European Money Markets Institute

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D0252C-2014
12.08.2014

3RD EURIBOR EUROPEAN STAKEHOLDERS' WORKSHOP

SUMMARY AND CONCLUSIONS

- On June 6, the European Money Markets Institute previously known as Euribor-EBF ("EMMI") hosted a 3rd Euribor European Stakeholders' Workshop to present to Stakeholders a proposed methodology for a transaction-based euro unsecured money market benchmark. The purpose of the Workshop was to consult broadly with the banking community on the design of the new benchmark. EMMI will organize a similar workshop in October to consult with end-users.

- 30 different banks participated in the Workshop. Representatives from the European Central Bank (ECB), European Commission, European Banking Authority (EBA) and European Securities and Markets Authority (ESMA) also attended the workshop.

- The proposed new benchmark would represent the cost of funds, that is, bank borrowing, rather than bank lending as in the current Euribor. Furthermore, the construction of the proposed benchmark envisages a broader scope of transactions, essentially all sources of borrowing in the wholesale markets, rather than in the interbank market alone.

- The Workshop received two presentations, followed by a discussion session. The presentations covered:
    - Feasibility of a Transaction-based Euribor alternative
    - Design considerations for a Transaction-based Euro Money Market Benchmark.

Design Feedback

- During the workshop, the participants were asked to respond to three questions:

  Question 1) Do you think that this transaction-based design provides a benchmark that accurately represents the euro unsecured money market? Are there any specific points where you would need more information to conclude?

  The vast majority of the banks favored the creation of a transaction-based benchmark. Numerous participants cited the attractions of the design in light of the current regulatory context.

Question 2) What market developments would be needed to make this benchmark practical for a daily management of your bank's risks?

Most banks acknowledged that the design of the new benchmark would entail more volatility in the determined benchmark level, possibly making risk management and hedging more costly, at least initially. However, banks also observed that the market would adjust rapidly.

Question 3) Should non-financial corporations borrowing transactions be included in the construction of the benchmark?

The views expressed by the banks were twofold.

The majority expressed their support to include borrowings from non-financial corporations in the benchmark. Given the fact that short-term borrowing from non-financial sector is an important part of the wholesale funding, including these transactions would better approach the aim to create a benchmark that reflects the short-term wholesale cost of funding. It is expected that the market would adapt to such a conceptual change in the business which the benchmark covers and intends to measure.

Some banks, however, highlighted that transactions with non-financial corporations may be influenced by customer-specific considerations. Transactions with financial and non-financial corporations are also subject to different regulatory treatments (e.g. Liquidity Coverage Ratio), which may impact the respective rates at which the transactions are undertaken.

Workshop Conclusions

1) The workshop reached **a positive conclusion supporting the development of the new benchmark**. Most banks agreed that a real transaction-based benchmark would **reduce reputational costs, ease the justifiability** of the submitted rates and **facilitate compliance** with current regulatory guidance.

2) Banks observed that a **transition** from the current Euribor to a new benchmark would have to be **carefully planned and executed**. Such planning would need to take into account the operational and legal aspects of substituting the new benchmark for the current Euribor. The **backing of public authorities**, including possibly the introduction of supporting legislation or regulation, would be **essential** to facilitate a smooth transition. EMMI notes that the conclusions of the current **Financial Stability Board** review of interest rate benchmarks will inform consideration of these transition issues.

3) Maintaining a money market curve with **6-month and 12-month tenors is important for certain user geographies**.

4) Banks queried whether participation in the new benchmark would be on a **mandatory or voluntary basis**. EMMI noted that there is currently no legal means to make participation mandatory in either the current or new benchmarks. However, the proposed EU Regulation on financial benchmarks contains draft provisions for mandatory participation in critical benchmarks under some circumstances.

5) Banks requested that some **technical features** of the proposed benchmark be **further elaborated, including** the publication time, the methodology for data collection, and the transition.

6) Banks acknowledged that the **volatility of a real transaction-based benchmark will be higher.** However, banks pointed out that the marketplace would likely adjust to the volatility characteristics of the new benchmark.

Next Step

- In light of the broad acceptance of the new benchmark design among the banking community, the EMMI Secretariat is planning on hosting a **4th Stakeholders Workshop with end-users in October 2014**. At this workshop, end-users will have the opportunity to review the design of the new benchmark and to provide input on features to promote the acceptance and use of the benchmark in the general marketplace.