European Money Markets Institute

CONSULTATIVE POSITION PAPER

ON THE

EVOLUTION OF EURIBOR

SUMMARY OF THE STAKEHOLDER FEEDBACK

13 April 2016
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1 Background

Over the past three years, the European Money Markets Institute (EMMI) has made significant progress towards enhancing the transparency, governance and control framework of the Euribor benchmark rate-setting process. EMMI believes that the overhaul of Euribor’s determination methodology towards a transaction-based benchmark is the logical next step. A transaction-based benchmark will ensure the highest degree of compliance with regulatory recommendations put forward by the Financial Stability Board (FSB), IOSCO, ESMA-EBA and defined in the forthcoming European regulation on benchmarks. Also, evolving to a transaction-based benchmark will ensure Euribor stays fully representative of the market conditions. As an indispensable element of this reform process, on 30 October 2015, EMMI published its Consultative Position Paper on the Evolution of Euribor\(^1\). The paper summarized EMMI’s plans for the reform of the benchmark’s determination methodology towards a transaction-based Euribor as well as EMMI’s plan for the implementation of the transaction-based determination methodology. It further provided EMMI’s rationale and timeline to conduct a Seamless Transition (as described in the FSB report) in which Euribor remains the same benchmark while the determination methodology is adjusted. Through the consultation, EMMI sought to obtain the opinion of Euribor stakeholders and interested parties on the following issues:

1. On the continued publication of potentially discontinued tenors, based on interpolation;
2. On the inclusion or exclusion of non-financial corporates in borrowing sources;
3. On the publication time of a transaction-based Euribor;
4. On the proposed transaction-based determination methodology;
5. On the potential need for product modifications;
6. On the transition strategy and transition planning;
7. On the feasibility of the proposed timeline;
8. On expectations towards EMMI regarding further communication.

The written public consultation was accompanied by a series of national roundtable meetings in key constituencies of Euribor, namely in Finland, Portugal, Germany, the United States, France, Spain, Italy, the United Kingdom, and Brussels – for stakeholders from the BeNeLux countries.

By and large, EMMI found broad support for its arguments and plans to further reform the Euribor benchmark. While many of the comments summarized in this document were also raised during the national meetings, stakeholders were generally supportive of EMMI’s proposal for the overall design of a transaction-based determination methodology and its transition strategy. Stakeholders have clearly understood that EMMI’s planned adjustments to Euribor’s determination methodology stem from new regulatory requirements and recommendations and that failing to conduct the necessary modifications to further anchor the Euribor benchmark in transactions would severely threaten its viability.

\(^{1}\) http://www.emmi-benchmarks.eu/euribor-org/euribor-evolution.html
Furthermore, it is important to underline that while no transition path is risk-free and without big challenges to overcome, feedback during the meetings held across Europe and in the U.S. confirmed that a seamless transition is in the best interest of the vast majority of Euribor stakeholders. In other words, a seamless transition retaining Euribor as a reference rate with name, publication time, vendor pages and the Underlying Interest it seeks to measure unchanged is preferable to developing and launching a transaction-based Euribor as a brand new and distinct benchmark.

The written feedback to EMMI’s consultative position paper has further confirmed this view, i.e. that the direction of the Euribor reform and the strategy outlined for achieving this reform is largely and broadly accepted and endorsed. At the same time, respondents took the opportunity to indicate some of the remaining challenges – some bigger, some smaller, – as well as possible solutions to overcome them. In particular, there are some legitimate concerns with regards to the risks inherent to any methodological adjustment of what is considered a critical benchmark, even if following a seamless transition path.

EMMI is grateful for the constructive and crucial feedback it received in response to the Position Paper as it provides instrumental perspectives and guidance for next steps in the transition towards a transactions-based Euribor. This document summarizes the responses collected by EMMI.
2 Feedback Summary and EMMI’s response

In total, EMMI received feedback from 44 respondents (see section 4). As most questions were of an open nature, similar comments and suggestions were sometimes made in response to different questions. The following summary reflects the general view or sentiment which EMMI was able to elicit through the consultation process.

The EMMI Secretariat and the Euribor Steering Committee are carefully considering all of the feedback obtained as part of the consultation process that started with the publication of EMMI’s Position Paper.

2.1 On the continued publication of potentially discontinued tenors, based on interpolation

The majority of respondents did not deem it necessary for EMMI to provide official interpolations. However, there was a significant minority that would find it helpful if EMMI did so, given their use of individual tenors. The feedback indicated the need to reassess the proposed discontinuation of the 2-month tenor.

EMMI does not foresee, at this stage, the publication of interpolated tenors. However, EMMI will perform data sufficiency analysis during the Pre-Live Verification Exercise that will help guide any further decision regarding the continuation or discontinuation of current Euribor tenors, in particular the 2-month tenor.

2.2 On the inclusion or exclusion of non-financial corporates in borrowing sources

The majority of respondents agreed with EMMI’s rationale of including these types of transaction into a transaction-based Euribor. However, strong arguments were brought up against such an inclusion, suggesting the need for a more in-depth analysis under current market conditions and likely refinements to the proposed specifications for non-financial corporate transactions should EMMI pursue their inclusion.

EMMI believes non-financial corporates (NFCs) are a significant source of wholesale bank funding in some jurisdictions. As a consequence, during the design phase of the transaction-based methodology for Euribor, performed with 2012/2013 data, the Euribor+ Task Force\(^2\) recommended to include non-financial corporates as eligible funding counterparties.

As part of the Pre-Live Verification Exercise described in Section 2.8, EMMI will conduct further analysis to determine whether inclusion of non-financial corporate transactions should be subject to qualifying criteria (e.g. only for transactions in certain geographies, for certain tenors, or depending on the transaction size, etc.)

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\(^2\) The Euribor+ Task Force is a dedicated Task Force created by EMMI whose main role is to advice the Euribor Steering Committee in the development and design work of a robust and reliable transaction-based methodology for Euribor.
2.3 On the publication time of a transaction-based Euribor

The overwhelming majority of respondents would prefer to retain the current publication time of 11am Brussels time. Some general concern was expressed regarding the determination of the rates based on the previous day’s trades.

EMMI does not foresee any changes in the publication time for Euribor after the evolution to a transaction-based methodology. EMMI, as most respondents, agrees that retaining the current publication time at 11AM CET is beneficial to pursue a seamless transition.

2.4 On the proposed transaction-based determination methodology

Most comments centered on refinements of the input data selection, the implications of using lagged transactions in case of insufficient data, refinements of the averaging technique and the definition of the Tier 2 fall-back arrangements. The sole reliance on transactions from the previous day and the use of historical data in cases of data insufficiency together with the implications for the responsiveness of the rate constituted, in EMMI’s view, the most significant concerns expressed.

Respondents also asked for clarification with regards to the Panel Bank contribution method.

As mentioned in the Position Paper, the first phase of the Euribor+ Project focused on the formulation of a robust and reliable methodology. This was achieved by using transactional data gathered through two extensive data collection exercises performed in 2013 with the collaboration of over 50 banks. The initial development and design work was conducted with the guidance of a dedicated task force (the Euribor+ Task Force) and involved analyses of these data, formulation of the new methodology, and a series of stakeholder outreach exercises. Many of the suggestions or comments received as a response to the consultative questions were addressed during the exhaustive research done by EMMI with the assistance of the European Central Bank. EMMI is currently working on the drafting of a white paper that will explain in a more comprehensive manner this design phase: detailing, in particular, the approaches studied and the reasons behind each of the design choices made. The publication of this paper is expected towards the end of Q2 2016.

The Position Paper published by EMMI in October 2015 envisaged a contribution model for Panel Banks towards the calculation of a transaction-based Euribor similar to that of credit institutions participating in the determination of the Eonia benchmark: banks would submit, for each day and Euribor tenor, a volume-weighted average rate and aggregate transaction volume. A number of respondents to the Consultative Position Paper encouraged EMMI to assess the possibility of Panel

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3 Eonia (Euro Overnight Index Average) is the effective overnight reference rate for the euro. It is computed as a weighted average of all overnight unsecured lending transactions in the interbank market, undertaken in the European Union and European Free Trade Association (EFTA) countries. Eonia is administered by EMMI and calculated with the help of the European Central Bank.
Banks contributing instead “raw” transactional data in the same format as defined by the European Central Bank as part of the Money Market Statistical Reporting regulation.

In response to this request, EMMI has conducted a preliminary high-level assessment of likely Panel Bank obligations with respect to operational control requirements under a transaction-based Euribor and the respective two contribution models above. EMMI has furthermore assessed implementation and maintenance implications of the two models from an IT perspective. A decision with respect to the contribution model is currently under consideration and will be shared with current and prospective benchmark contributors in due course.

Several responses to the Consultative Paper noted the need to refine and clarify the Tier 2 fall-back arrangements. Following further analysis of 2012/2013 transaction-level data and discussions with the Euribor+ Task Force, EMMI has defined the following trigger event for a Tier 2 contingency fall-back: the Tier 1 fall-back arrangement (formulaic determination approach) will be maintained for a maximum of 10 consecutive TARGET2 days. Within this timeframe the Euribor Steering Committee will meet to determine further contingency measures, including the extension of the formulaic determination approach over the 10 TARGET2 days period and possible declaration and invocation of a Tier 2 fall-back arrangement if a return to normal conditions appears unlikely.

It is anticipated that the declaration of a Tier 2 fall-back arrangement will occur on extremely rare occasions and only when market conditions are such that the formulaic determination approach (Tier 1 fall-back arrangement) may become unreliable and produce a benchmark that is not reflective of actual borrowing costs. EMMI is currently working on the refinement of Tier 2 contingency arrangements in discussions with the Euribor+ Task Force and the Euribor Steering Committee.

2.5 On the potential need for product modifications

Respondents distinguished between existing and new contracts, issues related to increased volatility, as well as issues related to potential changes in the rate level of the benchmark and documentation needs, but alluded to possible ways of mitigating these effects at the same time. More detailed feedback regarding this issue can be found in Section 4.5.

2.6 On the transition strategy and transition planning

The feedback focused on legal questions, further impact analysis, communication, transparency, outreach and advocacy, transition governance, and a range of miscellaneous questions and suggestions. While the vast majority seemed to support a seamless transition strategy, the consultation highlighted the continuing need to further assess the conditions of a seamless transition (similarity in definition, value and volatility) and to build up public support for a transaction-based Euribor.
Euribor is referenced in contracts ranging from Over-The-Counter and exchange traded derivatives to corporate loans and retail mortgages. Aware of the systemic importance of Euribor for financial stability, EMMI has multiplied its efforts to increase awareness among national and supranational authorities, as well as relevant stakeholders, of the importance of a seamless transition of Euribor to a transaction-based methodology. In order to assess and fully understand the legal consequences and implications of this transition path, EMMI has recently created a Legal Working Group.

As part of its stakeholder outreach program, from November 2015 until January 2016 EMMI organized a series of national roundtable meetings in a number of key constituencies. In the coming months, EMMI intends to intensify its communication and advocacy efforts to raise awareness among stakeholders. EMMI will seek to enhance public support towards the Euribor evolution.

### 2.7 On the feasibility of the proposed timeline

The large majority of respondents considered the transition to a transaction-based Euribor on 4 July 2016 as too ambitious.

EMMI has further assessed the feasibility of the July 4, 2016 targeted switch-over date and, in the light of the feedback obtained in response to the Consultative Position Paper, during national roundtable meetings and in bilateral conversations with a number of stakeholders, it seems necessary to defer the migration date. This extension will allow, among other things, for a Pre-Live Verification Exercise covering a sample period of approximately six months and for EMMI to continue its efforts to enlarge the Euribor Panel. Subject to a positive outcome of the Pre-Live Verification Program, EMMI envisages the evolution of Euribor to a transaction-based methodology during H1 2017. EMMI is still assessing the pending elements of the different workstreams and will publish an updated roadmap in due course.

EMMI’s priority is to ensure a smooth transition for all market participants and that there will be no market disruption for end-users or consumers.

### 2.8 On expectations towards EMMI regarding further communication

Some responses overlapped with feedback on the transition strategy and planning. Many respondents requested more details on the planned pre-live verification and the governance process around it up to the final switch-over to a transaction-based Euribor and recommended EMMI to conduct further public outreach and advocacy in this regard.

The Position Paper published in October 2015 included a preliminary assessment of the rate level and volatility characteristics of the transaction-based determination methodology. The data for this assessment were collected in 2012 and 2013, as part of the design phase of the transaction-based
methodology, and, as such, are most likely not reflective of current market conditions – or indeed of market conditions at the time of the launch of the evolved benchmark.

The October Paper mentioned EMMI’s intention to perform a three-month pre-live assessment, starting in Q2 2016, to provide an updated view of the impact of the new transaction-based methodology on the benchmark levels. EMMI acknowledges the importance of extending the Pre-Live Verification Program to help guide EMMI’s decision as to whether it is appropriate to proceed with the implementation of the transaction-based methodology under the proposed seamless transition. As part of the reassessment of the timeline published in October 2015, EMMI is planning for a Pre-Live Verification Exercise covering approximately a six-month period prior to the launch of the new methodology. Subsidiary objectives of this exercise will include allowing EMMI a) to make an initial setting of methodology parameters (e.g. thresholds under which fall-back arrangements will be triggered) and b) to analyze a number of the design choices for potential future modifications to the methodology.

EMMI is currently developing detailed guidelines for the Pre-live Verification Program. These will provide, in particular, information as to what comparative indicators between Euribor calculated under the current and the transaction-based methodologies will be established in order to form an objective basis to inform EMMI’s decision to proceed with the introduction of the new methodology under a seamless transition or revert to an alternative transition strategy. As indicated in the Position Paper, EMMI’s governing bodies will decide to conduct the final switch-over to a transaction-based Euribor after consultation with relevant authorities and after carefully assessing the capacity of stakeholders and the market to adapt to the upcoming change. These guidelines will also include information regarding the Program’s governance.

As outlined under point 2.6 above, EMMI is planning to intensify its communication program to raise stakeholder awareness and enhance support from public authorities.
3 Detailed Feedback

3.1 On the continued publication of potentially discontinued tenors, based on interpolation

In light of low transaction volumes, EMMI is planning to discontinue the 2-week, 2-month, and 9-month tenors. EMMI has been asked to consider the possibility of publishing interpolated rates for these three tenors.

**Question:** Do you think that EMMI should publish rates for the 2-week, 2-month, and 9-month tenors, based on an interpolation method?

Please provide your rationale. Please, give examples and details about the products that will benefit from the publication of these interpolated rates.

**Respondents to this question:** 42

- Roughly half (43%) of the respondents did not believe that there was a need for EMMI to provide interpolated rates, as end-users could do so themselves if required. A small number of respondents even considered the provision of interpolated rates as inconsistent with the determination of other tenors and the transaction-based design principle. In the event that EMMI does not provide interpolated rates, one respondent suggested the development of protocols for the interpolation of discontinued tenors (similar to the ISDA 2013 Discontinued Rates Maturities Protocol) for other use cases such as financing contracts and their corresponding hedges in order to ensure consistent handling.

- As for the rest of the respondents, 38% would find it useful if EMMI published official interpolated rates in which case the interpolation method should be transparent. A small number of these respondents emphasized that interpolated rates would be especially valuable for the 2-month tenor, given its use for the pricing of derivatives and other financial instruments with broken periods or stub

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*ISDA 2013 Discontinued Rates Maturities Protocol*
https://www2.isda.org/functional-areas/protocol-management/protocol/16
periods, for hedging, in existing contracts or given their expectation that EUR Libor would retain the 2-month tenor.

- **19% did either not express a preference**, appeared undecided or their responses were not clear in this regard.

- With respect to the question of the discontinuation itself, a **number of respondents suggested to reassess the feasibility of continuing the 2-month tenor under the transaction-based determination methodology** as they would expect increased liquidity around this tenor mainly due to the regulatory environment compared to the data sample from 2012/13 which EMMI used for its assessment.

### 3.2 On the inclusion or exclusion of non-financial corporates in borrowing sources

There are variations in national funding practices across the EU, with non-financial corporations (see page 19, ESA 2010 classification: S11) being a more significant source of wholesale bank funding in some jurisdictions relative to others. Because of this importance, EMMI has chosen to include non-financial corporates as an eligible counterparty in the current methodology and analysis presented in this paper.

**Question:** Do you agree with EMMI’s decision on the inclusion of these transactions in the calculation of Panel Banks’ submissions? If not, on what basis would you seek to exclude non-financial corporates as eligible borrowing sources for Panel Banks in the determination of the benchmark? Please provide your rationale.

![Should transactions with NFC be included?](chart.png)

**Respondents to this question:** 42

- **52% of the respondents were in favor** of including NFC transactions, **26% against** including them, and **22% were undecided** or their preference did not become sufficiently clear from their response.

- As for the **arguments against the inclusion**, it was stated that NFC transactions may **not fully or always adequately reflect wholesale funding costs** for banks due to regulatory considerations (e.g. LCR) and regulatory/legal environment (e.g. zero interest rate floors for corporate deposits), commercial or customer relationship considerations, or different bank business models which could
result in discounts/premiums on NFC rates. Significant concern was also expressed with respect to the potential impact of the inclusion on the rate level and volatility of the benchmark.

- While some supporters of the inclusion shared some of these concerns put forward as arguments against the inclusion, they nevertheless believed that the technical benefits in terms of data sufficiency and robustness of the benchmark would outweigh them. A few of these respondents suggested further refinement of eligible NFC transaction through the definition of minimum transaction sizes (suggested thresholds between 1 and 10 million euro) and/or a minimum maturity (suggested thresholds were transactions maturing after 14 days or 1 month), in the latter case also recommending the alignment of maturity thresholds with those for EUR Libor. One respondent suggested to exclude NFC transactions for banks located in jurisdictions where NFC transactions were subject to regulatory or legal constraints such as a zero interest rate floors. The possibly mitigating effect which a sufficiently large panel of contributing banks could exert on the dispersion of contributions was also underlined by some respondents. A few respondents emphasized the need for a clear and quantitative definition of non-financial corporates, e.g. in accordance with LCR standards.

3.3 On the publication time of a transaction-based Euribor

It is planned to maintain the existing 11 AM CET publication time for Euribor to preserve continuity with the current arrangements.

**Question:** Would you prefer that a different publication time, potentially earlier in the day, be established? Please provide your rationale.

```markdown
Should Euribor continue to be published at 11AM CET?

- Yes
- No
- No preference, undecided or unclear
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- **Respondents to this question:** 41
  - 90% of the respondents believed that the continuation of the publication at 11am was sensible, if not beneficial for the sake of a seamless transition. In this context, some respondents pointed out the need to also ensure the publication under the same vendor pages and vendor codes.
  - A few respondents expressed concern with respect to the sole reliance on transactions from T-1, raising, for example the question of whether the rate could still be understood as “as of 11am” and...
the implications for existing definitions. In this context, it was also noted that Euribor was currently used on a T+2 basis and that the transaction-based determination methodology would imply a rate effective as of T+1.

### 3.4 On the proposed transaction-based determination methodology

The Position Paper intended to give an overview of the methodological aspects of the transaction-based benchmark, providing, in particular, a list of eligible transaction types and details about the core calculation methodology and a description of the fallback arrangements.

**Question:** Are there any aspects of the transaction-based determination methodology for which you would like clarification by EMMI? If yes, please elaborate.

**Most commonly addressed topics**

- **Gap-Filling Concerns**
- **Tier 2 Fall-Back Clarification**
- **Tier 2 without Expert Judgment**
- **Clarification of Contribution Model**
- **VWAR over the median group**
- **Minimum Transaction Size**
- **Cancellations and Amends of Transactions**

- **Respondents to this question:** 36

  - With respect to the **contribution method**, roughly a quarter of respondents requested to further clarify whether banks would submit transactions or volume weighted average rates including the corresponding aggregate volume.

  - Regarding **input data**, five respondents suggested the definition of **minimum transaction sizes** for transactions to be eligible for the rate determination. A number of respondents asked EMMI for further clarification regarding the handling of **cancellations or amendments/corrections** of transactions. Two respondents asked EMMI to reassess the inclusion of **floating rate transactions** in the Euribor determination. One respondent recommended to align the **maturity windows** for bucketing eligible transactions per tenor with those to be used for Euro Libor.

  - Regarding the envisaged **use of historical data (“gap-filling”)**, a third of the respondents showed concern about the possible impact of the gap-filling technique on the **responsiveness**

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5 In those cases, where the Panel Bank has no transactions to report, the gap-filling technique uses the most recent volume-weighted average rate within a given number of days.
of the benchmark. Among the recommendations received, a number suggested the possibility of adjusting or re-stating gap-filled data in order to reflect changes in the market that would otherwise not be reflected in the rate determination, for example by using OIS-Euribor spreads or linear interpolation. Some respondents indicated that the 6-day limit for gap-filling on the 12-month tenor could be too excessive.

- With respect to the **averaging technique**\(^6\), six respondents suggested to assess the possibility of calculating Euribor as the **volume weighted average of the median group** rather than the simple mean of the median group. Three respondents suggested **determining the size of the median group dynamically** in relation the panel size or the number of non-zero submissions per day.

- Concerning the envisaged **Tier 2 Fall-Back arrangements**, a large number requested further clarification, with seven respondents emphasizing that it would be difficult to exercise expert judgment in times of market stress and suggesting to **discard expert judgement** altogether – possibly relying on an algorithmic solution instead. Multiple respondents pointed out that the Tier 2 arrangements should be designed as to ensure coherence and homogeneity across the Tier 2 contributions.

- Among the **other comments** received, a few respondents underlined the need for further transparent **impact analyses under current market conditions** but also suggested “**stress testing**” the methodology. Furthermore, EMMI was asked to clarify how it would account for the **geographic diversity of the panel** in light of the Pan-European Underlying Interest the benchmark seeks to measure. As already with regards to the publication time, three respondents commented on the potential issue that the sole reliance on T-1 transactions would render the **rate effective on T+1**. For one respondent the move from a point-in-time estimate “as of 11am” to a rate representing the **period average** of the previous day’s transactions represented a fundamental change to the benchmark bearing the question if indeed both determination methodologies would measure the same Underlying Interest.

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\(^6\) EMMI is currently envisaging the following technique labelled “median group” average: After application of gap-filling, the submission rates associated to non-zero transaction volumes are arranged in ascending order from lowest to highest. The median group of this ordered list is identified as: a) The group of four central rates, when the ordered list of submission rates is composed of an even number of elements; b) The group of five central rates, when the ordered list of submission rates is composed of an odd number of elements. The benchmark is then obtained as the simple average of the elements in the median group.
3.5 On the potential need for product modifications

**Question:** For institutions developing products referencing Euribor or users of such products, what modifications, if any, do you anticipate will be required to those products as a result of the introduction of the new transaction-based determination methodology? For example, would you expect the need for modifications to accommodate the anticipated higher volatility of the rate?

**Respondents to this question:** 35

- Eight of the respondents did **not see any immediate need for product modifications**.

- Many other respondents indicated that **further time and analyses** were required.

- A number of respondents **differentiated between existing and new contracts/products**, indicating that they considered it unlikely that existing contracts could be modified if it impacted their pricing or value, while anticipating new contracts or products to price in the potential spread between current and a transaction-based Euribor and the increased volatility (e.g. higher spreads on Euribor linked products, widening of quotation spreads). Some did not exclude the possibility of **finding industry-wide solutions**, for example through the adoption of protocols, but acknowledged that such solutions would not be applicable to the totality of outstanding contracts. A few respondents expected that in many cases the need to **update existing documentation and/or terms of reference** may arise.

- **With respect to increased volatility**, a couple of respondents suggested the use of **moving averages** for retail credit, as already practice in some countries, one of them requesting EMMI to publish such averages officially together with the Euribor rates. Another respondent expected a possible increase in the use of IMM swaps and other **instruments and services that mitigate reset and basis risks** for the swaps and caps/floors markets. Two respondents were concerned about the potential **impact on the valuation of interest rate derivatives** and the various interest rate derivative consumers, possibly leading to the increase of the cost of insurance on interest rate. One of them also expected that existing open interest could be impacted by clearing houses charging **higher initial margin on positions**. Others anticipated a higher **risk profile for Euribor-linked products**, and higher **hedging costs**.

- **Regarding the potential spread** between current and a transaction-based Euribor, concern was expressed regarding the impact it could have on the **performance of investment portfolios** such as money market funds but also with respect to **bonds and notes** with still two, five or more years to run. It was therefore suggested that EMMI should work on transitory measures with issuers, market practitioners, and associations to find **means of adjustment**.
3.6 On the transition planning and strategy

**Question:** EMMI as the administrator of the Euribor benchmark will continue to pursue a Seamless Transition with the highest degree of transparency and due diligence. Do you see or anticipate any other area not included in this paper that should be addressed by EMMI? Should you have any recommendations, please provide your feedback.

**Respondents to this question:** 38

The question EMMI asked in the Position Paper was an open question. A wide range of responses were received which are summarized below.

- With respect to comments on **communication, transparency, outreach and advocacy**, the overall sentiment was that EMMI should continue or even **increase its communication efforts and transparency**, especially with regards to rate level and volatility of the transaction-based Euribor, once more current information was available\(^7\). In this context, a large number of respondents would prefer the **disclosure of the pre-live verification test results**. As EMMI has not yet defined **details of the pre-live verification process**, respondents also inquired as to how this process would be governed, how tolerance levels would be defined, and who would be consulted and involved in the final decision to switch to the transaction-based methodology.

Two respondents recommended EMMI to **reach out to audit firms** to ensure their readiness to review new or modified compliance requirements. Furthermore, EMMI was advised to **liaise with data vendors** publishing Euribor rates to solicit their views on operational and other issues for the envisaged continuation of the publication of Euribor information on the same vendor pages and with the same vendor codes. A few respondents suggested that EMMI should **consult with ISDA** to assess the possibility of establishing mitigating protocols or to secure public

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\(^7\) The information on rate level and volatility published in the October 2015 Position Paper was based on data collected for the period 2012/13.
endorsements or more visible statutory support of standard-setting international bodies or public authorities.

- Concerning legal comments, there was a strong desire for EMMI to undertake further analysis with respect to the materiality of the envisaged changes, the continuity of the Underlying Interest as well as the respective legal ramifications for Euribor-linked products and contracts. Some respondents recommended a closer collaboration between EMMI and public authorities and the formation of a legal working group.

- Regarding the impact of moving to a transaction-based Euribor on rate level and volatility characteristics, many respondents requested EMMI to conduct further analysis. A few respondents believed that the envisaged three months of pre-live verification could be too short, some suggested to extend it to at least 6 months.

- Among the other comments received, it was suggested to assess the possibility of a progressive seamless transition, possibly in several “windows”, rather than implementing all changes in one single step at a single point in time. In this context, a number of respondents indicated that the transition to the transaction-based Euribor would likely require more lead time for panel members as well as market participants to prepare. It was also recommended that EMMI should define and communicate on an alternative transition plan if the pre-live verification turned out to suggest that a seamless transition was not feasible. Another issue raised was the need to increase the size of the Euribor panel. Respondents underlined that a transaction-based Euribor would require an expanded panel of banks and believed that a switch-over would not be feasible before a certain minimum size was reached.

### 3.7 On the feasibility of the proposed timeline

**Question:** EMMI recommends that Euribor stakeholders prepare for the change in the determination methodology on 4 July 2016. Is this sufficient time to prepare? What would prevent you from meeting this timeline?

![Is the target July 2016 switch-over feasible?](image)

- **Yes**: 58%
- **No**: 17%
- **Undecided or unclear**: 25%

**Respondents to this question:** 40
More than half of the respondents considered the time for the transition of Euribor on 4 July 2016 as insufficient, one quarter did not clearly express their views, and the remaining 17.5% believed the timeline was in principle feasible.

As for the reasons for considering the timeline as too ambitious, many respondents believed that it was not feasible to commit to a target date before results of the pre-live verification were known or before further legal analysis on the administrator’s and users’ side has been completed. Moreover, respondents pointed out the operational, compliance and infrastructure work that needed to be conducted on the side of the contributors, at the same time reminding EMMI that the final methodology including the compliance and control requirements has not yet been published or approved.

3.8 On expectations towards EMMI regarding further communication

**Question:** What further information or outreach could EMMI undertake to assist you in planning for the launch of the new determination methodology in July 2016?

**Respondents to this question:** 35

- The majority of respondents agreed with EMMI’s overall communication strategy but pointed at specific topics that required clarification, most commonly with respect to the details of the pre-live verification. A number of respondents suggested a broadening of EMMI’s outreach and advocacy efforts. It was suggested that EMMI commences dialogues with pension funds, asset managers, hedge funds and other trading entities and investors. For countries with large or politically sensitive Euribor users (i.e. users with mortgages indexed to Euribor), further outreach to local public authorities such as Central Banks and Treasuries was recommended. A number of respondents believed that EMMI needed to further solicit the public support of the ECB and other official sector bodies. It was also suggested that EMMI should prepare standard information materials on the upcoming changes to Euribor, suitable for distribution among banks, end-users, customers (e.g. of investment mortgages or retail credit), public authorities and regulators, preferably translated into every language of the euro area. At the same time, a few respondents also cautioned EMMI to not unduly alert the public about upcoming changes without having more certainty about key aspects of the transition like timing, pre-live verification results etc.

- As already for the previous question, a number of respondents requested EMMI to communicate details on its plans to increase the size of the Euribor panel and the possibility of mandatory contributions in the context of the upcoming EU regulation, among others to provide prospective panel members with sufficient information and time to assess and possibly prepare.
Two respondents requested EMMI to publish legal opinions on the materiality of the change and the continuity of the Underlying Interest to support the argument that the change in the determination methodology had to be understood as a neutral shift.
4 Consultation Respondents

The European Money Markets Institute (EMMI) is very thankful to all participating organizations for submitting their responses to the consultation questions. EMMI extends its gratitude to public authorities, market practitioners, associations, financial institutions, and other stakeholders that participated in roundtable meetings, bilateral meetings and conversations.

Twenty-five (25) out of the forty-four (44) organizations that responded to the consultation requested anonymity in their responses. In accordance with EMMI’s Consultation Policy⁸, their names are not included in the list below.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACI France – Association du Forex et des Trésoriers de Banque</td>
<td>Association</td>
</tr>
<tr>
<td>Amundi Asset Management</td>
<td>Asset Management</td>
</tr>
<tr>
<td>Associates in Capital Markets (ACAPM)</td>
<td>Consultancy</td>
</tr>
<tr>
<td>Association of Corporate Treasurers (ACT)</td>
<td>Association</td>
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<tr>
<td>Banco BIC</td>
<td>Bank</td>
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<tr>
<td>Banco Santander</td>
<td>Euribor Panel Bank</td>
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<tr>
<td>Bundesverband Öffentlicher Banken Deutschlands</td>
<td>Association</td>
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<tr>
<td>Caixa Geral de Depósitos (CGD)</td>
<td>Euribor Panel Bank</td>
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<tr>
<td>Danske Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>Federation of Finnish Financial Services (FFI)</td>
<td>Association</td>
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<tr>
<td>International Capital Market Association (ICMA)</td>
<td>Association</td>
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<tr>
<td>International Swaps and Derivatives Association, Inc. (ISDA)</td>
<td>Association</td>
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<tr>
<td>Loan Markets Association (LMA)</td>
<td>Association</td>
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<tr>
<td>Nordea Bank Finland PLC</td>
<td>Bank</td>
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<tr>
<td>Siemens Treasury GmbH</td>
<td>Corporate</td>
</tr>
<tr>
<td>Société Générale</td>
<td>Euribor Panel Bank</td>
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<tr>
<td>Spanish Banking Industry (AEB – CECA – UNACC)</td>
<td>Association</td>
</tr>
<tr>
<td>Volkswagen AG</td>
<td>Corporate</td>
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<tr>
<td>World Savings and Retail Banking Institute /European Savings and Retail Banking Group</td>
<td>Association</td>
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</tbody>
</table>

5 Next Steps

As mentioned in the Consultative Position Paper on the Evolution of Euribor, the Euribor+ Project was organized across five inter-connected workstreams addressing the following topics: (1) Benchmark Framework, (2) Transaction-based Methodology, (3) Infrastructure, (4) Transition Execution, (5) Communication Program.

EMMI’s next steps with regards to each of these workstreams are:

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark Framework</td>
<td>Once the transaction-based methodology for Euribor and infrastructure contribution model have been finalized, EMMI will revise the Euribor Code of Conduct in line with regulatory requirements.</td>
</tr>
<tr>
<td>Transaction-Based Methodology</td>
<td><strong>Publication of a white paper</strong> describing, in a consolidated form, the various <strong>design and methodological considerations</strong> assessed by the Euribor+ Task Force since 2013, and provide additional rationale on the choices made. The aim of this paper will be to improve the level of information of all stakeholders in regard to the envisaged methodological changes. This paper will be published by the end of Q2 2016. [See subsection 2.4, box 1]</td>
</tr>
<tr>
<td>Infrastructure</td>
<td><strong>Finalize design of the infrastructure</strong> to enable the contribution to a transaction-based Euribor. [See subsection 2.4, box 2]</td>
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<tr>
<td>Transition Execution</td>
<td><strong>Publication of the Pre-Live Verification Program Guidelines</strong> providing, in particular:</td>
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<tr>
<td></td>
<td>» Information as to what comparative indicators between Euribor calculated under the current and the transaction-based methodologies will be established (e.g. spread between rate levels, volatility, etc.);</td>
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<tr>
<td></td>
<td>» Information about what aspects of the transaction-based methodology for Euribor will be analyzed, reassessed, and fine-tuned (e.g. thresholds under which fall-back arrangements will be triggered, data sufficiency analysis, etc.);</td>
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<td></td>
<td>» Governance of the Pre-Live Verification Program. The Guidelines will be published <strong>mid-Q2 2016. [See subsection 2.8]</strong></td>
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<td></td>
<td>Assess and understand the <strong>legal consequences and implications</strong> of the seamless transition path to a transaction-based Euribor in collaboration with the <strong>Legal Working Group</strong>.</td>
</tr>
<tr>
<td>Communication</td>
<td>Continue with the <strong>engagement of stakeholders</strong> and <strong>public authorities</strong> to ensure continued support for the proposed evolution of the Euribor benchmark. Continue with the Panel Banks solicitation process to enlarge the Euribor Panel.</td>
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</tbody>
</table>

EMMI will publish an updated roadmap on the evolution of Euribor to a transaction-based benchmark, including details of the above-mentioned workstreams, during Q2 2016.