HYBRID METHODOLOGY STATE OF PLAY

Key points:

- Euribor is of utmost importance for the stability and the market integrity of financial markets. Hence, reforming Euribor is key.

- Over the past years, EMMI has been working on the development of a fully transaction based methodology for Euribor. On the basis of the Pre Live Verification Programme outcome published in May 2017, evolving towards a fully transaction based benchmark for Euribor under the current market conditions was not feasible. In this context, EMMI decided to pursue with a hybrid methodology for Euribor.

- EMMI created a Task Force composed of market and independent experts, and the FSMA acting on an observer capacity, to provide input on a hybrid methodology for Euribor.

- This methodology seeks to better reflect the underlying interest the benchmark intends to measure and that, to the extent possible, it is anchored in transactions. Moreover, it will cater for sufficient flexibility to enable the Euribor benchmark to fully adapt to a variety of market conditions, being therefore reflective of the underpinning market and fit-for-purpose.

- The initial blueprint of the hybrid methodology consists of a waterfall approach including 3-levels.
  - Level-1 relies on market transactions undertaken by the reporting bank, and consistent with the underlying interest.
  - Level-2 is based on a range of formulaic calculation techniques provided by EMMI.
  - Level-3 is based on other data sources closely related to the unsecured euro money market. These will be selected by Panel Banks according to a set of data input criteria established by EMMI.

- EMMI will publish a consultation paper in Q1 2018 to present the initial blueprint of the hybrid methodology (including all details on the different levels of the above-mentioned waterfall approach) to all stakeholders, and gather their feedback and views on the proposed approach.

- EMMI will assess the feedback from the consultation and will conduct a testing phase of the methodology from May-July 2018 with the involvement of panel banks. A second consultation is envisaged to take place during the autumn 2018.

- EMMI intends to launch the hybrid methodology by Q4 2019 at the latest, in accordance with the transitional period provided by the BMR.

- There will be no immediate changes to the Euribor methodology and the current quote-based Euribor will be continued until the launching of the hybrid methodology.

- EMMI continues to approach this transition as an inclusive process and thus, will continue to consult and reach out to the FSMA and other public authorities, panel banks, market participants and the broad stakeholder community to ensure their engagement and support with the methodological reforms to be implemented.