

Working Group on euro risk-free rates

Newsletter May 2021

Special edition at the occasion of the publication of the WG recommendations on EURIBOR fallback provisions



This newsletter provides an update on the work of the working group on euro risk-free rates (hereafter the working group or WG). If you have questions about the

content or would like to subscribe, please contact CommunicationsEuroRFR@ecb.europa.eu (and EuroRFR@esma.europa.eu as of June 2021, see information on transfer to ESMA below). Feel free to share this newsletter with others!

The working group on euro risk-free rates publishes recommendations on fallbacks provisions to EURIBOR

These [recommendations](#) follow after:

- Two public consultations launched on 23 November 2020, seeking feedback on proposals for [EURIBOR fallback trigger events](#) and [€STR-based EURIBOR fallback rates](#); and
- Considering the market feedback received on these consultations ([EURIBOR fallback trigger events](#) / [€STR-based EURIBOR fallback rates](#)).

The working group recommends market participants to aim for consistency in relation to fallback provisions across all asset classes and related contracts, including cash products and derivatives, to avoid value transfer and basis risks to the extent possible. In October 2019 the working group published a [report highlighting the risk management implications](#) of incorporating different fallback language for different asset classes.

Recommendations on EURIBOR fallback trigger events

- The purpose of these recommendations is to define a generic set of events that would trigger the activation of EURIBOR fallback provisions that market participants could consider including in their contracts and financial instruments referencing EURIBOR. The document contains 1) general recommendations on how to include fallback trigger events in the contracts and 2) a set of permanent and pre-cessation EURIBOR fallback trigger event recommendations.

Recommendations on €STR-based EURIBOR fallback rates

- The aim of these recommendations is to define the most appropriate EURIBOR fallback rates for financial products based on a €STR-based term structure methodology and a spread adjustment methodology to mitigate potential value transfers in case the fallback is triggered. In addition, the working group proposes market conventions to be used for the calculation of

compounded term rates based on the €STR.

- Regarding the scope of the use cases considered, the working group acknowledges the EURIBOR fallback measures for derivatives products that ISDA included in (1) the 2006 ISDA Definitions for new transactions, and (2) the IBOR Fallbacks Protocol for legacy contracts, if market participants choose to adhere to it. Therefore, the working group's recommendations for an appropriate EURIBOR fallback rate will only include specific use cases for cash products.

Status update on the working group on euro risk-free rates

- With the recommendations on Euribor fallback rates and trigger events the working group has completed its agreed deliverables. In order to continue contributing to the reform efforts in the euro area and facilitate coordination between private sector and public sector efforts in that respect, the terms of reference of the working group will be updated. Moreover, ESMA has taken over from the ECB the secretariat of the working group and has accordingly created a new WGRFR [webpage](#).

Call for Action – The deadline for the EONIA to €STR transition is approaching

EONIA will cease to exist on 3 January 2022.

Therefore, the working group on euro risk-free rates recommends market participants to take all necessary action to complete the transition from EONIA to the €STR by the end of this year.

To ensure a smooth transition, the working group has published a broad set of recommendations on the different implications on the transition from EONIA to €STR:

- [EONIA to €STR legal action plan](#)
- [Impact on cash and derivatives products](#)
- [Risk management implications](#)
- [Financial & accounting implications](#)
- [€STR fallback arrangements](#)
- [Transfer of EONIA markets' liquidity to the €STR](#)
- [Swaptions affected by CCP discounting transition](#)

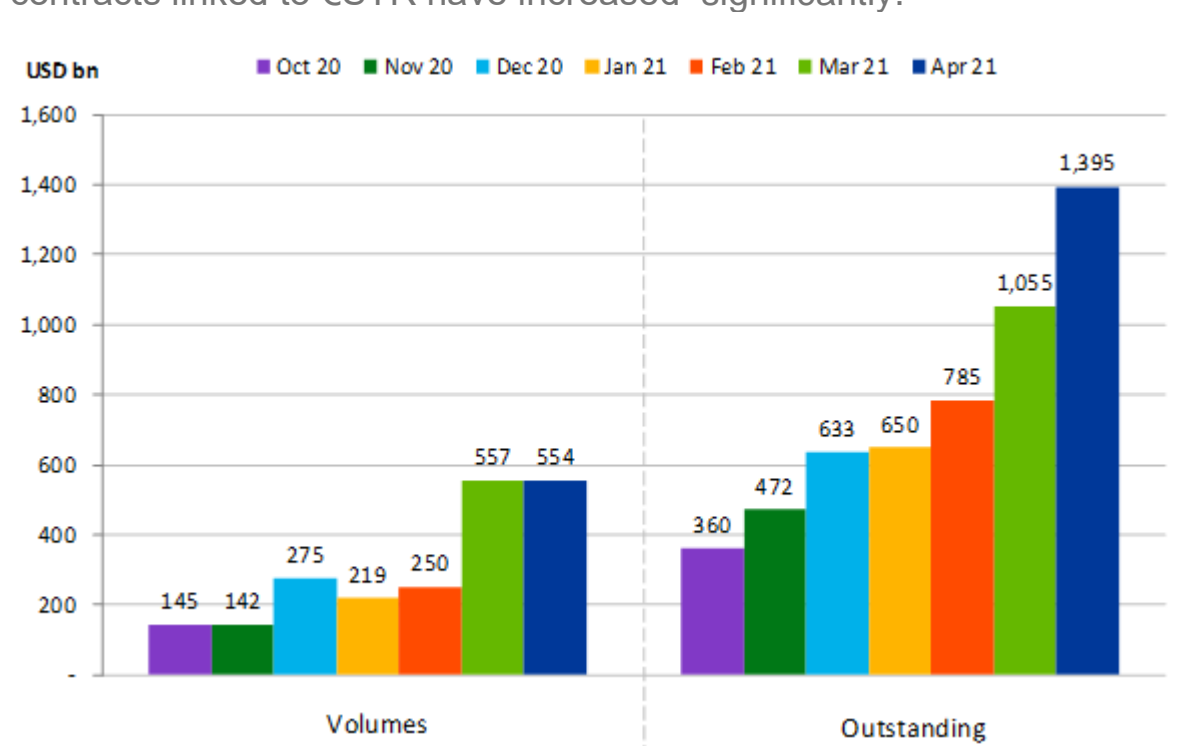
In addition, the working group published guidance in the communication

toolkit.

Next steps to complete the transition to a liquid €STR market:

- As a first important step, the clearing houses changed their discounting regime from EONIA to €STR in July 2020. This was seen as an accelerator for the transition. However, due to the COVID pandemic market participants are still using EONIA as a rate because it is well-known to them.
- As a second step, the clearing houses are going to transition all outstanding EONIA trades into €STR trades on 15 October this year. After that date, trades referencing EONIA will no longer be accepted for clearing. It is expected that non-cleared bilateral trades will follow shortly. This period until October will provide market participants/counterparties sufficient time to prepare internally in particular with the bilateral CSA re-papering.

LCH [published](#) their monthly swap clearing data for April. Over the past two months, both cleared volumes and outstanding amounts of EUR OIS contracts linked to €STR have increased significantly.



The working group on euro risk-free rates was established in February 2018 to identify and recommend risk-free rates that could serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the

euro area, such as the euro overnight index average (EONIA) and the euro interbank offered rate (EURIBOR).