

Summer 2019

EONIA transition to the euro short-term rate (€STR)

In September 2018, the ECB-organized private sector working group on euro risk-free rates recommended that the **euro short-term rate (€STR)** replace the **euro overnight index average (EONIA)** as the new euro risk-free rate. In addition, it was recommended that €STR also provide the basis for developing fallbacks for contracts referencing **Euribor**.

The working group has focused its attention on supporting the market with the initial transition process, which will take place in two parts: (1) the transition to a recalibrated EONIA methodology of **€STR plus a fixed spread of 8.5 basis points** on 2 October 2019; and (2) the transition from the recalibrated EONIA to **€STR flat**, which will take place sometime before 3 January 2022.

EONIA

is a major reference rate for the European money markets which represents the rates at which banks of sound financial standing in the European Union and European Free Trade Area lend funds in the overnight, interbank money markets in euro. The European Money Markets Institute (EMMI) is the administrator of the EONIA index, while the ECB serves as its calculation agent.

EONIA was long considered a viable nearly risk-free rate, supported by a panel-based methodology. However, a 2016 review of EONIA showed that the activity underpinning the benchmark had decreased significantly since the financial crisis. The limited market activity has also led to an increase in the concentration of under-pinning volumes in a limited number of EONIA panel banks.

€STR

is the rate which reflects the unsecured wholesale euro overnight borrowing costs of euro area banks, and is administered by the European Central Bank. €STR will be calculated as the volume-weighted average rate of actual individual transactions reported to the ECB in accordance with money market statistical reporting (MMSR) requirements. The ECB will begin officially publishing €STR on 2 October 2019. €STR will be published for each TARGET2 business day based on transactions conducted and settled on the previous day (reporting date T) with a maturity date of T+1.

EONIA versus €STR – A side by side comparison

Summary of attributes

	EONIA	Pre-€STR
Review period	1 August 2016 to 15 January 2018	1 August 2016 to 15 January 2018
Minimum allowed transaction size	None	EUR 1 million
Banks participating in analysis	All 28 panel banks	All 52 reporting agents
Average (and lowest) daily volume	EUR 7.7 billion (EUR 0.8 billion)	EUR 29.8 billion (EUR 6.8 billion)
Average (and lowest) of banks reporting daily volume	12 (6)	31 (24)
Average (and lowest) number of daily transactions	N/A (N/A)	438 (158)

Overview of Euro Risk-free Rates Working Group

Main Working Group

Recommended on 13 September 2018 that €STR be used as the riskfree rate for the euro area, and is now focused on market transition.

Subgroup 2

Will finalize the tasks on recommending an €STR-based term structure methodology as fallback to Euribor. Target date for this work is set as October 2019, once €STR starts its publication.

Subgroup 3

Will continue its work during the market adoption phase, detailing fallback language for new and legacy contracts linked to EONIA and Euribor.

Subgroup 4

Recommended a methodological recalibration of EONIA to €STR + a fixed spread, and has now been closed.

Subgroup 5

Will investigate from an operational and valuation standpoint per product (1) how to transition from EONIA to €STR and (2) how to embed fallbacks to Euribor based on an €STR-based term structure methodology (both forward and backward looking) in order to avoid market disruption.

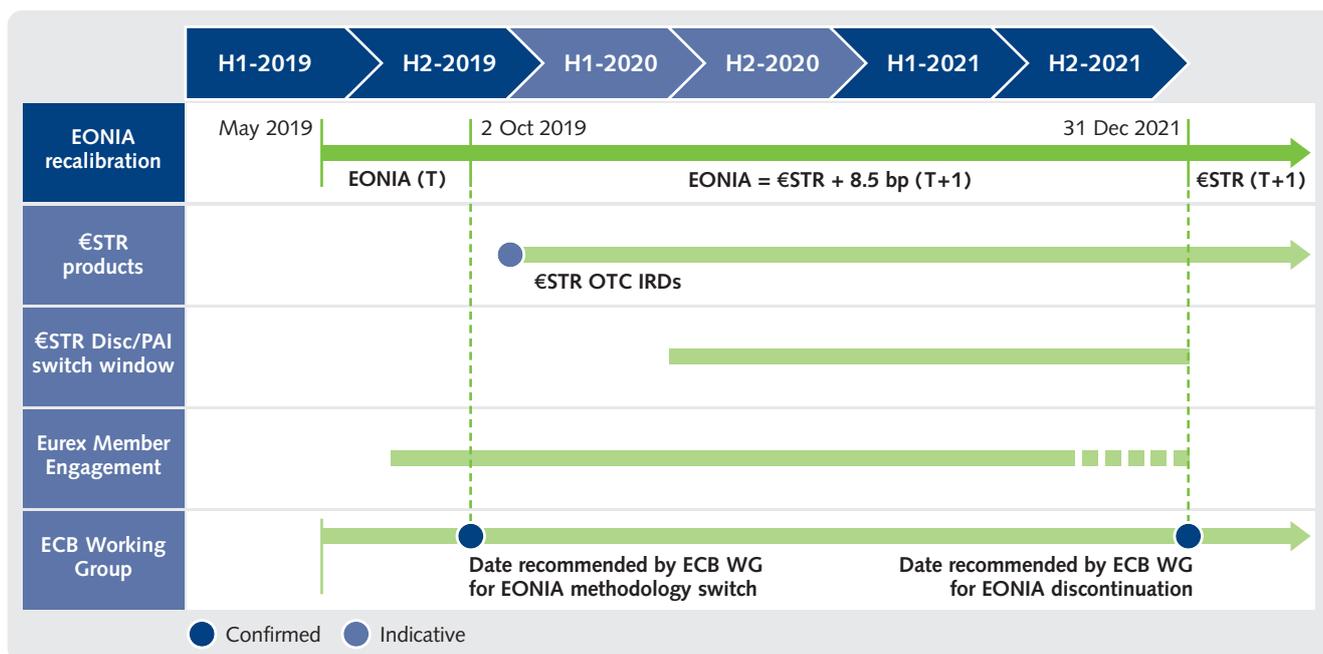
Subgroup 6

Will closely follow subgroup 5's analysis per product on (1) how to transition from EONIA to €STR and (2) how to embed fallbacks to Euribor based on an €STR-based term structure methodology, in order to determine and advise on the impact on financial accounting and risk management.

Subgroup 7

Will actively approach, inform and educate market participants on why and how to (1) transition from EONIA to €STR and (2) embed fallbacks to Euribor based on an €STR-based term structure methodology.

Eurex transition timeline



About Eurex Money Market Derivatives

Eurex **EONIA derivatives** reference the euro overnight index average, a key benchmark in the interbank/swaps market.

Eurex Exchange has introduced a cash-settled **EUR Secured Funding Future** based on the **STOXX® GC Pooling EUR Deferred Funding Rate**. The **STOXX® DF EUR Rate** is designed to serve as both a possible alternative and/or complement to the unsecured interbank lending benchmark EONIA, representing actual secured euro lending transactions for high quality liquid assets (HQLA) benefitting the market with an independent, transparent and rule-based interbank funding index.

Eurex **Euribor derivatives** reference the Euro InterBank Offered Rate for three month euro term deposits. Euribor, defined as the rate at which euro interbank term deposits are offered between Eurozone banks, is calculated and published by the European Money Market Institute, and is the benchmark of the euro money market. Eurex lists both Euribor Futures and Options on Futures.

Swiss Average Rate Overnight (SARON)

In 2017, the Swiss National Working Group proposed SARON, a collateralized reference rate based on actual market transactions and quotes in the regulated SIX Repo market, as an alternative interest rate benchmark in Switzerland.

At the end of 2017, the Swiss market replaced TOIS-fixing with SARON. Eurex Clearing stopped clearing TOIS Indexed Swaps at the end of 2017, while also switching to a SARON swap discounting curve for CHF swap transactions.

In response to the market demand and in order to facilitate the structured transition to the new benchmark rate, Eurex launched three-month SARON Futures on 29 October 2018.

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