fallback rate for EONIA. Additionally, the working group intends to recommend €STR plus a spread (the one-off computation of the difference between €STR and EONIA in the context of the proposed recalibrated EONIA methodology) as the EONIA fallback rate.

The EONIA legal action plan covers legacy and new contracts referencing EONIA in different asset classes (derivative transactions, collateral agreements and cash products) and was developed by the

working group in close cooperation with the relevant trade associations and a group of law firms that are members of the subgroup on contractual robustness.

This consultation follows the publication of a set of general guiding principles for fallback provisions in new contracts for euro-denominated cash products and the recommendations on the transition path from EONIA to €STR, which the working group issued in January and March 2019 respectively.

Please send responses to the consultation to EuroRFR@ecb.europa.eu by 17:00 CET on 12 June 2019. The ECB 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 4 July 2019.

On the working group on euro risk-free rates:

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 (FSMA), the European Securities and Markets Authority (ESMA) 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 €STR as the new euro risk-free rate. €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. The working group will now focus on the adoption of €STR in place of EONIA and on analysis of fallbacks for EURIBOR.

For media queries, please contact [William Lelieveldt](mailto:William.Lelieveldt@ecb.europa.eu), tel.: +49 69 1344 7316