

Recommendations from the Working Group on Euro Risk-Free Rates on the switch to risk free rates in the interdealer market

At its meeting on 1st July 2021 ¹ the Working Group on Euro Risk-Free Rates (WG) has discussed two initiatives about the switch to risk free rates for trading and quoting conventions in the interdealer market. The first initiative regards a recommendation for interdealer brokers to switch from EONIA to €STR at a common date (€STR First Initiative); the second regards the WG's support for the initiative coordinated between international RFR Working Groups on a common start date to switch the quoting convention for cross-currency swaps involving non-Euro currencies (Cross-Currency Swaps Initiative).

These two initiatives are consistent with the mandate of the WG ² which includes, amongst others, promoting the transition from EONIA to €STR and coordinating with risk-free rates working groups in other jurisdictions on cross-currency issues.

Below are the statements approved by the WG for each initiative.

1. **€STR First Initiative**

The WG recommends as market best practice, that interdealer brokers change Risk Free Rate (RFR) swap trading conventions from EONIA to €STR from Monday 18th October, in line with the CCP transition from EONIA to €STR on that weekend. For the avoidance of doubt, this only relates to the trading of RFR based swaps and does not apply to EURIBOR based swap trading.

Whilst we recognise that from a risk management perspective, the spread between EONIA and €STR has already been fixed, we see benefits for market participants to move their practices ahead of the year end cessation deadline and in line with the CCP transition date.

2. **Cross-Currency Swaps Initiative**

The WG fully supports the recommendation of a common start date of 21st September for a switch of quoting conventions in the interdealer market for USD, GBP, CHF and JPY legs of cross-currency swaps and encourages Euro Area market participants to adopt this market practice subject to supportive market conditions at the time.

For cross-currency swaps with a EUR denominated leg, the WG will continue to monitor the development of market liquidity and the demand from end users.

¹ Minutes of the WG meeting on 1st July 2021 are published at the following link:
https://www.esma.europa.eu/sites/default/files/library/esma81-391-72_minutes_eur_rfr_wg_meeting_01072021.pdf

² The Terms of Reference of the WG are published at the following link:
https://www.esma.europa.eu/sites/default/files/library/eur_rfr_wg_tor.pdf