

# AFGG'S RESPONSE CONSULTATION

## Transition from EONIA to €STR

Report on the  
legal action plan by the  
working group on €RFR

*7 June 2019*



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- Representing the business, financial and corporate interests of members, the entities that they manage (collective investment schemes) and their customers. As a talking partner of the public authorities of France and the European Union, the AFG makes an active contribution to new regulations,
- Informing and supporting its members; the AFG provides members with support on legal, tax, accounting and technical matters,
- Leading debate and discussion within the industry on rules of conduct, the protection and economic role of investment, corporate governance, investor representation, performance measurement, changes in management techniques, research, training, etc.
- Promoting the French asset management industry to investors, issuers, politicians and the media in France and abroad. The AFG represents the French industry – a world leader – in European and international bodies. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA), of PensionsEurope and of the International Investment Funds Association (IIFA).

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## Public consultation on the legal action plan for the transition from EONIA to €STR by the working group on euro risk-free rates

1. The working group intends to recommend €STR plus the Spread (as defined) as the primary fallback rate to be included in new and legacy contracts referencing EONIA. Do you agree with that fallback rate for EONIA? (yes / no / no opinion)

Yes

2. Do you agree in principle that the working group should recommend that ISDA consider amending the definition of EONIA in the 2006 ISDA Definitions so as to include a fallback to €STR plus the Spread (as defined) triggered by the cessation of EONIA? (yes / no / no opinion)

Yes

3. Do you agree that the working group should encourage CCPs and Exchanges to clarify their position with respect to the transition to €STR and modify their rulebooks as detailed in the consultation paper? (yes / no / no opinion)

Yes

4. Do you agree that the working group should recommend that the sponsors of European local master agreements consider amending these agreements to include (i) fallback provisions dealing with the permanent cessation of a benchmark and (ii) an acknowledgment that the EONIA methodology is expected to change and that references in contracts to EONIA shall be understood to be references to EONIA as changed? (yes / no / no opinion)

Yes

5. Would market participants value robust fallback provisions in new collateral contracts? (yes / no / no opinion)

Yes

6. Do you agree that new cash contracts and instruments that mature after December 2021 should include fallback provisions? (yes / no / no opinion)

Yes

7. Regarding the EONIA discontinuation fallback language templates described in Annex 1 for new cash products referencing EONIA, which alternative do you prefer? (alternative 1 / alternative 2 / other options)

Alternative 2

Do you have any further comments or suggestions regarding the suggested templates? (yes / no)

No

8. Do you agree with the proposed recommendation that priority should be given to legacy contracts maturing after December 2021? (yes / no / no opinion)

Yes

9. For legacy derivative transactions, would it be useful to have documents and/or protocols which facilitate (i) the incorporation of the EONIA index cessation event trigger and related fallbacks, and/or (ii) the amendment of legacy trades to switch from EONIA to €STR plus the Spread (as defined)? (yes / no / no opinion)

Yes

10. Do you agree that the working group should encourage CCPs and Exchanges to clarify their position with respect to the transition to €STR and to follow the ISDA approach with respect to fallbacks for EONIA? (yes / no / no opinion)

Yes

11. For legacy derivative transactions that are already documented using European local master agreements, which is the most feasible option for amending them? (develop common templates / develop a protocol / both / another option / no opinion)

Both

**12. Do you foresee any additional regulatory or legal requirements or costs that may hamper the amendment of legacy contracts and which need to be clarified/waived? (yes / no / no opinion)**

No

**13. Which are the critical elements to consider when transitioning from EONIA to €STR in collateral agreements from a legal, operational and valuation standpoint?**

From a legal perspective, it is important to note, as stated in the consultation paper, the majority of collateral agreements do not have neither termination date nor fallback provisions. Therefore, we think existing collateral agreements should be amended in particular to include robust fallback provisions. This would ensure consistency with other financial contracts mentioned in this consultation. A critical element, in our opinion, to ease the transition would be to develop an ISDA Protocol so as to avoid the multiplication of bilateral renegotiations.

From an operational and valuation standpoint, it would be critical to ensure consistency with clearing houses methodologies on rates to be used for valuation: €STR or €STR plus the Spread.

Adaptation of IT systems is of utmost importance when transitioning from ENONIA to €STR and will take time to be implemented.

Our members think we should wait for the recommendations to be published by the sub-group of the €RFR WG on these matters.

**14. Do you agree with the bilateral amendment agreement template for cash products (see Annex 2)? (yes / no / no opinion)**

Yes

**15. Do you foresee any regulatory or legal requirements that may hamper the amendment of legacy cash contracts and which need to be clarified/waived? (yes / no / no opinion)**

Yes

**If applicable, please elaborate on the reason for choosing “yes”.**

We'd like to recall that asset managers are, for most of the financial contracts mentioned in the CP, only "end-users". Our members would be particularly affected by the way the sell-side, CCP and Exchanges would drive the transition by amending certain contracts (for example adding fallback provisions in existing contracts).

That said, we agree with § 4.4.1.3. when stating that European authorities should "clarify (through a statement or other mean) that amendments to legacy contracts to include new triggers and fallbacks, to replace a benchmark or to otherwise improve contractual robustness in relation to interest rate reform [...] do not trigger other additional regulatory/legal obligations." This is particularly true as regards to investment funds prospectus referencing EONIA.