



EUROPEAN CENTRAL BANK

EUROSYSTEM

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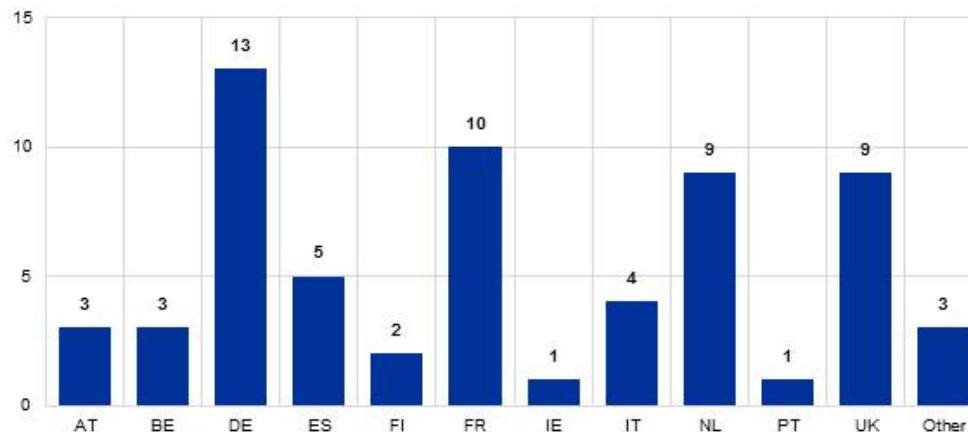
# **Item 3.1**

## **Summary of responses – Report on the transition from EONIA to ESTER**

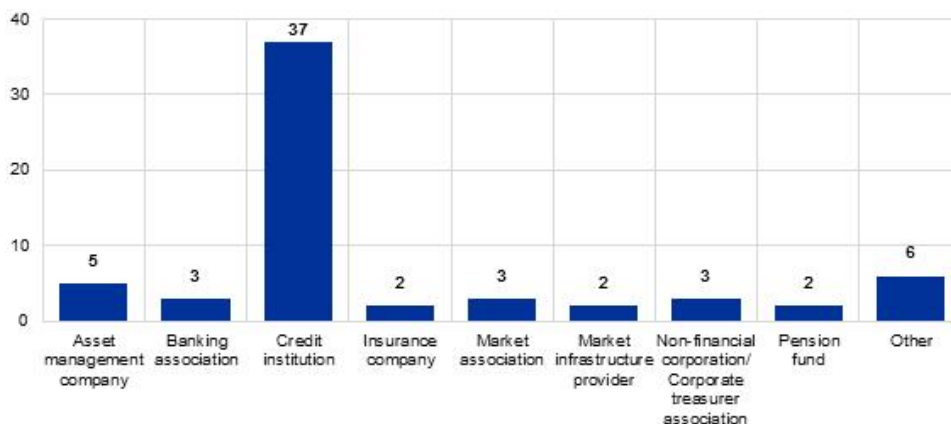
Working group on euro risk-free rates  
Frankfurt, 27 February 2019

# 63 respondents: appropriate geographic coverage and reflecting relevant sector and sub-sector views

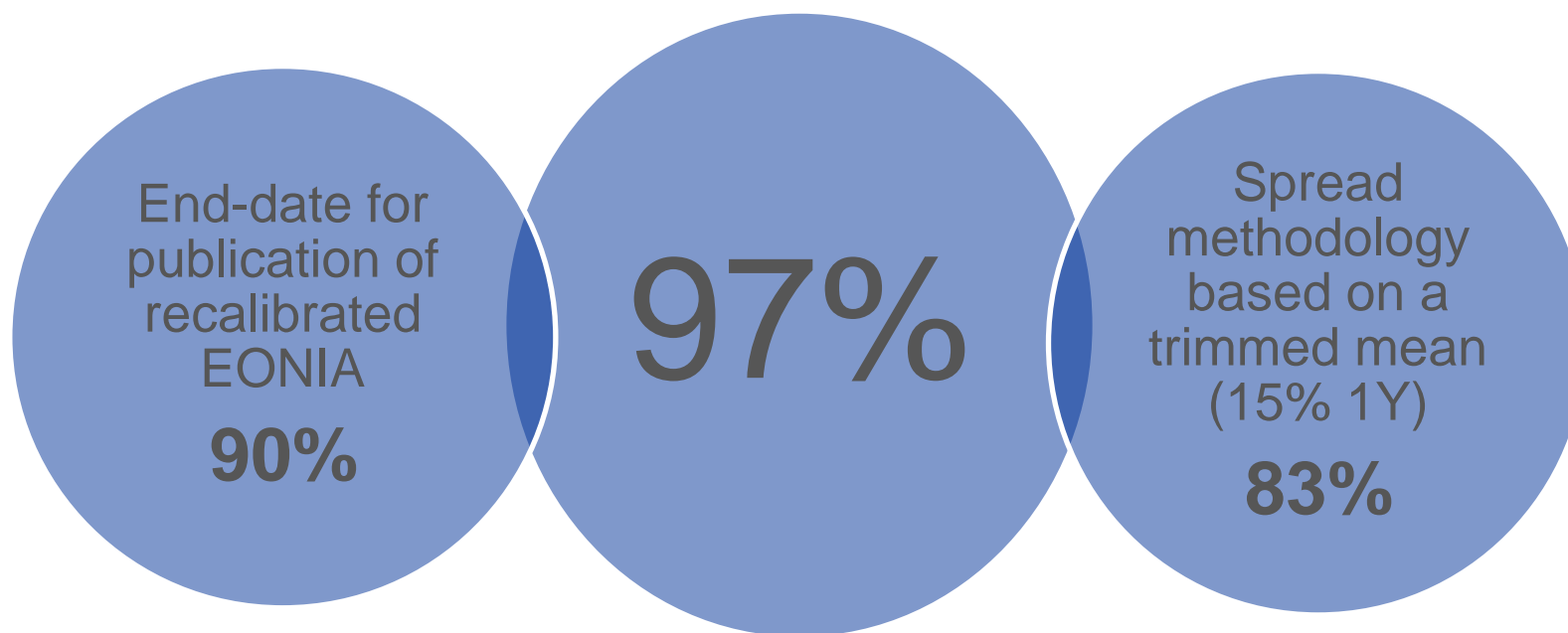
Number of respondents by geographic area



Number of respondents by sector



# Time-limited recalibration with a spread and clean discounting path



89% authorisation and supervision of the recalibrated EONIA

## The most appropriate for ensuring a smooth and orderly transition (97% support)

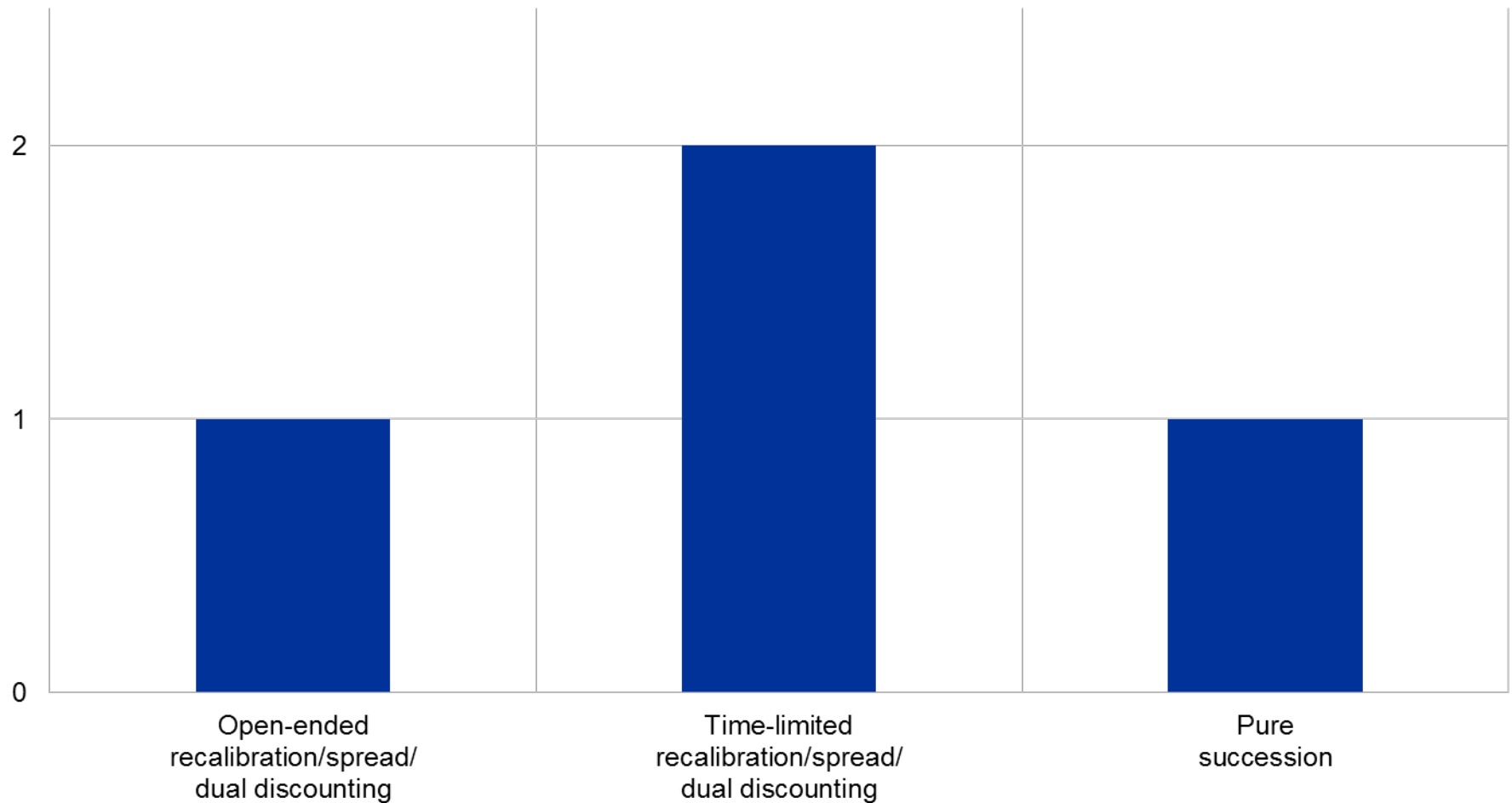
- Effectiveness for transferring current EONIA liquidity
- Mitigating potential value transfers
- Providing an adequate time frame to renegotiate EONIA legacy contracts
- Reducing technical complexity
- Allowing for clear communication to clients
- Achievable within the relevant time frame

More clarity be provided with regard to:

Applicable discounting regime

Methodology for closing out or transition any legacy exposure on the succession date

# Alternative proposals mainly pointed out to a dual discounting regime



90% support to the end-date of the recalibrated EONIA but some qualitative feedback received

# Pros



- Strong incentive for a voluntary transition** whilst recognising that different participants can move at different speeds
- A longer period would run the risk of the market deprioritising the required **preparations**
- In line with the requested **extension of the EU Benchmarks Regulation** transition period
- In line with transition periods in **other jurisdictions**, facilitating the transition of multi-currency contracts
- A fixed spread** would be more difficult to defend with a longer transition period.

# Concerns



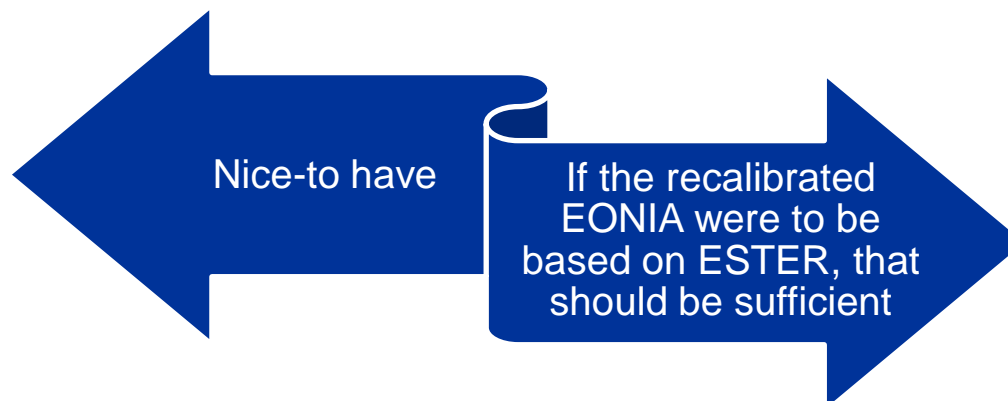
- Optimistic and ambitious deadline**
- End-2022** or **end-2023** as **more realistic** deadlines
- It would be safe to introduce **flexibility**
- Further examination with regard to **possible negative outcomes by aligning key milestones**

A time limit was regarded as the most effective incentive, but many respondents proposed alternative ideas:

- Promoting ESTER-linked issuance
- Including a recommendation whereby new transactions use ESTER exclusively
- Setting up an infrastructure subgroup
- Actively involving CCPs in the transition plan
- Publishing a specific EONIA-ESTER ISDA protocol
- Developing ESTER-based futures
- Increasing communication & providing direction to the market
- Enacting legislative framework
- Introducing heavier capital charges
- Regulators requiring financial firms to start preparations

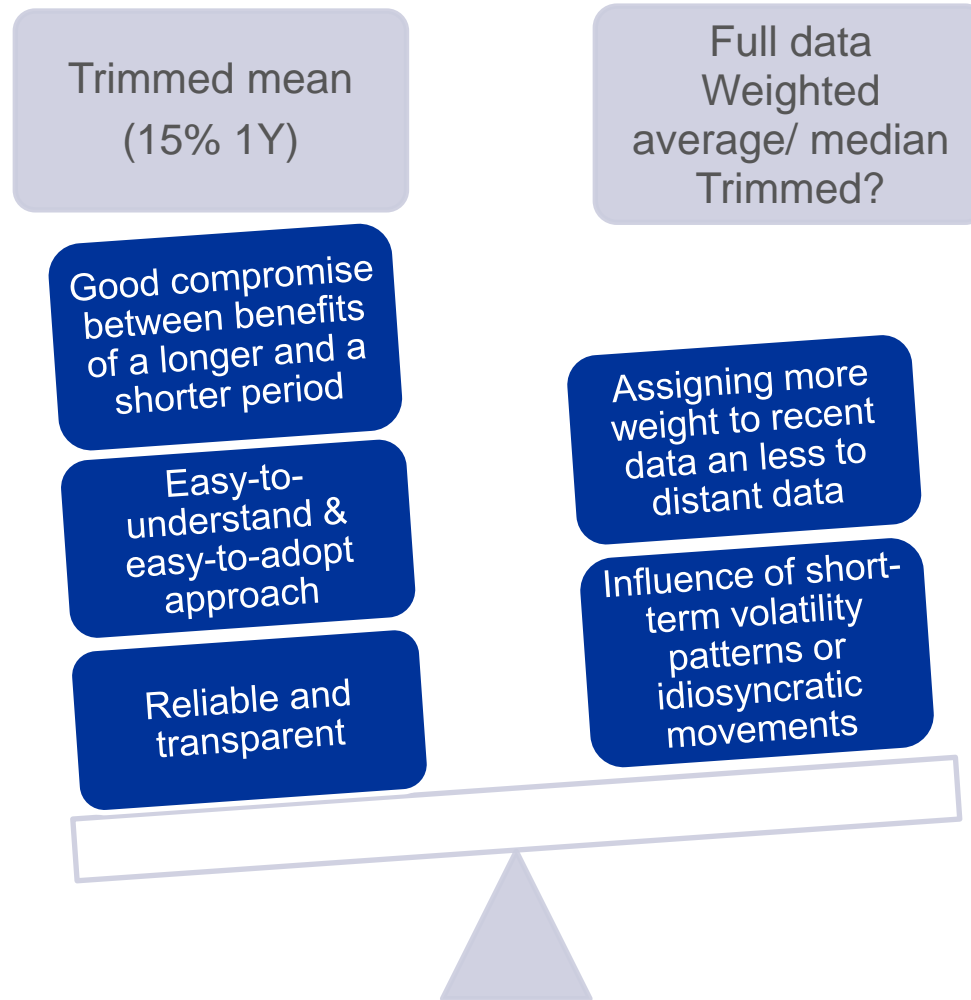
## 89% support for the recalibrated EONIA being authorised and supervised

- It would add legal certainty to the transition process
- It would illustrate that the recalibrated EONIA was in line with best practices and international recommendations
- Supportive actions by the administrator and competent authorities would also underpin the operational and legal framework during the migration process





83% respondents agreed with the spread methodology based on a trimmed mean (15% 1Y)



## Wide range of responses

- Readiness **across market participants**: essential for a well functioning ESTER market to develop

### Preparations needed:

- Develop systems and applications and run tests
  - 12 to 15 months,
  - At least 20
  - IT developments would have to be prioritised in order to achieve correct delivery before the first publication of ESTER
- Updates on pricing systems and other internal systems and work for setting up new curves
- Internal governance processes for the approval of the usage of new products or services
- MMFs highly impacted by the change from same day settlement to T+1

