

Working group on euro risk-free rates recommends voluntary compensation for legacy swaption contracts affected by the discounting transition to the €STR



PRESS RELEASE

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- Working group recommends voluntary compensation for legacy swaption contracts
- Market participants advised to contact swaption counterparties to discuss and decide on voluntary compensation
- No single preferred option for implementing voluntary compensation, but several potential modalities identified.

The private sector working group on euro risk-free rates has today endorsed a [recommendation](#) that counterparties voluntarily exchange compensation for legacy swaption contracts affected by the transition of central counterparty discounting from the euro overnight index average (EONIA) to the euro short-term rate (€STR), which is planned for around 27 July 2020.

The working group, whose members come from the private sector, acknowledges that the modalities for implementing voluntary compensation may vary. It decided not to recommend one approach above others, as market feedback did not single out a preferred option. There was also no consensus around the scope of the swaption contracts to be compensated. The working group is also sharing additional information on what appear to be the most feasible and preferred options with market participants to assist them in making their own

decisions.

The working group notes that this recommendation is based solely on feedback received from the [public consultation](#) launched in March of this year. It also stresses that any agreement between counterparties to make adjustments to their contracts or exchange compensation, whether based on the working group recommendation or not, would be entirely voluntary.

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Notes

- An interest-rate swaption is a type of derivative contract that, in exchange for a premium, gives the buyer the right but not the obligation to enter into a specific interest-rate swap agreement with the seller at or up to a specific future date.
- The working group on euro risk-free rates, for which the European Central Bank (ECB) provides the secretariat, is an industry-led group established in 2018 by the ECB, the Financial Services and Markets Authority, the European Securities and Markets Authority and the European Commission. Its main tasks are to identify and recommend alternative risk-free rates and transition paths. Its current work is focused on the transition to the €STR and on fallbacks for the euro interbank offered rate (Euribor).

Speaking engagements

[Media contacts](#)