



EUROPEAN CENTRAL BANK

EUROSYSTEM

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The new €STR rate

ETWG roundtable discussion

Luxembourg, 13 June 2019

Disclaimer: personal views expressed in this presentation may not reflect the views of the ECB.

Main points

The methodology

- Principles

Rate behaviour

- Volatility and concentration

The transition

- From EONIA to €STR

Overview

1 Methodology

2 Rate behaviour

3 Adoption and transition to €STR

Context : IOSCO principles



Governance

- Administrator role
- Control and oversight



Benchmark quality

- Design and data quality
- Hierarchy of inputs



Methodology quality

- Process transparency
- Internal controls on data



Accountability

- * Audit trail
- * Records

Not “one size fits all’ approach: to be applied where relevant and appropriate and proportionate to identified risk (e.g. manipulation)

ECB policy choice to implement the principles where relevant for €STR, although they are not applicable to central banks.

Main features of the rate

Scope: unsecured overnight deposits to measure borrowing costs

Calculation: weighted average, trimming 25%

Data sufficiency policy: contingency triggers (20 banks, 75% top 5 banks' concentration ratio)

Governance and processes: €STR published by 9:00 am Frankfurt time

Publication policy and transparency on errors

Rate published daily from 2 October 2019
Pre-€STR publications since 28 June

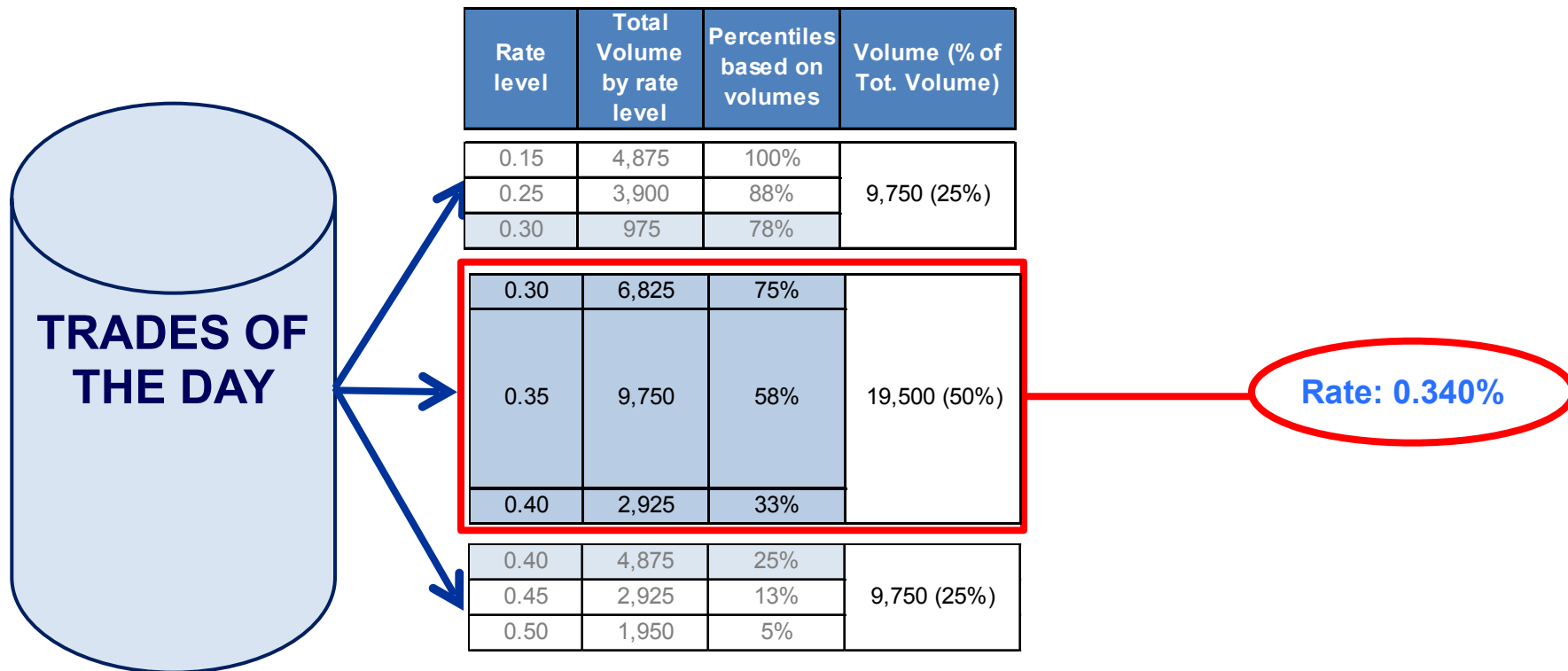
Do you want to

know more?
Find out more detailed in the statement of methodology
https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/shared/pdf/ecb.ESTER_methodology_and_policies.en.pdf

EONIA vs. ECB Euro Short term Rate (€STR)

EONIA	Euro short-term rate
EUR	EUR
Overnight	Overnight
Unsecured	Unsecured
Transaction Based	Transaction Based
Unstable Panel	Stable reporting sample
Interbank	Wholesale
Bank Lending	Bank Borrowing
Published on T	Published on T+1

Trimming at 25% level – stylised example



No information loss:

- All trades used to determine €STR
- €STR calculation based on the centre of the trades' distribution

Publication policy

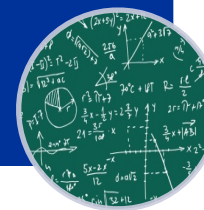
- 1) Rate, 3 decimals
- 2) Total volume
- 3) Number of transactions
- 4) Mode: normal, contingency

Rate determination



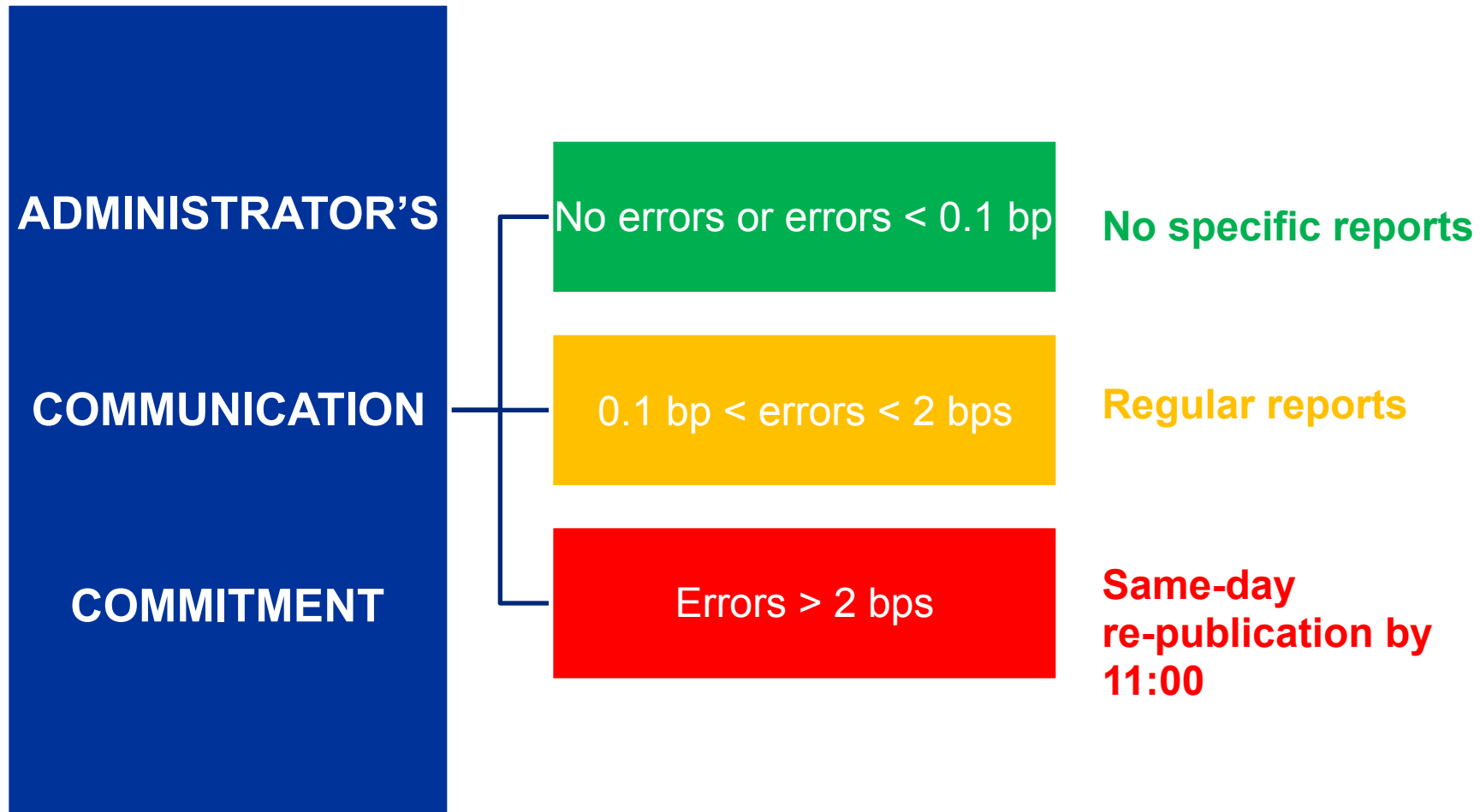
- 1) Number of banks
- 2) Share volume by largest 5 reporting banks
- 3) Rates at 25th and 75th percentiles

Additional information



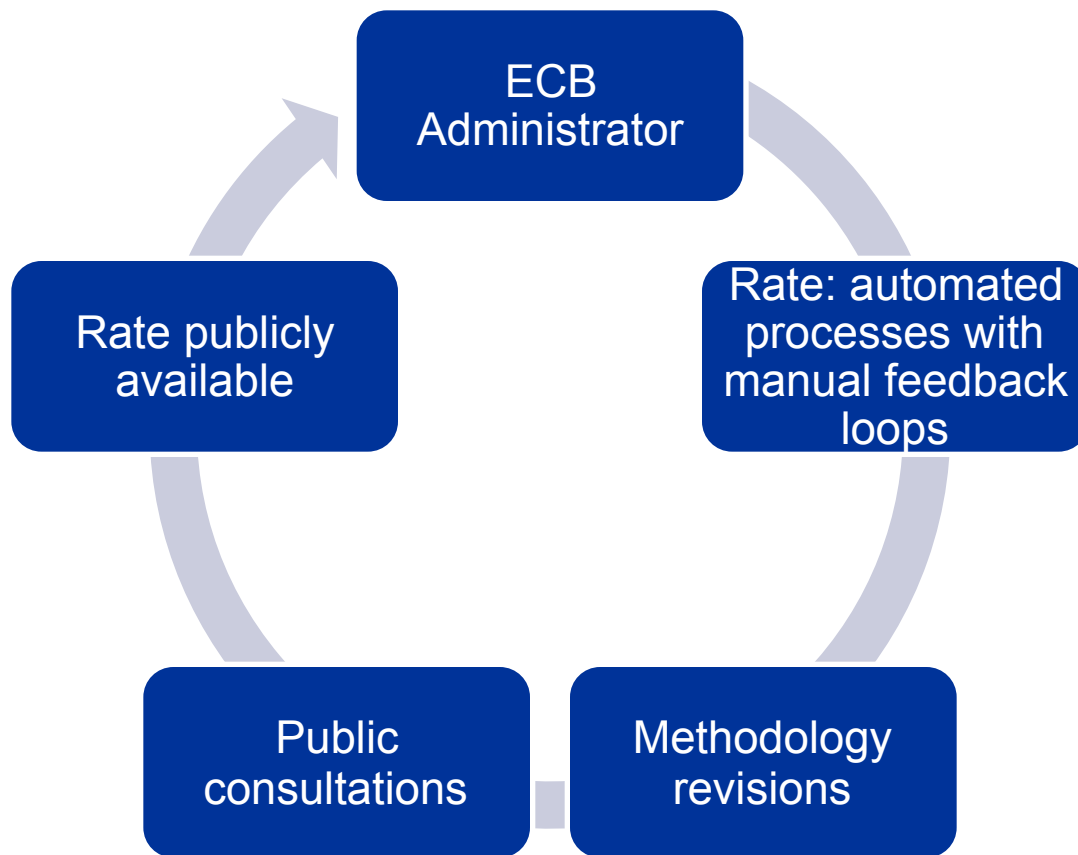
Rate is well explained to the markets and the public

Transparency policy: frequency of communication depends on importance of errors



Ad hoc communications if needed: transparency and flexibility
Re-publication risk: 1 occurrence in a year (technical issue)

Governance



€STR methodology will be re-assessed annually and

- **Adapted with market changes,**
- **Or re-confirmed**

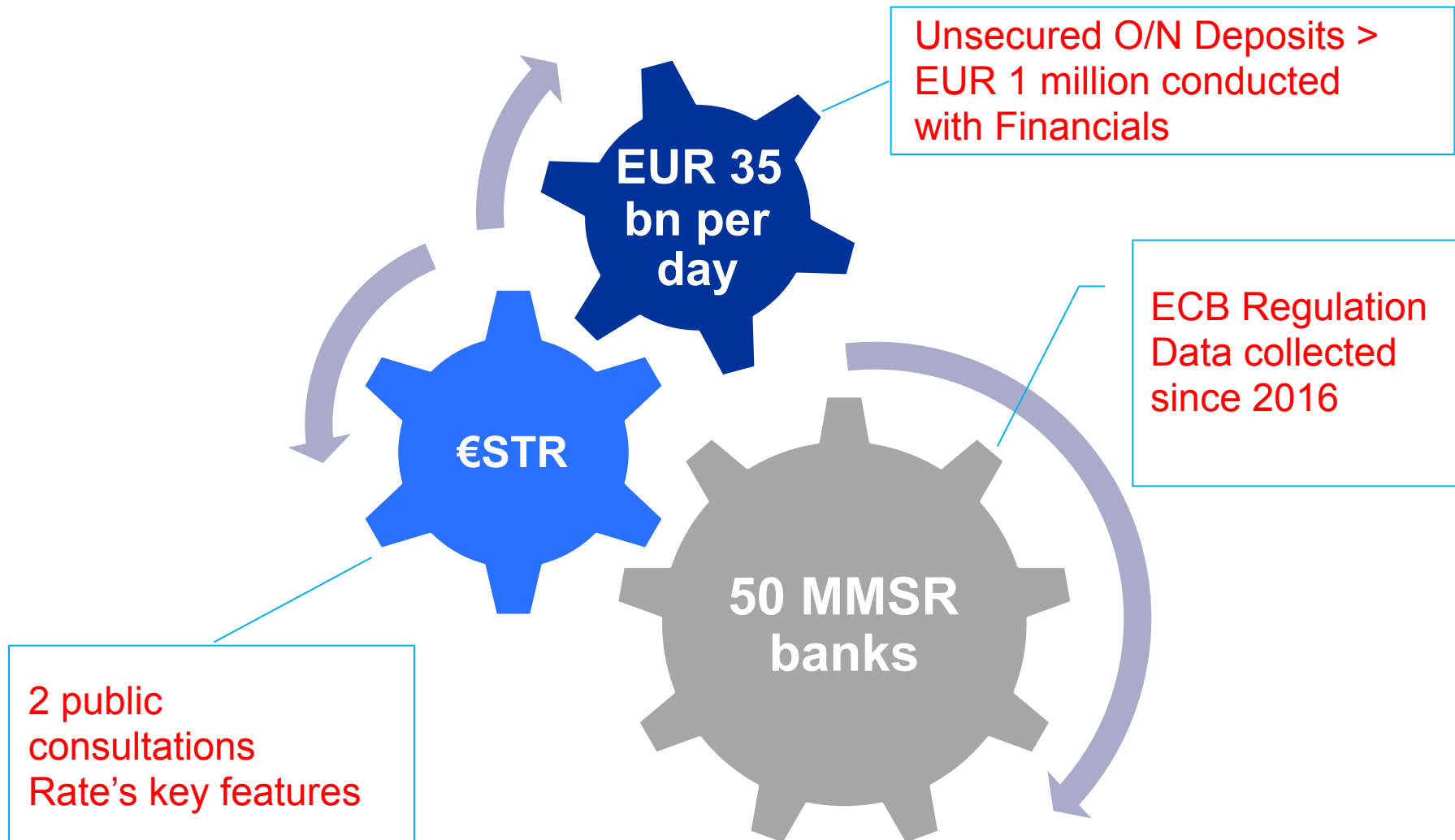
Overview

1 Methodology

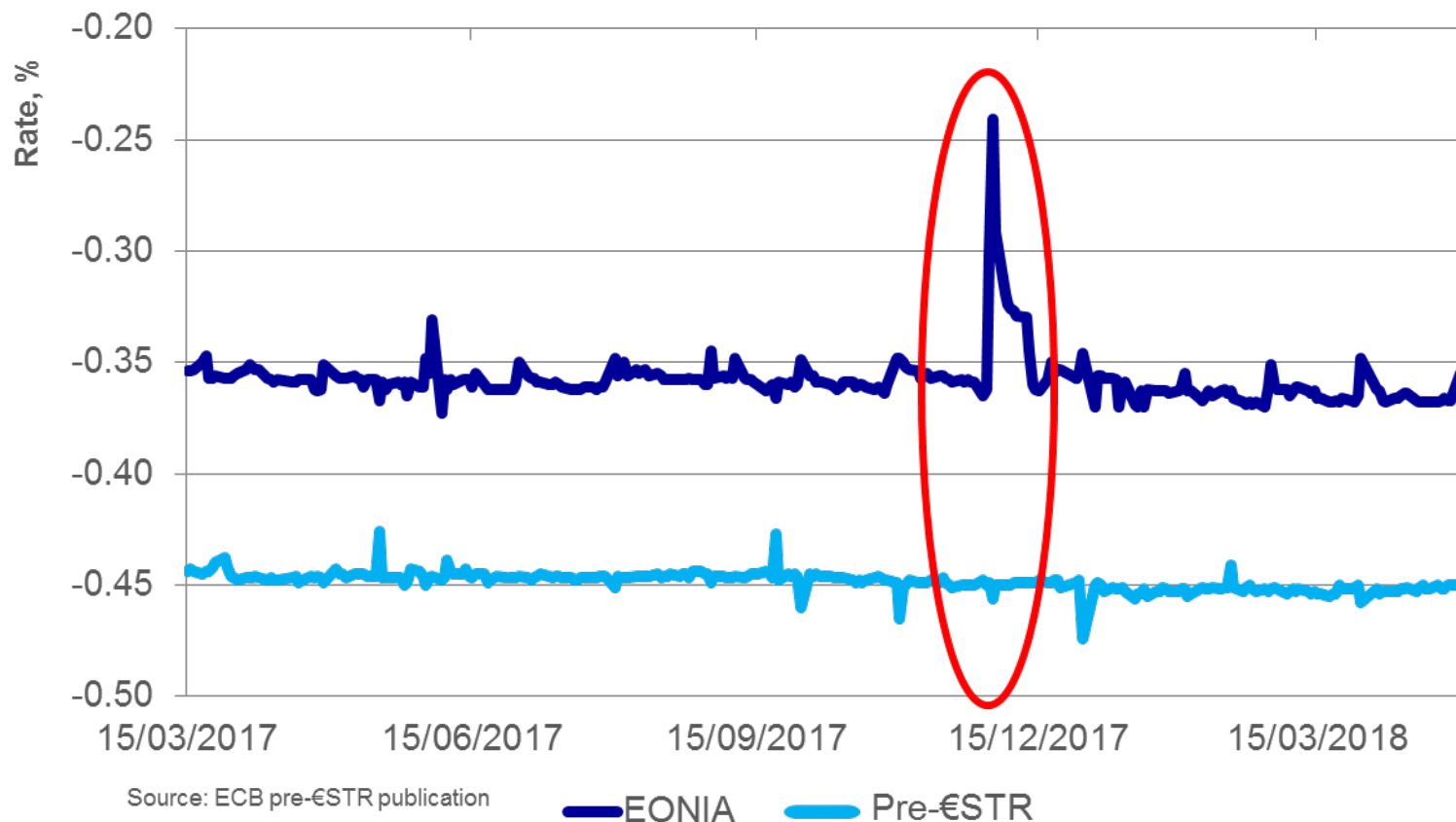
2 Rate behaviour

3 Adoption and transition to €STR

€STR is fully transactions-based: how does it measure the underlying interest?



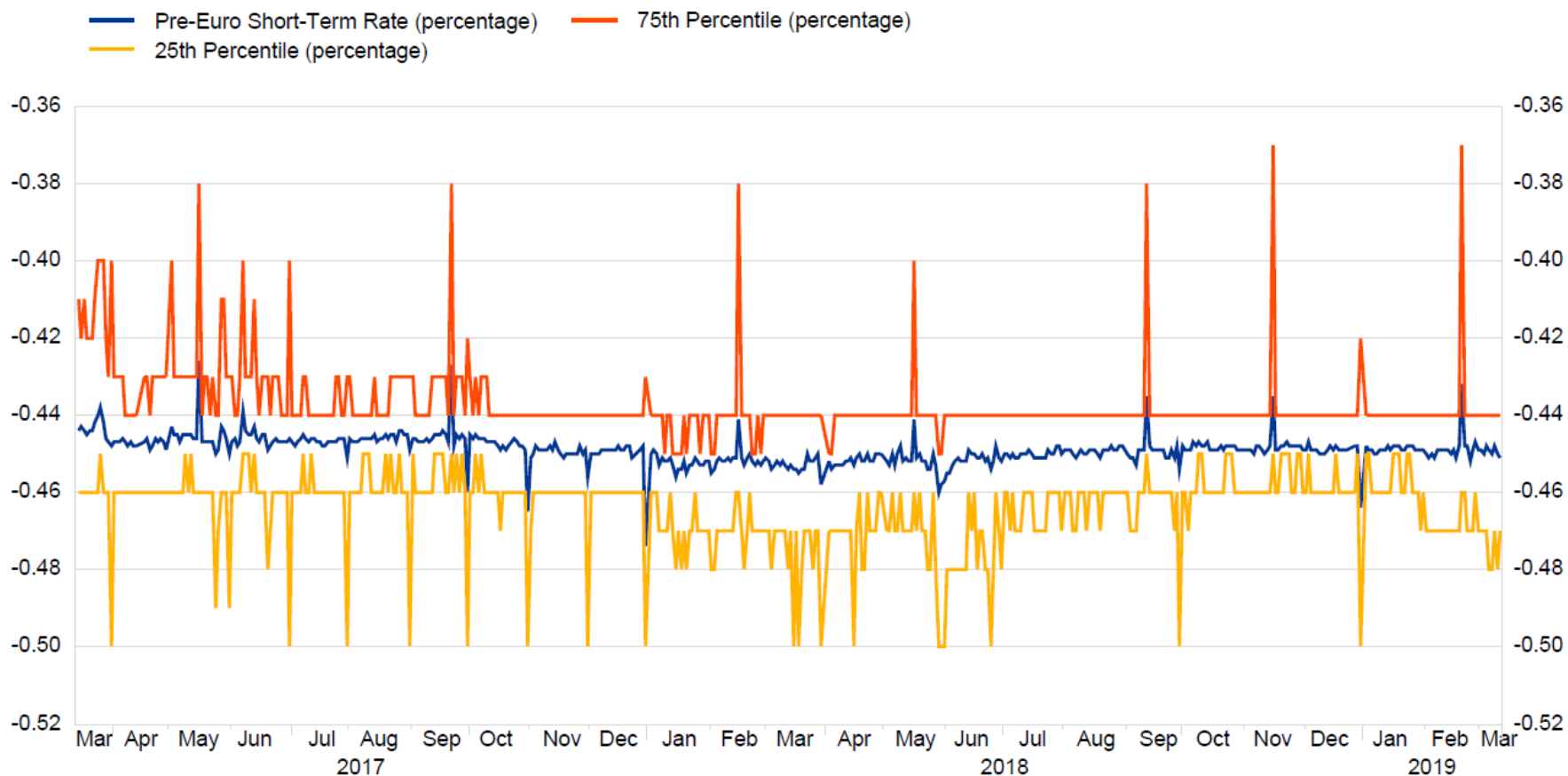
Trimming: outliers filtered out



- Rate reacts to market factors (Excess Liquidity, rate falls at quarter-ends)
- While being less vulnerable to outliers
- Pre-€STR (post corrections) very similar to €STR (based on 7:00 data)

Low volatility according to pre-€STR public time series

Daily rate and percentiles



Stable rate

Rate robustness

	High	Low
Rate	-0.426%	-0.474%
Volume, EUR bn	44,084	16,478
Number of trades	635	264
Number of banks	35	25
Share largest 5 banks	66%	51%
Contingency triggers	No	

Contingency triggers: 20 banks minimum, share largest 5 banks < 75%

Source: ECB pre-ESTER publication

No contingency triggered by lack of transactions (data: March 2017 to May 2018)

Data sufficiency and low concentration

Overview

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- **Working Group on Risk Free Rates created in 2018**
 - Objective: 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
- **Membership**
 - 21 EU banks (chair: ING)
 - 7 non-voting members (associations, benchmark providers, buy-side)
 - 4 observers (public institutions, of which ECB provides secretariat)
 - Membership in sub-groups is broader
- **Work streams**
 - **Identify risk-free rate (RFR); recommend EONIA transition path**
 - **Term rates as fall-back for Euribor**
 - **Contractual robustness (legacy contracts; legal issues)**

Timeline

June 18:
statement of
methodology

- Methodology, parameters
- ECB appointed €STR administrator
- Pre-€STR announced

Sep 18: €STR
selected by
WG RFR

- €STR will replace EONIA

March 19: ECB
releases
timeline

- €STR start date: 2 October
- EONIA = €STR + spread upon WG RFR recommendation

31 May 19:
spread
published: **8.5
bps**

- WG RFR recommended methodology is confirmed
- ECB calculated and published the spread
- EMMI requests authorisation from FSMA for re-calibrated EONIA

**Last EONIA
current
methodology: 30
September 2019!**

**Do you
want to**

know

https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.eonia.transition.report.201812.en.pdf

more?

2 October 2019: €STR and EONIA reformed first publication date

- WG [recommendations](#) on the transition path from EONIA to €STR published 14 March 2019
 - EONIA methodology to become the €STR + fixed spread until the end 2021
- 31 May 2019:
 - EMMI published [results](#) from their [consultation](#) on the change of EONIA's methodology, confirming WG recommendations
 - ECB published a [press release](#) announcing the fixed spread (calculation based on WG recommendation) of 8.5 bps using recommended WG RFR methodology
 - ECB updated [€STR webpage](#) and [€STR Q&A](#)

Next steps

- 2 October 2019:
 - Start of €STR publication and change in EONIA methodology
 - EONIA publication to [move from T to T+1](#)

The move from EONIA in T to €STR in T+1

**30 September by
19:00 CET**

Last EONIA
published under
current methodology

2 October by 9:00 CET

€STR based on 1
October transactions

**2 October at or shortly
after 9:15 CET**

re-calibrated EONIA

1 October:
No overnight rate
published

Internal preparations are necessary

Processes



- Use the new rate
- Systems: new timing
- Dealing, hedging

Documentation



- Procedures
- Contracts, fall backs
- New products

IT setup:

ISIN: EU000A2X2A25

German WKN: A2X2A2

FISN: ECB/EUR EURO SHORT-TERM RATE IR

A consultation on an EONIA legal action plan is ongoing

The EONIA legal action plan addresses two critical events for new and legacy contracts:

- (i) the change of methodology for EONIA on 2 October to €STR + spread, where it is recommended to insert an acknowledgement that this change shall not affect continuity of the contractual obligations;
- (i) the cessation of EONIA at the end of 2021, which should be addressed through the insertion of robust fallbacks or replacement of the reference rate through novation of the contract.

Way forward:

Public consultation until 12 June

Final recommendations of the WG end of July.

Euribor legal action plan will start in Summer 2019

WG DRAFT RECOMMENDATIONS

Use €STR in new contracts and products as soon as possible

EONIA fallback rate → €STR + Spread

