

Paris, 2nd July 2019

**English free translation of the conclusions
of the meetings of the WG on
Operational impacts of €STR – EONIA transition for money market instruments.**

Secretary: Franck Hebeisen – ACI France AFTB

Summary:

Our associations have set up a dedicated working group to assess the impact of the publication of EONIA and €STR from D to D+1 as from 2nd October 2019 on the front to back chain for rates and debt instruments (cash and derivatives).

The WG has not worked yet on impacts of change of date of publication on valuation and risk calculations issues, including on October 1st. Separate SWG (sub working groups) will be set and other associations representing investors and non financial issuers will be proposed to join.

As an overall conclusion, there will be no need to operate major changes in methodologies and processes for the proper execution of trades and reimbursement cycles, except for secured transactions (see below SWG 4). On repos, the use of the last published index (crystallization) is suggested as a best practice.

The WG also insists on the necessity to duplicate Eonia methodologies and market conventions for similar products to be created with €STR (short and medium term securities, OIS notably) to avoid disruptions and heavy workloads for market participants and infrastructures. This is perceived as essential to facilitate a swift transfer of market liquidity from Eonia to €STR.

Participation was on volunteer basis from members and we reached a significantly satisfactory level of representativeness by function and institutions attending.

4 Sub Working Groups were created: SWG1 securities (mainly short term papers and medium term notes), SWG2 unsecured cash (deposits and short term lending), SWG3 secured cash (repos and securities lending) and SWG4 Derivatives (OIS).

On many aspects, focus has been put on EONIA under the assumption that operations linked to €STR will be using the same method as EONIA with no need to manage *legacy*.

The general outcome is that the shift in publication date of EONIA and €STR is not a source of major concerns for the processing of transactions on most of the instruments in the scope of our study, with the exception of repos where a one day crystallization of the last index know is requested by market participants.

On repos operations, the crystallization will be needed (1 day). It will not be possible to process on the same day, starting after 9:15, computations of margins and amounts owed and to generate their payments value same day. Crystallization appears as the only reasonable way to tackle this issue. The WG supports ERC expected proposal to crystallise 1 day and to leave to an involved party in the transaction the capacity on a case by case basis to request a post settlement adjustment with the effective rate.

In any case, some legal work will have to be produced to assess the legal exposure possibly generated by the use of crystallization on some contracts and if possible, reduce it.

Securities lending follows different rules and crystallisation might not be necessary at the same level since billing is often monthly.

On short term securities SWG1, the shift of publication from D – 19h CET to D+1 9:00 and 9:15 is not perceived as a cause of concern by front offices, back office, IPA, custodians and CSDs (e.g. Euroclear France).

Currently, for a short-term paper issued with EONIA OIS coupon maturing on day D, the party in charge of the payment is either the IPA (positive coupon, normal configuration) or, in the present market configuration with negative rates, the custodian holding the security for an investor. The party receives the coupon calculation from Euroclear France during the night of D-1 to D with last needed EONIA of D-1 published on D-1 at 19h CET. Based on this calculation, on D in the morning, the participant checks the calculation and generates the coupon payment in the system (Euroclear France) on day D. The shift of publication will have a minor impact on this, especially if Euroclear France manages to deliver promptly the calculation on D within an hour after publication time. The cash flows linked to the payment of nominal are generated on different batches between Euroclear France and IPA, and the shift will not affect their batch treatments in the night of D to D+1. The overall outstanding amount of coupons payments is not perceived as important enough in size to be a concern. A study has been requested (to Euroclear France) to assess the sensitivity of the global amount of coupons paid versus evolutions of outstanding base issued and interest rates evolution. It was also outlined that the short-term securities indexed on €STR OIS will have to duplicate €STR OIS and shall use the same calculation methodologies and conventions. A particular attention should hence be paid to the decisions regarding continuity of methods between EONIA OIS and €STR OIS. In this respect, recommendation of SWG4 are consistent with recommendations of SWG1.

On cash unsecured instruments SWG2 (deposits and short-term borrowings), the conclusion is aligned to the conclusions, SWG1, since the processes are quite similar.

On cash secured (or in fact collateralized) instruments SWG3, as previously mentioned, the consensus for a 1 day crystallization is unanimous. This is approved for bilateral and cleared repos.

The position of ERCC on this matter has been considered with interest and the WG considers that it is fully aligned with ERCC position on this matter. A concern has been raised regarding the legal impact. The proposal of ERCC to grant to a participant, on a case by case basis, a capacity to recalculate the amount owed by the borrower of cash (in case of positive rates) and request an adjustment is perceived as a factor of limitation of legal cases.

It is understood that for securities lending the need for adoption of this crystallization solution might appear needed on a more specific manner.

On OIS (SWG4), the scheme of payment for a swap maturing on D is calculation of payment to pay / receive pay on D using the last known index of D-1 and payment on D+1. The calculation will be delayed from night from D-1 to D to D to after 9:00 or 9:15 CET. The payment cycle will, according to front office, back office and clearers' participants to the WG, not be affected, since the payment is on D+1.

Special thanks to all participants to the calls and to their institutions. Their quick and continuous commitment to the calls and the quality of their contributions remain essential for our sponsor associations - AFTI, FBF and ACI France AFTB.