

**Recommendations of the working group on euro risk-free rates
on the transition path from EONIA to the €STR and
on a €STR-based forward-looking term structure methodology**

1- Recommendations on the transition path from EONIA to the €STR

1. The working group recommends that the European Money Markets Institute (EMMI), as the administrator of EONIA, takes the following steps before 1 January 2020:

(a) Modify the current EONIA methodology to become the €STR plus a spread for a limited period, in accordance with Financial Stability Board (FSB) recommendations and IOSCO Principles for Financial Benchmarks to further anchor EONIA's methodology in transactions;

(b) Engage with the relevant authorities to ensure the compliance of EONIA, under its evolved methodology, with the EU Benchmarks Regulation;

(c) Consider and consult market participants on discontinuing the publication of EONIA under its evolved methodology, after a transition period that ensures firms can achieve transition to the €STR in a smooth manner and that pays due regard of the existing EONIA legacy book. This transition period should last until the end of 2021, which is consistent with benchmarks transitions in other jurisdictions.

2. The working group also invites EMMI to take the following considerations into account:

(a) Consider an EONIA-€STR spread methodology based on a simple average with an observation period of at least 12 months, combined with a 15% trimming mechanism;

(b) That the recalibration methodology and the effective determination of the spread are announced at the same time before the €STR's first day of publication;

(c) That the recalibration date is on the first day of the €STR's publication for simplicity reasons.

3. The working group recommends that market participants gradually replace EONIA with the €STR as a reference rate for all products and contracts and make all adjustments necessary for using the €STR as their standard benchmark after the transition period (including making the appropriate changes to their systems to enable a T+1 publication).

4. The working group encourages market participants to make all reasonable efforts to replace EONIA with the €STR as a basis for collateral interest for both legacy and new trades with each of its counterparties (clean discounting).

In addition to these recommendations, the working group provided the following clarifications at its meeting on 27 February, in response to market feedback received:

- The clean discounting regime is to be applied at counterparty level, with only one curve to be used for each counterparty pair. This approach stems from a desire for simplicity, especially for unsophisticated users. In practice, counterparties A and B could choose either the EONIA or the €STR as the basis for discounting. Once they have agreed, a single curve would be used for all of their bilateral transactions, whether for their legacy book or their forward book. The agreement between A and B does not prevent counterparty B from using a different benchmark with counterparty C, so long as a single curve is used for all transactions between B and C.

- As regards the methodology for calculating the EONIA-€STR spread, the suggested 15% trimming mechanism applied to the spread should be understood as the exclusion of both the lowest 15% of values and the highest 15% of values, so effectively using 70% of the data to compute the average.

- The calculation of the EONIA-€STR spread should be based on the latest publicly available data, i.e. the 12-month observation period should be based on the latest pre-€STR data series available at the time of the announcement of the spread.

2- Recommendation on a €STR-based forward-looking term structure methodology

The working group on euro risk-free rates recommends the OIS (tradable) quotes-based methodology as the €STR-based forward-looking term structure methodology as a fallback to Euribor-linked contracts within a reasonable time period following the launch of the daily €STR publication.

It acknowledges that a successful transition from EONIA to the €STR is needed with (i) significant transfer of liquidity to €STR OIS markets, (ii) transparent and regulated underlying derivatives markets such as trading on multilateral trading facilities (MTFs), (iii) sufficient sources of data.

In addition to this recommendation, the working group will now analyse further both the backward- and forward-looking approaches as potential fallbacks for EURIBOR, acknowledging work being done in other currency areas as well as by the International Swaps and Derivatives Association (ISDA), which has announced the launch of a consultation on determining a fallback for EURIBOR-linked derivatives contracts following the start of the publication of the €STR.