



EONIA

August 2021

The Euro Overnight Index Average (EONIA) will no longer be published after 3 January 2022. As a result firms must prepare for its cessation as soon as possible.

### What is EONIA?

EONIA is the effective overnight reference rate for the euro. It is computed as a weighted average of all panel banks' overnight unsecured lending transactions in the interbank market, undertaken in the European Union and European Free Trade Association (EFTA) countries.

Its administrator is the European Money Markets Institute (EMMI) and the European Central Bank (ECB) is the calculation agent. EONIA is primarily used in the professional market for valuation purposes and for calculation of margin and collateral obligations.

### Why is EONIA being discontinued?

EONIA in its current form will not become EU Benchmark Regulation (BMR) compliant, given the lack of underlying transactions and high concentration of volumes by only a few contributors.

Therefore, EONIA usage should be restricted and its administrator EMMI announced that it will stop publishing it on 3 January 2022.

Consequently, the Working Group on Euro Risk-free Rates recommended €STR for its replacement after a public consultation.

### What is €STR?

€STR is a rate which reflects the wholesale euro unsecured overnight borrowing costs of euro area banks. €STR is exclusively based on borrowing transactions in euro conducted with financial counterparties and reported to the ECB. It is calculated using overnight unsecured fixed rate deposit transactions over € 1 million.

### How has EONIA's methodology changed?

Since 1st October 2019, EONIA has been calculated with a reformed methodology tracking €STR.

€STR reflects the wholesale euro unsecured overnight borrowing costs of euro area banks. Prior to 1st October 2019, EONIA was computed as a weighted average of overnight unsecured lending transactions in the EU and EFTA interbank market.

Under the reformed methodology, EONIA is calculated as €STR plus a spread of 8.5 basis points.

The spread was calculated by the ECB on 31 May 2019 and reflects the historical difference (or basis) between the two benchmarks.

### What happens to my existing EONIA contracts?

As the current EONIA rate is pegged to its replacement €STR plus a spread of 8.5 basis points there should be no economic impacts (or 'value transfer') when contracts move from EONIA to €STR plus the published spread. When contracts move from EONIA to €STR but with a different spread, an agreed amount of compensation may be payable by one party to the other in order to minimise material value transfer.

Where existing contracts reference EONIA without adequate fallback provisions these should be amended to either include updated fallbacks or actively converted directly to €STR plus an agreed spread or compensation amount ahead of the cessation date on 3 January 2022. Doing so will avoid contractual uncertainty and market disruption which could occur if fallbacks are inadequate.

In the derivatives market, the ISDA 2020 IBOR Protocol does not include a fallback mechanism for EONIA to €STR, however ISDA has produced a template form of amendment which enables parties to amend one or more existing confirmations, existing credit support documents or existing master agreements to update references to EONIA.

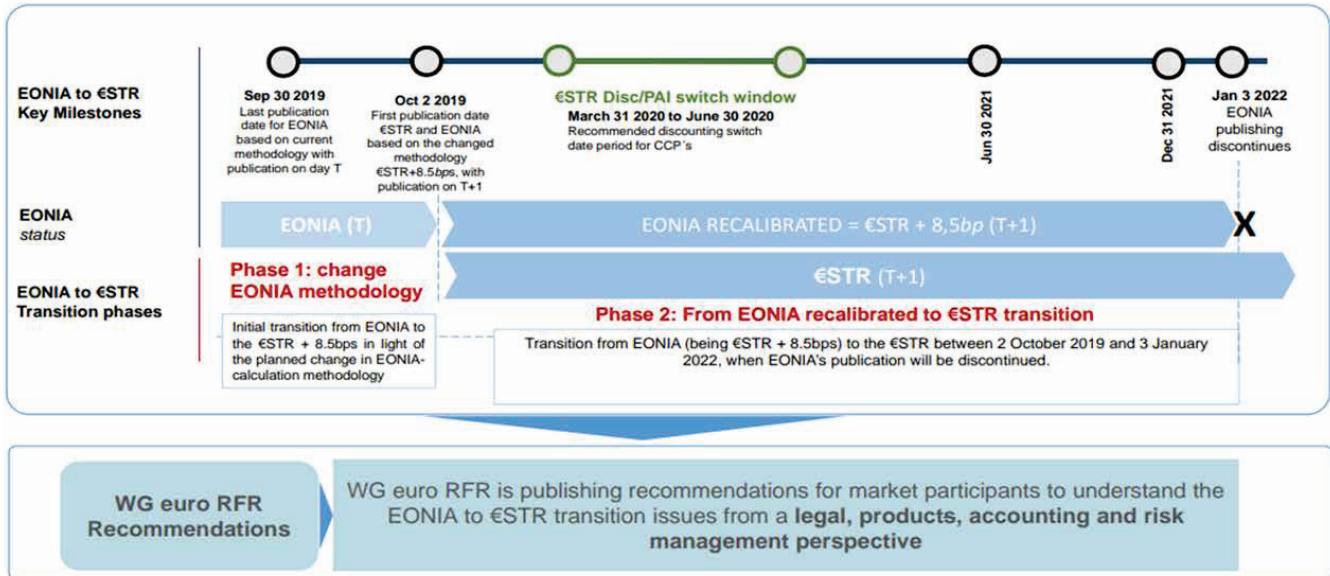
Additionally, in February 2020 (as superseded by a later version in August 2020) ISDA published standardised definitions for use in collateral documentation and in October 2019 published supplements to the 2006 ISDA Definitions to update a number of floating rate options referencing EONIA and to introduce a new €STR floating rate option.

In the listed derivatives market, exchanges (such as Eurex) have published plans to actively convert existing EONIA futures and options contracts to €STR before the cessation date.

Eurex has advised it will convert all existing EONIA contracts to €STR-flat on 16 October 2021 with compensation paid on an individual trade level for any value transfer impacts.



## The transition from EONIA to €STR timeline



## External resources

- [Working Group on Euro Risk-free Rates](#) as overseen by the European Securities and Markets Authority (ESMA)
- [Information about EONIA](#) including historical rates as published by EMMI
- [Information about €STR including historical rates](#) as published by the ECB
- [Considerations for the transition from EONIA to €STR](#) as published by the ECB
- [Information on the transition of existing EONIA listed derivatives](#) as published by Eurex
- [Bilateral template EONIA amendment agreement](#) as published by ISDA

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