

EURIBOR REFORM

FREQUENTLY ASKED QUESTIONS

1) What is Euribor?

Euribor is defined as the rate at which Euro interbank term deposits are offered by one prime bank to another prime bank within the EMU zone, and is calculated at 11:00 a.m. (CET) for spot value (T+2). It is administered by the European Money Markets Institute, EMMI (previously Euribor-EBF) an international non-profit association under Belgian law founded in 1999 with the launch of the Euro and based in Brussels, Belgium.

2) Why is Euribor important?

Euribor is a major euro interest reference rate. In light of its wide use in the global financial system as a benchmark for a large volume and broad range of financial products and contracts, in August 2016 Euribor was designated as a critical benchmark of systemic importance for financial stability. Accordingly, EMMI is strongly committed to maintaining a robust governance and control framework for the administration of the Euribor benchmark, meeting global regulatory standards and best practices.

3) How is Euribor determined and calculated?

Every TARGET day from 10:00 am CET to 10:45 am CET, and for each of the Euribor tenors¹, Panel Banks contribute daily quotes of the rate rounded to two decimal places, that each panel bank believes one prime bank is quoting to another prime bank for interbank term deposits within the euro zone.

After 11:00 am CET, the Calculation Agent, Global Rate Setting Systems (GRSS) processes the calculation of Euribor according to the trimming process established on the Euribor Code of Conduct (section C.2.2.3).

The Calculation Agent shall, for each Euribor tenor, eliminate the highest and lowest 15% of all the quotes collected. The remaining rates will be averaged and rounded to three decimal places following the symmetric arithmetic rounding convention: “*half away from zero*”.

¹ 1 week, 2 weeks, 1 month, 2 months, 3 months, 6 months, 9 months and 12 months

4) Which parties are involved in the Euribor determination, calculation, and publication process? What are their roles and responsibilities?

Three main parties are involved in the Euribor determination, calculation and publication process:

- 1) Panel Banks: Panel Banks are the contributors to the Euribor panel, they submit their quotes for all Euribor tenors on a daily basis.
- 2) GRSS, the Calculation Agent: GRSS collects the quotes from all Panel Banks and shortly after 11:00 am CET (except under circumstances as detailed in Q3) processes the calculation of the Euribor rate and immediately makes it available to authorised financial data vendors and subscribers. Upon receipt of the Euribor rates from GRSS as the Euribor calculation, the authorised financial data vendors distribute them to the EMMI subscribers. After 24 hours they are made publicly available on the EMMI website.
- 3) EMMI, the administrator: EMMI as the administrator of the Euribor benchmark is responsible for the overall Euribor process. Hence, it is ultimately responsible for the calculation and publication of an accurate Euribor. To this end, EMMI continuously works in enhancing the governance and control framework of the Euribor benchmark to preserve its quality and integrity.

Further information on the role of each of the parties is detailed in the Euribor Code of Conduct.

5) Which Panel Banks currently contribute to Euribor?

There are currently 20 banks contributing to the Euribor panel. These include: Belfius (BE), BNP Paribas (FR), HSBC France (FR), Natixis (FR), Crédit Agricole (FR), Société Générale (FR), Deutsche Bank (DE), DZ Bank (DE), National Bank of Greece (GR), Intesa Sanpaolo (IT), Monte dei Paschi di Siena (IT), UniCredit (IT), Banque et Caisse d'Épargne de l'État (LU), ING Bank (NL), Caixa Geral de Depósitos (PT), Banco Bilbao Vizcaya Argentaria (ES), Banco Santander (ES), CECABANK (ES), CaixaBank (ES), Barclays (UK).

6) How does EMMI ensure that Euribor is compliant with the EU Benchmarks Regulation and all applicable regulations?

Over the past years, EMMI has been undertaking an in-depth Euribor reform² which has enhanced the transparency, as well as the governance and control framework of the benchmark setting process. It has set a robust Code of Conduct detailing the roles and responsibilities of the administrators, banks and the calculation agent; established procedures to identify and manage conflicts of interest; broadened the composition of the oversight function to include a wide range of stakeholders; established checks to ensure the accuracy of the rate; among others.

² Further details on the Euribor reform are available on a dedicated Euribor reform page available at the EMMI website <https://www.emmi-benchmarks.eu/euribor-org/euribor-reform.html>

However, all regulatory requirements and recommendations determine that benchmarks should be “anchored in transactions, to the extent possible”. Therefore anchoring the Euribor benchmark methodology to transaction data, when available, is necessary to achieve compliance with regulatory requirements.

7) Why is EMMI undertaking reforms to the Euribor benchmark?

During 2012, highlighted vulnerabilities of benchmarks raised concerns about the appropriateness of the processes and methodologies used in determining reference rates. As a result, initiatives were established to analyse how the increasing loss of confidence could be improved, including the [UK Treasury Wheatley Review of Libor](#) (September 2012), the [EBA/ESMA Principles for Benchmark-Setting Processes in the EU](#) (June 2013), and the [IOSCO Principles for Financial Benchmarks](#) (July 2013).

EMMI has conducted a thorough reform of the Euribor governance and control framework (see question 6).

The proposed reforms seek to clarify the Euribor specification and align the current methodology with the EU Benchmarks Regulation adopted on 30 June 2016, IOSCO Principles for Financial Benchmarks, FSB Market Participants Group’s final report on Reforming Interest Rate Benchmarks (MPG Report) and the EBA/ESMA Principles for Benchmark-Setting Processes in the EU. These reforms find strong support in the EU Benchmark Regulation and the IOSCO Principles.

8) What were the changes being proposed as part of the Euribor reform?

EMMI seeks to evolve the current Euribor quote based methodology to anchor it in transactions and adapt it to the evolving market circumstances. This evolution is necessary as there has been a steady decline in interbank activity and banks increasingly rely on broader wholesale funding from a range of transactions with different counterparties, in different markets. The reform will also serve to clarify the Euribor specification to better reflect the underlying interest it intends to measure.

The clarifications and reforms which were proposed are explained in more detail on the [2015 EMMI Consultative position paper on the evolution of Euribor](#), [Summary of the stakeholder feedback received to the consultation](#) (April 2016), and on the [Position paper setting the legal grounds for the Euribor reform](#) (March 2017), available on the EMMI website.

9) What is the current state of play in the Euribor reform?

Since starting the fully transaction based Euribor project in 2013, EMMI conducted two extensive data collection exercises performed in 2013 with the collaboration of over 50 banks and with the technical support of the European Central Bank (ECB). The initial development and design work was conducted with the guidance of a dedicated task force and involved analyses of these data, formulation of the new fully transaction-based methodology, and a series of stakeholder outreach exercises.

In acknowledgment of the fact that the market conditions have evolved since 2013, EMMI conducted a six-month Pre-Live Verification programme prior to launching the transaction-based determination methodology. This test, running from September 2016 to February 2017, allowed us to have a complete understanding of the market underpinning Euribor and assess whether it would be appropriate to proceed with the implementation of a fully transaction-based methodology *via* a seamless transition path under the current market conditions.

EMMI's analysis has concluded that under the current market conditions it will not be feasible to evolve the current Euribor methodology to a fully transaction-based methodology following a seamless transition path. These findings have been corroborated by analyses carried out by the Belgian Financial Services and Markets Authority (FSMA).

10) Why has it been considered that the Seamless transition path towards a fully transaction-based Euribor methodology is not feasible?

The Pre-Live Verification Programme has allowed EMMI to have an in-depth view of the market underpinning Euribor. It confirmed that market activity has changed as a result of current regulatory requirements, other sources of liquidity available to market participants, and other external factors.

In this context, EMMI has concluded that:

- The rate and volatility levels under both methodologies (i.e. current quote based vs fully transaction based) are not sufficiently similar. Hence, a seamless transition is not feasible under the current market conditions.
- The decrease in the daily market activity under the current market conditions, does not allow for a methodology which is fully based on transactions, as this would not yield a sufficiently sound and robust benchmark.

11) Who has taken this decision?

This decision has been taken by the EMMI Board of Directors and General Assembly after discussions with the Belgian Financial Services and Markets Authority (FSMA).

EMMI and the Belgian FSMA have been in contact on a regular basis concerning all aspects of the Euribor Reform. EMMI sought guidance from the FSMA on the feasibility of various transition scenarios.

12) What are the next steps?

EMMI remains committed to align the Euribor benchmark with the EU Benchmarks Regulation. To this end, it will work on a hybrid methodology.

For this purpose, EMMI 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.



13) What is a hybrid methodology?

A hybrid methodology is a model that is supported by transactions whenever available, and relies on other pricing sources when necessary.

14) Will Euribor be calculated and published tomorrow 5th May?

Yes. No changes are to be expected to the Euribor methodology in the short term. This is, Euribor will continue to be calculated and published in its current format.

15) Will there be any changes to my contract?

EMMI as an administrator is responsible for the calculation and publication of Euribor on a daily basis and for setting an appropriate governance framework, not for the contractual use of Euribor made by each user. As such, should you have any questions linked to your contract specifically, we advise you to contact your bank in your respective jurisdiction.

The outcome of the Pre-Live Verification Program concludes that there will be no immediate changes to the Euribor methodology. The current quote-based Euribor will be continued for the period necessary to develop an alternative methodology.

16) Who is EMMI?

The European Money Markets Institute (EMMI, formerly known as Euribor-EBF) is an international non-profit making association under Belgian law founded in 1999 with the launch of the euro and based in Brussels.

EMMI's main purpose is to develop and support activities related to the money and interbank markets. To that end, the association shall have the task of making an evaluation of fluctuations in the interest rates in the money and interbank markets of the euro area and of providing the results of its research to the monetary authorities and interested parties who are active in these markets. Moreover, the association shall have the task of informing its Members, other organizations, and the European and national regulatory authorities, concerning the money and interbank markets.

As the administrator of the Euribor and Eonia, EMMI is continuously working to reinforce the transparency and enhance the governance framework to preserve the quality and integrity of its benchmarks.

17) Who are EMMI's Members?

EMMI's members are national banking associations in the Member States of the European Union (full Members) and EFTA countries (Associate Members). A list of the EMMI Members is available [here](#).

18) What is the EMMI governance structure?

EMMI has a three-layer governance structure.

On the first line, the Steering Committee is the oversight body responsible for reviewing and providing challenge on all aspects of the Benchmark determination process, including reviewing its methodology, and for monitoring compliance with the Code of Conduct. The oversight function is required by the EU BMR.

The second layer is the EMMI Board of Directors which decides on the determination of the association's strategy and approval of its medium-term objectives and is responsible for the oversight and implementation of the risk management framework.

The third layer is the EMMI General Assembly, which shall possess all of the powers necessary to permit the realization of the association's purpose. It decides on the Articles of Associations, appointment of Board and Committee members, approval of budget and annual accounts following recommendations of the Board, adoption of changes in Codes of Conduct proposed by the Steering Committee.

In addition to these decision-making governing bodies, the Conflicts of Interest Oversight Committee (CIOC) is responsible for the identification and management of conflicts of interests tasked with identifying and addressing potential conflict of interest situations within EMMI's governing bodies. An annual report from the Chairman of this Committee is available on our website.

Further details on the composition of these bodies is available on the [organisational chart](#). Further details on the rules of procedure are available on the [EMMI statutes](#).

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