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FAQs for EFET Legal Committee Meeting 23 February 2021 re IBOR Transition (updated 5 October 2021)

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IBOR Transition – New Agreements

As explained previously, various key reference rates are being permanently discontinued or declared unrepresentative from 31 December 2021. As a result, all new agreements being entered into should not refer to such rates, and should instead use “risk-free rates” (RFRs) with robust fallbacks.

EFET’s template documents were updated in early 2021 so that none refer to rates that are ceasing or becoming representative i.e. EONIA, EURIBOR or Sterling LIBOR.

IBOR Transition – Legacy Agreements

At the same time EDRS letters were prepared which were intended to address LIBOR transition for existing agreements between counterparties.

However, since publication in early 2021, EFET has received representations from members that such EDRS letters be changed in scope. The representations focused on widening the scope of the EDRS letters:

1. To include some commonly-used EFET agreements which do not reference a terminating rate in their template but which had been bilaterally agreed by the parties to include such terminating rate.
2. To facilitate the amendment of EFET agreements which used one or more of a menu of terminating rates, and a range of tenors, in each case different to those otherwise specified in the EFET templates (if any).

IBOR Transition – Legacy Agreements

Aware of the scale of IBOR transition, EFET seeks to be responsive to these concerns and opened a process inviting members to suggest additional agreements to be included in the scope of the EDRS letter.

The process of ratifying the previous version of the EDRS letter was simultaneously put on hold.

New English and German versions of the EDRS letter are now available for approval by this Committee. If this approval is given, EFET will update any template previously amended in early 2021 where that amendment no longer reflects the provisions of the EDRS letter.

FAQs

What documents can be amended by the EDRS letter?

All EFET documents listed in Schedule 2 of the EDRS letters may be amended if they use the interest rates referenced in the EDRS letters. However, counterparty-specific elections are not included and these will need to be negotiated bilaterally between counterparties. Counterparties may use the proposed wording as a base for these bilateral negotiations.

Why are there two different definitions of EONIA in the document?

Two EFET template documents reference EONIA by reference to an ISDA-style definition. It is also known that many EFET CSAs use EONIA (but not by reference to the ISDA-style definition). These two approaches to EONIA lead to small differences in the way interest is computed for a period. Rather than risk upsetting the economics of an agreement which uses EONIA, we have set out both the EuroSTR definitions and intend the one which compares most closely to the EONIA rate used in the agreement currently to be the one used into the future.

Why do the definitions of €STR refer to a link to the ECB website, while the definition of EURIBOR refers to the Reuters Screen and the definition of SONIA refers to the Bank of England?

We have followed the approach to drafting taken by ISDA; ISDA's wording for EuroSTRi references the ECB Website and includes a hyperlink, ISDA's wording for EURIBOR references the Reuters Screen and ISDA's wording for SONIA refers to administration by the Bank of England.

FAQs

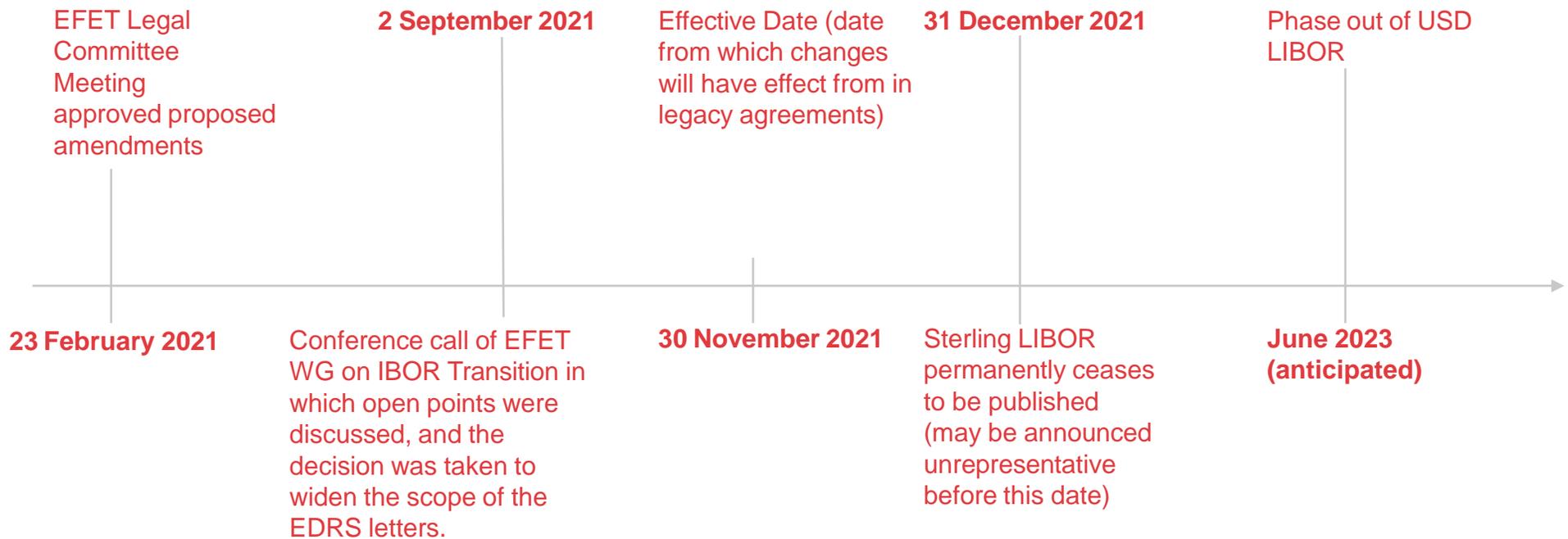
Why are the PRISMA Gas Capacity Contracts treated differently to other agreements referencing EURIBOR?

The PRISMA Gas Capacity Contracts already contain fallback provisions in Clause 9.3, whereas currently no other EFET template documents do. This clause already refers to compounding EURIBOR monthly, so we have specified this as the applicable tenor for the PRISMA Gas Capacity Contracts.

Why is there zero floor wording and why is this different for CSAs compared to other documents?

Most of the EFET template documents we are amending, use IBORs in respect of default interest provisions. This drafting applies a zero floor to the interest rate alone rather than to the sum of the interest rate and the margin, as otherwise this combined rate may be so low that it is not a sufficient deterrent to default. For CSAs, the zero floor wording applies the zero floor to the sum of the interest rate and the margin so as to minimise the circumstances in which the floor will actually be triggered.

EFET IBOR Transition Timeline



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