



**La adaptación de los índices de tipos de interés a  
la nueva normativa europea sobre  
índices de referencia**

Madrid, 29 de octubre de 2019



# **Importance of interest rate benchmarks and introduction of €STR**

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EUROPEAN CENTRAL BANK

EUROSYSTEM

# Importance of interest rate benchmarks and introduction of €STR



Adaptation of interest rate benchmarks to the new European regulation on benchmarks

Comisión Nacional del Mercado de Valores

CNMV Conference, Madrid, 29 October 2019



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# Risk-free rates and the transition from EONIA to €STR

**1** Background

**2** Euro short-term rate: main features

**3** EONIA transition impact

**4** Transition path from EONIA to €STR and timeline for the transition

**5** Publication of €STR on 2 October: smooth market start

**6** Main working group recommendations

# Global reform towards more robust benchmarks

Global reform of benchmarks to comply with international standards (e.g. [IOSCO principles](#))

Past incidents of manipulation

Decline in underlying volumes (unsecured interbank market)

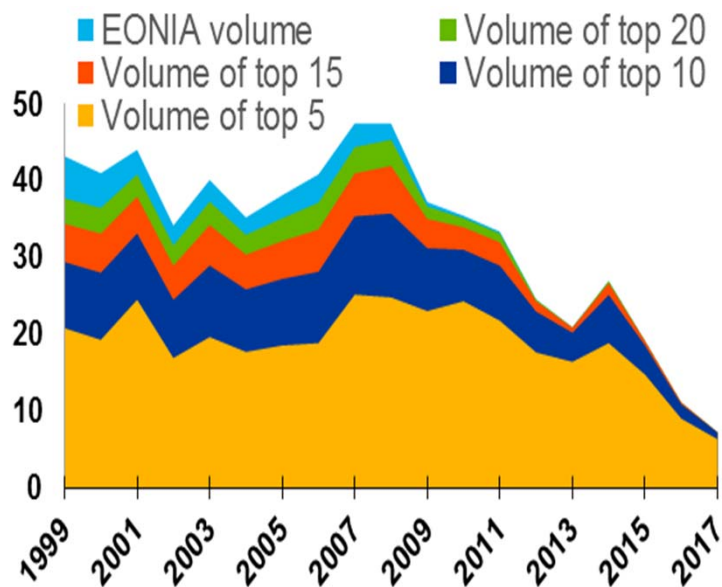
→ Robust benchmarks to be ideally transactions-based, reflecting active markets

[FSB recommendation](#): Identification of alternative (nearly) risk-free rates (RFRs) → Dedicated working groups in all major jurisdictions

## Euro area

[EU Benchmarks Regulation \(BMR\)](#): The BMR codifies the IOSCO Principles into EU law and covers the provision of a benchmark, contributions to a benchmark and the use of a benchmark. Majority of BMR provisions apply as of 1 January 2018 and will be fully phased in for critical benchmarks and third country benchmarks as of 1 January 2022.

# Euro area critical benchmarks: EONIA and EURIBOR



**EONIA**

**Old methodology – not compliant with BMR**

Market activity underpinning EONIA was very low and the volume was concentrated in a limited number of panel banks

The panel of contributing banks currently consists of 18 CONTRIBUTORS.

<b>Belgium</b> Belfius	<b>Netherlands</b> ING Bank
<b>France</b> BNP-Paribas - HSBC France - Natixis - Crédit Agricole s.a. - Société Générale	<b>Portugal</b> Caixa Geral De Depósitos (CGD)
<b>Germany</b> Deutsche Bank - DZ Bank	<b>Spain</b> Banco Bilbao Vizcaya Argentaria - Banco Santander - CECABANK - CaixaBank S.A.
<b>Italy</b> Intesa Sanpaolo - UniCredit	<b>Other EU Banks</b> Barclays
<b>Luxembourg</b> Banque et Caisse d'Épargne de l'État	

**EURIBOR**

**Reformed, but risks remain**

Panel instability risk, lack of underlying transactions  
Fallbacks – regulatory requirement and common sense

# Benchmark reform in the euro area

EONIA low underlying volumes, high panel concentration: not compliant with the EU Benchmarks Regulation in its current form.

Given the systemic importance of benchmark rates, the ECB has announced:

1. The production of an overnight unsecured rate: Euro short-term rate, €STR;
2. The setup of the Working Group on euro risk-free rates, chaired by the private sector and with the ECB providing its Secretariat.

€STR selected by the Working Group as euro RFR in September 2018.

EONIA's administrator, European Money Markets Institute (EMMI), has announced the end of reform efforts regarding EONIA and the Working Group has prepared a transition path from EONIA to €STR.

EURIBOR reform: Following the implementation by EMMI of a new "hybrid methodology", the Belgian Financial Services and Markets Authority (FSMA) announced in July 2019 that it has granted authorization to EMMI for EURIBOR.

# ECB's involvement

- Due to the systemic importance of the benchmarks reform, [in September 2017 the ECB announced](#):

## Euro short-term rate

- ECB to develop a daily euro unsecured overnight interest rate
- Based on data already available to the Eurosystem through the ECB's MMSR
- Reflects wholesale borrowing costs of the Euro area financial institutions

## Working Group on euro RFR

- Set-up of an industry working group together with the European Commission, ESMA and the FSMA
- Chaired by ING
- Membership: 21 EU credit institutions as voting members, 5 non-voting members (associations, benchmarks providers), 2 invited institutions and 4 observers
- The ECB provides its Secretariat

- [Mandate of the WG on euro RFR](#): (i) Identifying alternative euro RFRs, (ii) identifying best practices for contract robustness, (iii) developing an adoption plan and, if necessary, (iv) creating a transition plan for legacy contracts referencing existing benchmarks.



# €STR: Main features

Scope: unsecured overnight deposits to measure borrowing costs

Calculation: weighted average, trimming 25%

Publication policy and transparency on errors

Data sufficiency policy: contingency triggers (20 banks, 75% top 5 banks' concentration ratio)

Governance and processes: €STR published at 08:00 am Frankfurt time

Rate published daily from 2 October 2019  
Pre-€STR publications since 28 June 2018

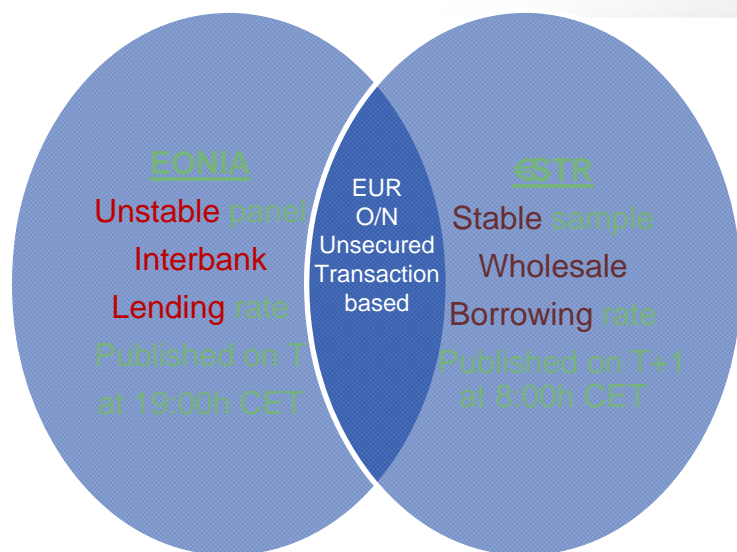
# EONIA vs. €STR: A comparison

EONIA	Euro short-term rate
EUR	EUR
Overnight	Overnight
Unsecured	Unsecured
Transaction Based	Transaction Based
<b>Unstable</b> Panel	<b>Stable</b> reporting sample
<b>Interbank</b>	<b>Wholesale</b>
Bank <b>Lending</b>	Bank <b>Borrowing</b>
Published on <b>T</b>	Published on <b>T+1</b>

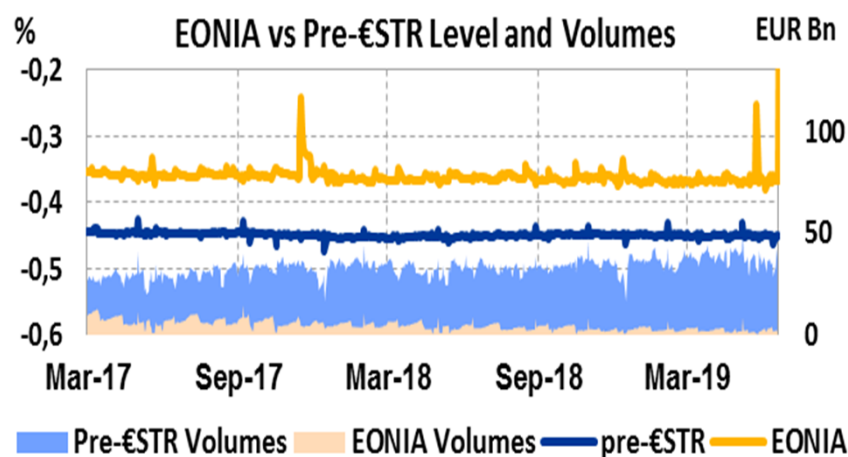
# EONIA transition impact

- EONIA is widely used as:
  - Reference rate in financial contracts
  - Collateral remuneration rate
  - Cash flow discounting rate for contracts referencing EONIA and EURIBOR
- [€STR recommended as the euro risk-free rate](#) in September 2018
- Immediate need to:
  - ✓ Identify a transition path from EONIA to the €STR
  - ✓ Identify how to transition from EONIA to the €STR: T to T+1 move, impact on EONIA legacy contracts, impact on current risk management practices, impact on financial accounting, establishment of a liquid €STR market, etc.

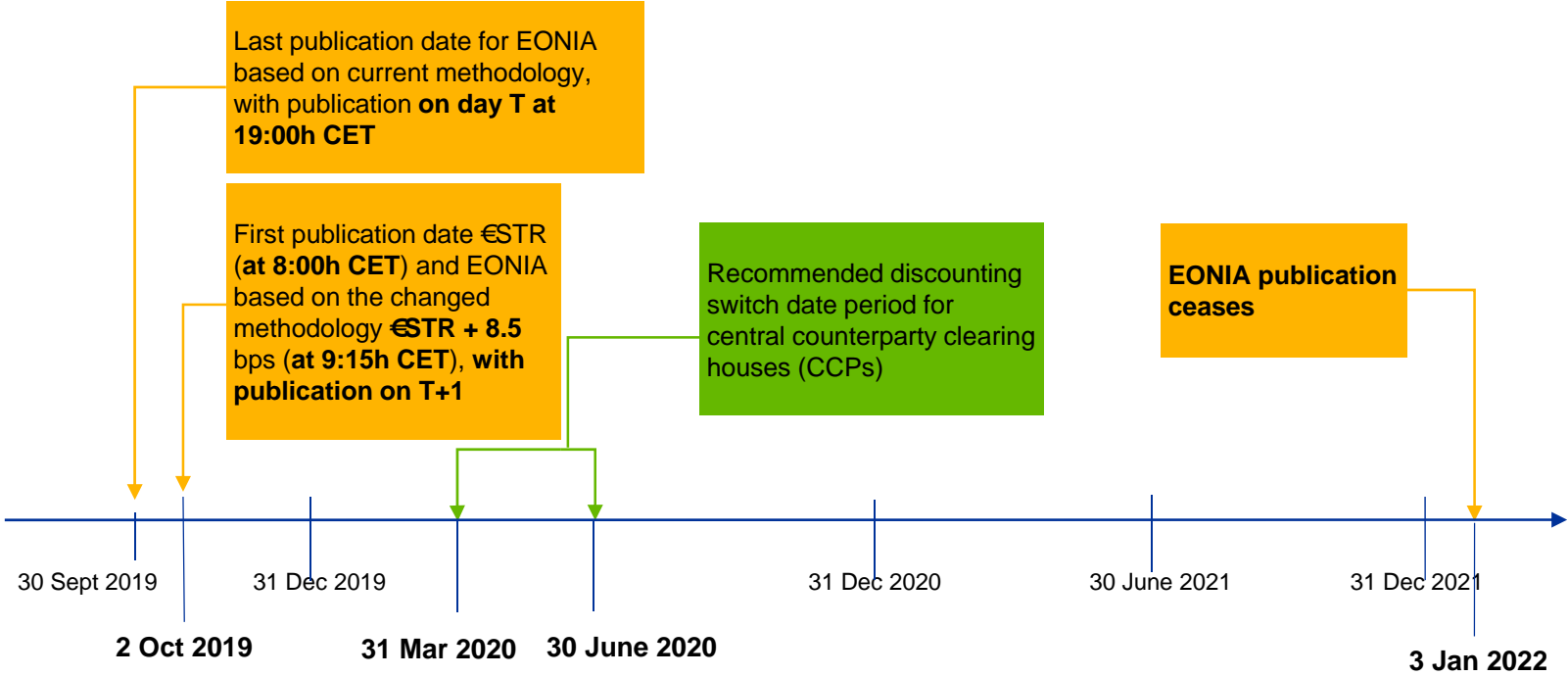
# Transition from EONIA to €STR



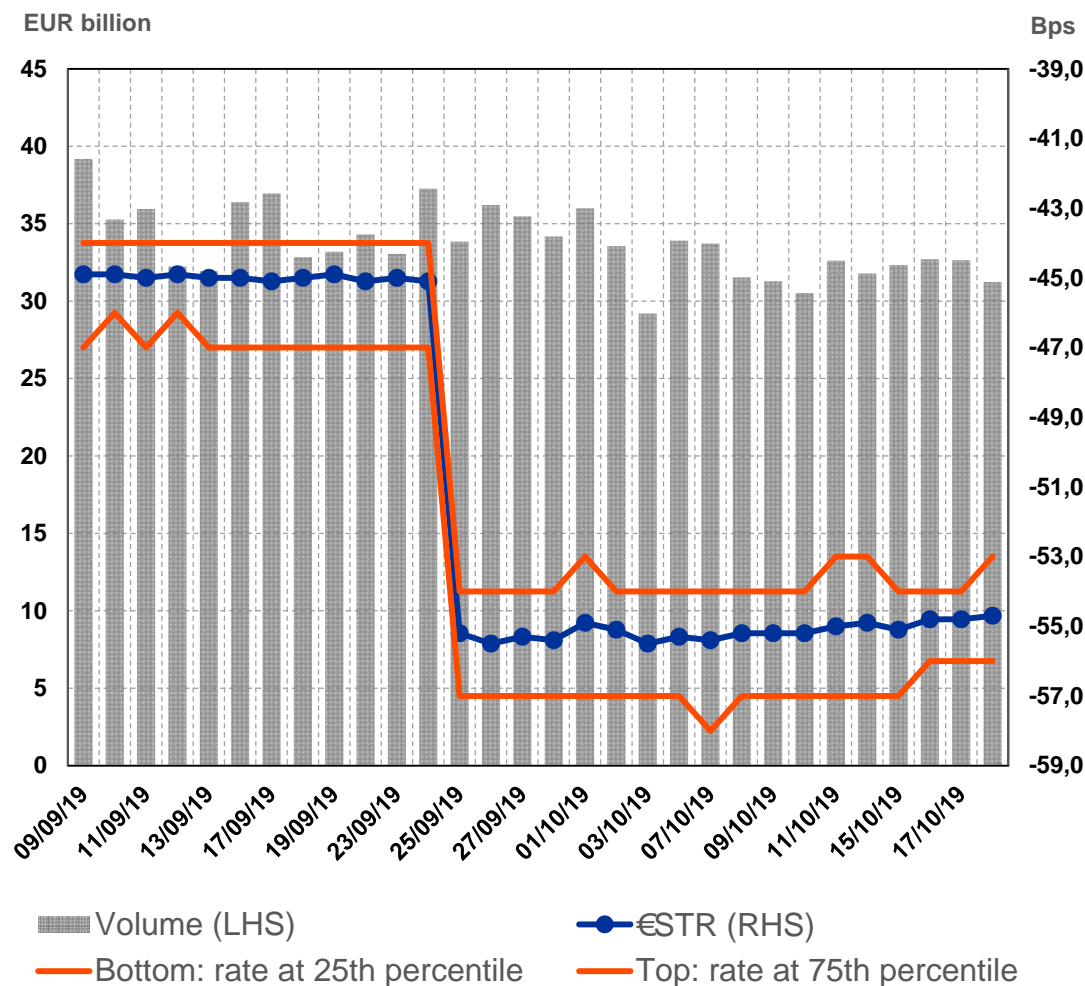
- A fixed EONIA-€STR relationship: temporary stable platform to facilitate a gradual, smooth transition to €STR
- On 14 March 2019: the WG [recommends a transition path](#)
- On 31 May 2019: [EMMI confirms EONIA's change of methodology](#) and the ECB publishes the [one-off computation of the spread between €STR and EONIA](#) (8.5bp)
- On 11 July 2019: the ECB announces the [publication time of €STR](#) at 8:00 CET and re-publication time at 9:00 CET
- On 24 July 2019: [EMMI confirms publication time for recalibrated EONIA](#) at 9:15h CET



# Timeline of the transition from EONIA to €STR



# €STR: A smooth market start



## No disruptions on 2 October

- Wire services published correctly and timely the ECB information
- Banks reported smooth change from EONIA to €STR as regards internal processes
- EONIA switch to T+1 well anticipated
- €STR rate potentially to be published on the front page of the ECB website

# Trading of €STR-related products starts

## Swaps

- *First €STR swap trades – bilaterally for testing purposes (HSBC, JP Morgan) or internally (CACIB, 3-months swaps)*
- *LCH and Eurex to start clearing on 21 October and 18 November, respectively, and first trades seen in MMSR reporting*
- *Bloomberg and Tradeweb to start offering electronic trading in October*
- *LCH to switch discounting from EONIA to €STR on 22 June 2020 in line with WG recommendations*

## Securities issuance

- *First issuance of floating rate notes based on €STR*
- *EIB launched a 3-year floating rate note for a benchmark amount of EUR 1 bn with solid demand*
- *L-Bank issued a 2-year floating rate note for EUR 250 million*
- *Societe Generale launched a EUR 5 million CP test trade*

# EONIA to €STR Legal Action Plan

€STR plus a fixed spread of 8.5 basis points as EONIA fallback rate for all products

New contracts: Market participants, whenever feasible and appropriate, should avoid entering into new contracts referencing EONIA, in particular new contracts maturing after 31 December 2021. In case new contracts still reference EONIA and mature after December 2021 or fall within the scope of the BMR, market participants should include robust fallback provisions.

New contracts signed before October 2019 should ideally include clarification that the EONIA methodology is expected to change as of 2 October 2019 and that references in contracts to EONIA shall be understood as references to EONIA as changed.

Legacy contracts: For existing contracts maturing after December 2021, market participants should replace EONIA as a primary rate as soon as possible or embed robust fallback clauses.



# Comprehensive review of the EONIA to €STR Legal Action Plan

For a comprehensive review of the legal implications and recommendations to ensure a smooth transition from EONIA to €STR, there are three documents published in 2019:

## Public Consultation: 15 May

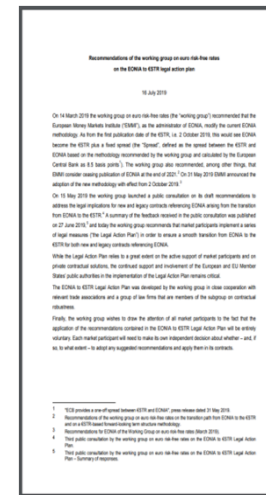
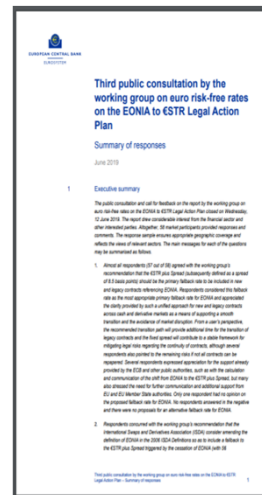
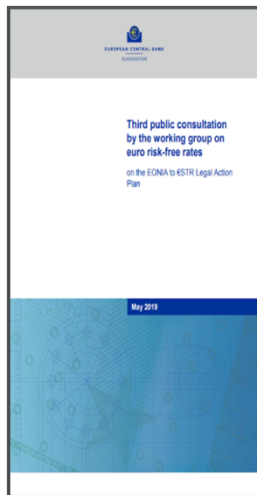
[https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.consultation\\_details\\_201905.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.consultation_details_201905.en.pdf)

## Summary of feedback received: 28 June

[https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.summaryofresponses01\\_201906.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.summaryofresponses01_201906.en.pdf)

## Final Recommendations: 16 July

[https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.eurostr\\_eonia\\_legal\\_action\\_plan\\_20190716.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.eurostr_eonia_legal_action_plan_20190716.en.pdf)



# WG recommendations on EONIA to €STR transition

- [Recommendations from an operational and valuation](#) standpoint to address the impact on IT systems, market conventions and documentation used in:

Products	Processes	Models
<ul style="list-style-type: none"><li>• Derivatives</li><li>• Cash products (Securities, secured and unsecured cash products, investment funds, other products)</li></ul>	<ul style="list-style-type: none"><li>• Calculation of prices, coupons, interest or collateral remuneration</li><li>• Involving contractual settlement dates</li></ul>	<ul style="list-style-type: none"><li>• Funds transfer pricing</li><li>• Interest rate curve construction</li><li>• Interest rate term structure</li><li>• Discounted cash flow, derivatives pricing, derivatives value adjustment</li></ul>

- [Recommendations from a risk management perspective](#) to smooth the impact of the transition
- Recommendations from a financial accounting perspective: in progress

# Preparations for transition from EONIA to €STR

Preparations by market participants necessary:

## Processes



- Use the new rate
- Systems: new timing
- Dealing, hedging

## Documentation



- Procedures
- Contracts, fallbacks
- New products

### IT setup for €STR

ISIN: EU000A2X2A25

German WKN: A2X2A2

FISN: ECB/EUR EURO SHORT-TERM RATE IR