
**EACH response to public consultation by
the working group on
euro risk-free rates on Swaptions impacted
by the CCP discounting transition from
EONIA to the €STR**

April 2020

Question 1

In the light of the considerations discussed in Chapter 3 and as it relates to legacy swaptions specifically, do you support:

- a) **the working group on euro risk-free rates recommending that voluntary compensation should be exchanged;**
- b) the working group on euro risk-free rates recommending that voluntary compensation should not be exchanged;
- c) the working group on euro risk-free rates not issuing a recommendation regarding voluntary compensation.

Please explain.

EACH supports the working group on euro risk-free rates recommending that voluntary compensation should be exchanged. The Swaptions' role is indeed as fundamental for the liquidity market development as many other financial instruments. Since Swaptions do not have a defined clearing obligation, a voluntary compensation for the bilateral trades should be exchange between the counterparties involved. In the case of Swaption registered in CCPs, the same compensation mechanism defined for other instruments such as the cleared IRS should be followed.

Question 2

If the working group on euro risk-free rates recommended that voluntary compensation should be exchanged for legacy swaptions, would you support:

- a) the working group on euro risk-free rates recommending that the compensation exchange apply to the entire relationship's portfolio but be calculated at the trade-level and at time of each swaption's expiry;
- b) **the working group on euro risk-free rates recommending that the compensation exchange take place at a pre-agreed date prior to 22 June 2020, with compensation exchange for each swaption at expiry acting as a backstop;**
- c) the working group on euro risk-free rates not issuing a recommendation regarding the timing of the compensation exchange.

Please explain.

EACH supports the working group on euro risk-free rates recommending that the compensation exchange take place at a pre-agreed date prior to the date in which the

transition from EONIA to €STR will take place, with compensation exchange for each Swaption at expiry acting as a backstop. As mentioned in our answer to Question 1, we see necessary that all financial instruments, Swaptions included, should be aligned to guarantee a smooth transition, or at least a transition with a minimum economic impact on markets and its participants.

Question 3

If the working group on euro risk-free rates recommended that voluntary compensation should be exchanged for legacy swaptions, would you support:

- a) the working group on euro risk-free rates recommending that this only apply to swaptions traded prior to the date on which the working group on euro risk-free rates issues its recommendation (beginning of Q2 2020);
- b) the working group on euro risk-free rates recommending that this only apply to swaptions traded prior to the effective date of the incoming ISDA amendments;
- c) the working group on euro risk-free rates recommending that this only apply to swaptions traded prior to the CCP announcements regarding their plans for the discounting switch and compensation mechanism (from September 2019 to January 2020);
- d) the working group on euro risk-free rates recommending that this only apply to swaptions traded before the date on which the CCP will switch their discount rate from EONIA to the €STR (from 19 to 22 June 2020);**
- e) the working group on euro risk-free rates not issuing a recommendation regarding a cut-off trade date after which compensation would no longer be recommended.

Please explain.

See answer to Question 2.