**CONSULTATION PAPER ON THE RECOMMENDATIONS FOR EONIA OF THE**

**WORKING GROUP ON EURO RISK-FREE RATES**

**20 March 2019**

**Questionnaire**

EONIA is a major reference rate for the European money markets, as it represents the rate at which banks lend funds in the overnight interbank money markets in euro. It is a fully transaction-based reference rate, calculated on the basis of the submissions coming from a panel of 28 credit institutions (the Panel Banks), which report, on a daily basis, the volume-weighted average rate of their executed overnight interbank lending transactions, as well as the corresponding aggregated notional volume.

In 2016, seeking to enhance EONIA’s governance and align its determination with the requirements of the EU Benchmarks Regulation (EU BMR),[[1]](#footnote-1) EMMI launched the **EONIA Review**. As part of this programme, EMMI also intended to enhance EONIA’s methodology, in view of some shortcomings that had been historically observed.

EONIA’s underlying dynamics

The low underlying EONIA volumes represent the market it intends to measure. The current monetary policy environment, coupled with macro-prudential measures, does not encourage unsecured short-term lending between banks. According to the [ECB’s study](https://www.ecb.europa.eu/paym/pdf/cons/euoir/consultation_details_201711.pdf) of the size of the unsecured overnight money market based on TARGET2[[2]](#footnote-2) data, “volumes stood on average at EUR 6 billion (…) in September 2017.” EONIA’s average underlying volume in that same month was EUR 7.2 billion.[[3]](#footnote-3)

The limited market activity has reflected on the EONIA rate as an increase in the concentration of underpinning volumes in a limited number of EONIA Panel Banks. At the same time, the number of Panel Banks which submit non-zero volumes has decreased significantly over the past few years. This trend may reflect the contraction of the unsecured money markets, also captured and portrayed more recently in the [First ECB public consultation on developing a euro unsecured overnight interest rate](https://www.ecb.europa.eu/paym/pdf/cons/euoir/consultation_details_201711.pdf).

The working group on euro risk-free rates

On 21 September 2017 the European Central Bank (ECB), the Belgian Financial Services and Markets Authority (FSMA), the European Securities and Markets Authority (ESMA) and the European Commission announced the launch of the working group on euro risk-free rates (the Working Group or WG).[[4]](#footnote-4) On the same day, the ECB also [announced](https://www.ecb.europa.eu/press/pr/date/2017/html/ecb.pr170921.en.html) its intention to publish a new unsecured overnight interest rate based on data already available to the Eurosystem, which later materialised as the euro short-term rate (€STR).

The end of the EONIA Review

On 1 February 2018, EMMI communicated on its intentions to stop efforts related to the alignment of EONIA with the requirements of the EU BMR.[[5]](#footnote-5) This decision was made on the basis of discussions with EONIA Panel Banks and other stakeholders, reflecting a non-existent support and appetite for a fully-fledged EONIA Review. At that time, EMMI highlighted how under unchanged conditions and dynamics in the unsecured segment of the euro money market “EONIA’s compliance with the EU BMR by January 2020 could not be warranted.”

Recommendations of the Working Group on euro risk-free rates

Following the [recommendation of the Working Group of the ECB’s €STR](https://www.ecb.europa.eu/press/pr/date/2018/html/ecb.pr180913.en.html) as the alternative euro risk-free rate (RFR) on 13 September 2018, the Working Group continued exploring possible approaches to ensure a smooth transition from EONIA to the €STR. In December 2018, the Working Group published a [report on the transition from EONIA to the €STR](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.eoniatransitionreport201812.en.pdf) (the Report), in which a number of transition scenarios, proposals, and recommendations to promote and facilitate this transition were laid out.

Some of the recommendations presented in the Report were addressed to EMMI. Given the systemic importance of EONIA for the financial markets, also recognised by the European Commission in June 2017, when EONIA was classified as a critical benchmark under the EU BMR, EMMI would like to consult the public on the measures proposed and [endorsed by the Working Group during its meeting on 14 March 2019](https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.pr190314_1~af10eb740e.en.html).

Due to the dependencies between the recalibration of EONIA’s methodology and the ECB’s production plans for the €STR, which stem from the recommendations of the Working Group, the market and other users of EONIA will have to adapt to a change in the publication time of EONIA in a short timeframe. By conducting this [consultation](https://www.emmi-benchmarks.eu/assets/files/D0088-2019%20EONIA%20consultation%20RFR%20WG.pdf), EMMI intends to raise awareness of the implications of the suggested changes, and ensure that users of EONIA start preparing for the potential upcoming changes as soon as possible.

**How to respond to this consultation?**

Responses to the questions included at the end of the consultation and feedback on the overall approach should be sent to [eonia2019@emmi-benchmarks.eu](mailto:eonia2019@emmi-benchmarks.eu). **The consultation period closes on Monday, 15 April 2019 at 5:00 p.m. CET.**

EMMI will evaluate all responses and prepare an anonymised feedback summary. **This summary will be published on EMMI’s website on Friday, 31 May 2019.** Final details on the implementation plan will also be announced on that date.

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| *Erratum:* A previous version of this Consultation indicated that the publication of the feedback summary would take place on 30 May 2019.  Due to the observation of Ascension as a public holiday in some countries in Europe, the feedback summary and details on the implementation plan of the recalibration will be published on 31 May 2019. |

Together with their responses, EMMI kindly asks respondents to submit the following minimum information:

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| **Full name of respondent:** |  |
| **Position:** |  |
| **Organization and country:** |  |
| **E-mail address** |  |
| **Contact telephone:** |  |
| **Do you require anonymity?[[6]](#footnote-6)** |  |

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| **Q1**  Page 5 | In view of the Working Group’s recommendation, do you agree that EMMI implements the recalibrated methodology for EONIA, whereby EONIA will be defined as the €STR plus a *spread*? If not, please provide a rationale for your answer. |
| [Answer here] | |

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| Q2  Page 6 | Do you consider that the discontinuation of EONIA on 3 January 2022, allows for and promotes the orderly transition of the market away from EONIA to the €STR? If not, please provide a rationale for your answer. |
| [Answer here] | |

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| Q3a  Page 7 | Do you agree that EMMI should avoid the continued publication of EONIA under the current methodology once the €STR starts being published? Please provide a rationale for your answer. |
| [Answer here] | |

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| Q3b  Page 7 | Do you foresee any issues arising from the projected implementation date of EONIA’s recalibrated methodology on 2 October 2019? Please provide a rationale for your answer. |
| [Answer here] | |

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| Q4  Page 8 | Do you foresee any impediments for the preparation and implementation of changes in IT or valuation systems prior to the first publication of EONIA under the recalibrated methodology on 2 October 2019? Please provide a rationale for your answer. |
| [Answer here] | |

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| Q5  Page 8 | Do you foresee any challenges in the calendar proposed by EMMI to transition EONIA from the current to the recalibrated methodology proposed by the Working Group? Please provide a rationale for your answer. |
| [Answer here] | |

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| Q6  Page 9 | Do you agree with EMMI’s proposed publication time for EONIA under the recalibrated methodology? Would a publication at or shortly after 11:00 a.m. CET pose a challenge in your use of EONIA? Please provide a rationale for your answer. |
| [Answer here] | |

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| **Other comments**  If you have any comments or remarks, please include them below. |
| [Answer here] |

1. (EU BMR) [Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1011&qid=1471269466723&from=en) on indices used as benchmarks [↑](#footnote-ref-1)
2. TARGET stands for Trans‐European Automated Real‐time Gross settlement Express Transfer System. The euro system maintains TARGET2, which is the second generation of TARGET and is a real‐time gross settlement system. Throughout this document, references to “TARGET” should be read with respect to the euro system’s TARGET2 system.  [↑](#footnote-ref-2)
3. The difference between these volumes is due to the fact that not all EONIA-eligible transactions settle in the TARGET2 system/Central Bank money. [↑](#footnote-ref-3)
4. In view of its role as an administrator of critical benchmarks, EMMI is a [non-voting member](https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/2017_11_29_terms_of_reference.pdf) of the Working Group. [↑](#footnote-ref-4)
5. In discussions with market participants and EONIA Panel Banks, EMMI indicated that redefining EONIA as an overnight *wholesale borrowing* benchmark would most likely allow for a more robust and representative interest rate, with a lower geographical concentration. At that time, the ECB had already indicated their intention to produce an overnight interest rate benchmark which would serve as a backstop for EONIA. [↑](#footnote-ref-5)
6. Following the [EMMI Benchmarks Consultation Policy](https://www.emmi-benchmarks.eu/assets/files/D0365C-2014-EMMI%20Consultation%20Policy-procedures_4Nov2014.pdf) , EMMI shall address feedback received from stakeholders in a published summary of contributions, anonymized and aggregated when stakeholders have requested anonymity. [↑](#footnote-ref-6)