

EONIA SWAP INDEX Reasons & Opportunities

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Agenda

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2	Opportunities & new products
3	Spread observations
4	Outlook





Reasons for an EONIA SWAP Index

EONIA SWAP Market

- New reference rate for the Euro
- Rising trading volumes
- Increasing importance for interest rate risk management and proprietary trading

Need for a benchmark

- Completes the range of money market benchmarks Euribor (unsecured) and Eurepo (secured) from a derivative perspective
- Provides a spread definition to those markets

Product development

Promotes the development of new products and market enhancements, such as Eonia FRA, EONIA Index OTC Option

Official reference rate

> Can be used as a controlling tool and for market conformity checks





Developments of EONIA Swaps



Source: ECB money market survey 2006



 \geq OIS volume rose in 2006 back to the levels recorded in 2003

The 2006 volume shows a shift to the shorter maturities (1week - 1month)

Note :

The volume for OIS in Q2 2002 is taken as the base =100. The panel comprised 85 banks in 2000 and 2001 and 114 banks from 2002 to 2006





Specification EONIA SWAP INDEX

- Mid Market Rate of EONIA SWAP quotations from prime banks
- Fixed daily at 16.30 CET (clear time gap to EURIBOR + EUREPO)
- Index is quoted for spot value (T+2) on an act/360 day count convention and is displayed on 3 decimal place
- Implemented maturities are 1, 2 and 3 weeks as well as 1 to 12 months (since June 2005) and 15, 18, 21, 24 months (since May 2007)
- Named "INDEX" rather than "fixing"
- Procedures are in line with the existing fixings for EURIBOR & EUREPO





Reference rate for long term swaps

- OIS market is the main trading instrument for managing short-term interest rate risk exposure
- Reduces costs trading long term OIS

Eonia FRA

- Forward Rate Agreement fixing against the EONIA SWAP Index
- Cash settled at the fixing date
- Smart enhancement of Forward EONIA Swaps for proprietary traders to avoid daily O/N fixing risk
- Shorter expiry of counterparty risk
- Lower Back Office costs





Opportunities & New Products

Creating and adding volume to basis swap markets

- Long term basis swap market already active in 1m / 3m / 6-month basis swaps
- Basis swap market Eonia vs. 1- / 3- or 6-month only active up to 2 years currently
- Expansion of basis swap market with rising volumes in long term IRS vs. EONIA Swap Index highly likely

Eonia Index OTC Option

- > Development of OTC option market vs. EONIA SWAP INDEX thinkable
- Ideal reference to position for potential changes in ECB rates (e.g. 1M EONIA Swap Index at the ECB-meeting date)
- Development of current short term OTC option market versus EONIA was lagging because of missing reference rate





Controlling tool for EONIA Swaps

- Creating an official revaluation curve for EONIA Swaps
- Requirement for certain client groups to trade a product

Benchmark for derivative markets

- Fixes a recognized rate for a key product in short term markets
- Sets an official reference to trade a product actively over all client segments
- Supports new product approval processes ideally

Creating spread definitions vs. EURIBOR and EUREPO indices

Provides basis for short term market analysis







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ACI

Comparison (1 month)









Spread Chart Reference Rates

Comparison (1 month)









Comparison (3 months)









Spread Chart Reference Rates

Comparison (3 months)









Comparison (6 months)



Deutsche Bank





Spread Chart Reference Rates

Comparison (6 months)







USD rates - Libor through FX-Fwds







Market Outlook

- Market spreads may stay higher than historically for a longer period of time
- Derivative markets may consider using EONIA SWAP INDEX more actively as reference rate
- > Euribor / Libor definitions might be reviewed
- Basis Swaps will gain importance
- Liquidity planning and management will be at higher importance within the banks
- EONIA FRA product launch scheduled for 1 Feb 2008



