

Announcement

Result of Market Consultation | Replacement Rates for EONIA and LIBOR in Solactive Administered Indices | 24 September 2021

Today, on 24 September 2021, Solactive announces the results of its market consultation regarding EONIA and LIBOR replacements.

Result of Market Consultation

Solactive has examined the responses provided by clients and stakeholders to its market consultation dated 23 June 2021 regarding the replacement for EONIA and LIBOR rates in existing Solactive administered indices (Link: <https://www.solactive.com/market-consultation-on-the-replacement-rates-for-eonia-and-libor-rates-in-solactive-administered-indices/>), which ended on 15 July 2021. For a full list of Solactive administered indices impacted by this announcement ("**Affected Indices**") please contact RFR.Replacement@solactive.com.

The concerns expressed by respondents centered around the one-off effect that changes in the values of the replacement rates (resulting from the fact that these rates do not incorporate credit risk premiums and other factors that the rates to be replaced incorporate) could have on index levels, and the need to mitigate these as much as possible. In particular, the following suggestions were made:

1. For the replacement of EONIA, stakeholders expressed a strong desire to keep the migration to €STR in line with the fixed 8.5 basis points spread adjustment that the European Central Bank has provided.
2. For the replacement of term LIBORs, replacement rates based on the recommended overnight replacement rates should incorporate, where practicable, a spread adjustment to account for both the historical difference between term and overnight rate, as well as the different credit risk.
3. For the proposed replacement of overnight or spot/next LIBORs, a spread adjustment should likewise be incorporated to reflect the different credit risk.

4. EURIBOR rates are an appropriate substitute to EUR LIBOR term rates for the purposes of Solactive indices and preferable to €STR (with spread adjustment) given the existence of a well-functioning market.
5. Except for the 1-week and 2-month tenors of USD LIBOR, there remains hope that for the remaining USD LIBOR tenors, a term structure extending SOFR will emerge, as the market adoption increases. Respondents expressed concerns around committing now to a replacement in 2023 based on SOFR for term rates

Solactive will therefore be adopting the measures described in the below paragraphs.

Replacement Rates – Overnight and Spot/Next Rates

Solactive will use as a proxy for the spread between the overnight or spot/next LIBORs and the proposed overnight replacement rates over a five-year historic period and determine the median of the difference between these two rates as of 4 March 2021, the date immediately preceding the FCA's announcement of the future cessation of the LIBOR benchmarks. As a result, the overnight replacement rates which Solactive will use are as per the following table.

	LIBOR (Overnight or Spot/Next)					EONIA
	USD	EURO	GBP	JPY	CHF	
Overnight spread adjustment	-0.01437%	-0.02800%	-0.00267%	-0.01650%	-0.05512%	
Replacement Risk Free Rate	SOFR – 0.01437%, where SOFR is the Secured Overnight Financing Rate	€STR – 0.02800%, where €STR is the Euro Short Term Rate	SONIA – 0.00267%, where SONIA is the Sterling Overnight Index Average	TONA – 0.01650%, where TONA is the Tokyo Overnight Average Rate	SARON – 0.05512%, where SARON is the Swiss Average Rate Overnight	€STR + 0.085%, where €STR is the Euro Short Term Rate
Administrator	FED Reserve Bank of New York	European Central Bank	The Bank of England	The Bank of Japan	SIX Swiss Exchange	European Central Bank

Replacement rates – Term Rates

	LIBOR (Term Rates)				
	USD (1-week and 2-month tenors)	EURO	GBP	JPY	CHF
Replacement Risk Free Rate	SOFR (Secured Overnight Financing Rate)	EURIBOR (Euro Interbank Offered Rate)	SONIA (Sterling Overnight Index Average)	TONA (Tokyo Overnight Average Rate)	SARON (Swiss Average Rate Overnight)
Administrator	FED Reserve Bank of New York	European Money Markets Institute	The Bank of England	The Bank of Japan	SIX Swiss Exchange
Spread adjustment	Tenor specific, see below	N/A	Tenor specific, see below	Tenor specific, see below	Tenor specific, see below

Note: For USD LIBOR term rates, spread adjustments are only made for the 1-week and 2-month tenors, given cessation in January 2022. A separate consultation will be launched in Q1 2022 regarding replacement rates for the other USD LIBOR tenors.

Spread adjustments – Term Rates

Solactive will use as a proxy for the spread between the term LIBORs and the proposed overnight replacement rates over a five-year historic period and determine the median of the difference between these two rates as of 4 March 2021, the date immediately preceding the FCA's announcement of the future cessation of the LIBOR benchmarks. The spread adjustments are outlined in the table below.

Tenor	Spread adjustment (annualised)			
	USD	GBP	JPY	CHF
1 month	C2022	0.03073%	-0.02900%	-0.05745%
2 months	0.15600%	Not used	Not used	Not used
3 months	C2022	0.10336%	-0.00009%	0.00137%
6 months	C2022	0.22913%	Not used	Not used
12 months	C2022	0.41173%	Not used	Not used

Note: C2022 means Solactive will perform a market consultation in Q12022 and until then rely on the prevailing LIBOR rates, Not used means not used in Solactive administered indices.

Phasing

Solactive will use the new replacement rates, and where applicable the spread adjustments, from 1 January 2022 for all overnight, spot/next and tenors of GBP LIBOR, CHF LIBOR, JPY LIBOR and EUR LIBOR, as well as the 1-week and 2-month USD LIBOR tenors, and the EONIA rate.

For USD term LIBORs discontinued on 30 June 2023, Solactive will consult with the market again in Q1 2022 in anticipation of the development of a term structure for USD inter-bank rates.

Change[s] to the Index Guidelines

As this modification of calculation is wide ranging, Solactive will not immediately modify all index guidelines of Affected Indices to account for the replacement rates. As of the earliest rebalance date for the Affected Solactive indices after 1 January 2022 any references to the discontinued rates (as specified above) in the respective index guidelines of the Affected Indices will be construed and must be understood as references to the corresponding new replacement rate, and where applicable the respective spread adjustment.

Specific queries in case of any doubt should continue to be sent at RFR.Replacement@solactive.com