

**EFAMA response to EMMI’s consultation paper on  
the recommendations for EONIA  
of the Working Group on Euro Risk-Free Rates**

## **A. Preliminary comments**

The European Fund and Asset Management Association, EFAMA<sup>1</sup>, welcomes the opportunity to provide its feedback to the consultation paper of EMMI on the recommendations for EONIA of the Working Group on Euro Risk-Free Rates (hereafter the EUR RFR WG) concerning the transition from EONIA to €STR and its the recalibration of EONIA’s methodology. In particular, with respect to the replacement process, we consider that the perspective of the end-user is crucial to ensure a gradual and as smooth as possible transition to €STR.

Asset managers represent an important group of benchmarks’ users, either in the case of passive managed funds and exchange traded funds (ETFs) -where benchmarks are used as a target for index linked funds -or in the case of the evaluation of an active manager’s performance -where the fund performance is measured against a selected index or a set of indices. Asset managers as benchmarks users are generally not involved in the production, calculation, and contribution to data on which benchmarks are based. Therefore, their role is limited to the use of a benchmark, for which they are called to pay high and multiple fees and are subject to extensive regulatory requirements (in particular in the case of the use of financial indices by UCITS - see ESMA Guidelines on ETFs and other UCITS issues ESMA/2012/832/EN<sup>2</sup>).

With respect to the use of EONIA, EFAMA already gave its input to the EUR RFR WG, where it participates as a non-voting member, concerning EONIA’s footprint for the asset management sector and its use in investment funds<sup>3</sup>. In the absence of official data on EONIA’s usage in the European funds industry, EFAMA relied upon empirical analysis and data gathered via an internal survey with its membership in order to contribute to EUR RFR WG mapping of EONIA’s usage across different investment products and contracts.

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<sup>1</sup> EFAMA is the representative association for the European investment management industry, which represents 28 member associations and 62 corporate members. At end 2018, total net assets of European investment funds reached EUR 15.2 trillion. These assets were managed by almost 62,000 investment funds, of which more than 33,000 were UCITS (Undertakings for Collective Investments in Transferable Securities) funds, with the remaining funds composed of AIFs (Alternative Investment Funds). For more information about EFAMA, please visit [www.efama.org](http://www.efama.org)

<sup>2</sup> [https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00\\_en\\_0.pdf](https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00_en_0.pdf)

<sup>3</sup> Please see the feedback provided by EFAMA on EONIA’s usage by asset management companies and investment funds in the EUR RFR WG’s report published in December 2018 (page 14) [https://www.ecb.europa.eu/paym/pdf/cons/euro\\_risk-free\\_rates/ecb.eoniatransitionreport201812.en.pdf](https://www.ecb.europa.eu/paym/pdf/cons/euro_risk-free_rates/ecb.eoniatransitionreport201812.en.pdf)

Apart from the identification of the main types of funds that use EONIA and would therefore be impacted by the transition to €STR, one other important outcome of this survey was the identification of the main challenges in respect to the transition from EONIA to €STR. Such challenges include the need to adapt the systems to T+1 publication and the impact this would have for the calculation of the net asset value of funds, but also for the redemption/subscription process. Another key challenge is related to the necessary changes in respect to the communication to the clients, for instance changes in the contractual agreements and the Prospectus will be necessary, even if only one of them, to reflect this transition from EONIA to €STR. Furthermore, in the context of the EMIR regulation, the usage of derivative contracts (e.g. overnight index swaps) within the investment fund and a transition of such derivatives to €STR could generally have an impact on the investment fund management company in respect to the regulatory obligations for the valuation, portfolio compression and reconciliation with the other counterparty. On the other hand, it seems that in the majority of the cases this transition will not have an impact on the investment strategy.

To be able to efficiently address these challenges and allow for a smooth transition it is crucial for asset managers to have clear guidance and information as regards the key features of the rate. Moreover, ensuring such transparency, along with timely information is crucial.

In our view, the recommendations issued by the EUR RFR WG on the transition from EONIA to €STR and the current EMMI consultation on the same topic, are useful steps towards achieving further clarity and useful insights for EONIA users on the transition process and the changes to the methodology.

In general, we agree that due to time constraints the only workable solution for the transition is a recalibration of EONIA's methodology on the basis of a spread added to the new RFR, €STER . In addition, after €STR 's publication, EFAMA members expect to need more than 12 months to be ready for transactions in €STR- based instruments, reason for which we fully support the recommendation for the evolved EONIA to be authorized for a specific time period (until end-2021) as this will certainly facilitate a smoother transition for users.

## **B. EFAMA response to the consultation's questions**

**Q1. 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.**

EFAMA agrees with the recalibration approach with spread and discounting as the preferred transition path. From a user's perspective this transition will allow additional time for the transition (as the evolved EONIA will aim at getting a time-limited authorisation until 2021) and further clarity as to the methodology (evolved EONIA would be €STR plus a fixed spread). Moreover, the fixed EONIA-€STR relationship allows EONIA to continue representing the euro overnight unsecured market, which is very useful for a smooth transition. Finally, we believe that this stable framework can mitigate legal risks regarding the continuity of legacy contracts.

We also agree with the proposed EONIA-€STR spread methodology as this is based on a simple formula that is straightforward to implement and will minimise valuation transfers and balance sheet impact. Further on, we consider that announcing the recalibration methodology and the determination of the spread before €STR's first day of publication and setting the recalibration date on the first day of €STR's publication is a good approach to avoid market disruptions and the possibility of arbitration.

The reliance on public data from ECB that are published prior to any decision on spread methodology can ensure the transparency and robustness of the rate's underlying data.

EFAMA urges EMMI, as well as public authorities to communicate thoroughly on the evolved EONIA and the transition path in order to reduce litigation risks.

**Q2. 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.**

EFAMA understands that a time-limited continuation of EONIA's publication as €STR plus a spread can help with the successful transition to the new RFR. In this context, setting a well-defined deadline for the last publication of the re-calibrated EONIA can be an incentive for market participants to conclude the transition faster.

However, in practical terms dealing with the challenges of this transition may require more time. We would therefore suggest that public authorities, EMMI and the EUR RFR WG re-assess the progress of the transition from EONIA to €STR one year after the first publication of the later and consider based on the outcome of this assessment the need for additional time prior to the ceasing of EONIA.

**Q3a. 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.**

EFAMA understands that in order to enhance the transition process and the clean discounting goal it would be better to avoid publication of EONIA under the current methodology at the same time with

the publication of the recalibrated EONIA once €STR starts being published. In that way, it will help transfer faster liquidity from EONIA to €STR.

**Q3b 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.**

EFAMA agrees with the recalibrated methodology becoming effective on the same day as the first day of €STR's publication so as to minimise manipulation risks and other market disruptions.

**Q4. 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.**

As mentioned in our preliminary remarks, EFAMA members' main challenge relates to making the systems ready for €STR T+1 publication. This is an important challenge for asset managers because of the impact this would have for the calculation of the net asset value of funds and the redemption/ subscription process, in particular for funds offering same day settlement. Apart from the valuation process, the risk management process and legal documentation will also be impacted and new IT developments should be set up, thus a sufficient adaptation period has to be envisaged.

**Q5. 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.**

Given the points mentioned in our previous responses, we anticipated challenges with the publication of EONIA under the recalibrated methodology on day TM+1.

**Q6. 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.**

As €STR will become EONIA plus a fixed spread, EFAMA considers it appropriate to set EONIA's publication time at the same time or at a time very close to the €STR time of publication.

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