

# PRE-LIVE VERIFICATION PROGRAM GUIDELINES

## TRANSACTION-BASED EURIBOR

21 June 2016

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## 1 INTRODUCTION

On 22 July 2014, the Financial Stability Board (FSB) published its report on *Reforming Major Interest Rate Benchmarks*. Among other things, the report recommended that the administrators of the so-called IBOR benchmarks anchor their benchmarks in real transactions to the extent possible. The FSB's publication was part of the broader endeavor to reform financial benchmarks with regards to their determination methodology, and their governance and accountability arrangements, most noticeably expressed through:

- the IOSCO *Principles on Financial Benchmarks* (2013),
- the ESMA-EBA *Principles for Benchmark-Setting Processes in the EU* (2013), and
- the Proposal for a Regulation of the European Parliament and of the Council on *Indices Used as Benchmarks in Financial Instruments and Financial Contracts* (2013).<sup>1</sup>

During the past three years, EMMI has made significant progress in enhancing the transparency, governance, and control framework of the Euribor benchmark rate-setting process. In October 2015, EMMI published its *Consultative Position Paper on the Evolution of Euribor* (the "October 2015 Consultative Paper" or "Paper") summarizing its plans for the reform of the benchmark's determination methodology toward a Euribor anchored in transactions, as well as EMMI's plan with regards to the implementation of the transaction-based methodology.

### *Methodology development – impact assessment*

The first phase of the project on the evolution of Euribor from a quote-based to a transaction-based methodology 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 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 transaction-based methodology, and a series of stakeholder outreach exercises.

The October 2015 Consultative Paper included a **preliminary assessment of the rate level and volatility characteristics** of Euribor determined using the proposed transaction-based methodology. However, the data for this assessment covered the period 2012/13 and, as such, it was acknowledged that **these estimates are most likely not reflective of current market conditions**. The project timeline presented in the October 2015 Consultative Paper envisaged the performance of a three-month "**pre-live impact verification**," prior to the planned switch-over to the new transaction-based determination methodology, to ensure that the estimated magnitude of the impact on rate and volatility calculated with 2016 data is comparable to the information published in the Paper. In light of the feedback obtained in response to the Paper and aware of its importance, **EMMI has reassessed the length of the pre-live assessment**. This document presents EMMI's plans for a Pre-Live Verification Program (or the "Program") covering a **six-month period starting in September 2016**.

This note provides: a description and purpose of the Program, a detailed timeline, the governance of the Program, the role of participating banks, and the data analyses that will be performed during the Pre-Live Verification

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<sup>1</sup> The final compromise text of the European Benchmark Regulation was approved by the European Council on 9 December 2015 and it is intended to improve, among other things, governance and controls over the benchmark process, particularly in relation to conflicts of interest, the quality of input data and methodologies, and to ensure that data contributions are free of conflicts.

Program. Further aspects discussed in these guidelines are related to the publication of the outcome of the Program and the criteria that will inform EMMI's decision to go-live with the transaction-based methodology.

## 2 PURPOSE OF THE PRE-LIVE VERIFICATION PROGRAM

The Program has four objectives:

- i. The main purpose of EMMI's Pre-Live Verification Program in the context of the evolution of Euribor to a transaction-based methodology is to **provide EMMI with a more current understanding** of the impact of the new determination methodology on Euribor's rate levels and volatility. As a consequence of this assessment, EMMI will be better able to **decide whether it is appropriate to proceed** with the implementation of the transaction-based methodology in the context of a *seamless transition*.
- ii. The proposed methodology for the transaction-based benchmark was developed using data ranging from January 2012 through August 2013 from 56-58 participating banking institutions. Market conditions in the euro area during that period were noticeably different from those prevailing in the current environment (e.g. credit conditions have eased substantially compared to 2012/13 levels – both in the financial and non-financial sectors; long-term liquidity has increased significantly as a result of the ECB's expanded asset purchase programs and the targeted long-term refinancing operations (TLTROs); interest rates have moved into negative territory.) The data submitted by participating financial institutions as part of the Pre-Live Verification Program will give EMMI the opportunity to make an initial setting, in preparation for the launch, of certain methodology parameters (e.g. contingency thresholds below which fallback arrangements will be invoked).
- iii. The Pre-Live Verification Program also includes, as a subsidiary objective, **the testing of the contribution and calculation infrastructures**, developed in the context of the Euribor+ Project, prior to the final switch-over to the new methodology.
- iv. At the conclusion of the Pre-Live Verification Program, EMMI will prepare a report summarizing the results and conclusions of the Pre-Live Verification Program. This report will be reviewed by EMMI's Governing Bodies, as well as official sector stakeholders, prior to publication. It is intended to inform authorities and the markets of the results of the Pre-Live Verification Program and provide EMMI's rationale for deciding whether to continue with the evolution to the transaction-based benchmark methodology on the *seamless transition* path.

## 3 GOVERNANCE OF THE PROGRAM

EMMI has established a sound and robust governance structure to ensure that the transition to a transaction-based methodology progresses according to established milestones and addresses issues in an effective and timely manner. This governance structure includes oversight of the Pre-Live Verification Program. As described below, each of EMMI's relevant governing bodies have responsibilities relating to the successful design and execution of the Pre-Live Verification Program. These entities include the Euribor Steering Committee, the EMMI Board of Directors, and the EMMI General Assembly.



### **Euribor Steering Committee**

The Euribor Steering Committee is an independent committee composed of a balanced representation of stakeholders, including end-users and contributors, that exercises an independent oversight of all aspects, in particular the governance and methodological aspects, of the provision of the Euribor benchmark.

As such, the Euribor Steering Committee serves as the primary governing body with oversight responsibility over the Euribor+ Project and the transition from current Euribor to the transaction-based benchmark. The Steering Committee is specifically responsible for developing and approving changes to the benchmark's methodology and setting up the guidelines for determining the feasibility of the *seamless transition*. To this end, the Steering Committee is responsible for the development of criteria (i.e. indicators and other qualitative criteria) for the go/no-go of the *seamless transition* of Euribor to a transaction-based methodology.

### **EMMI Board of Directors and EMMI General Assembly**

The EMMI Board of Directors and the EMMI General Assembly are responsible for reviewing and approving issues of high criticality related to the transaction-based Euribor and the transition, including the final transaction-based methodology and any requisite changes to the Euribor Code of Conduct and other governing documents, including any direct outputs of the Pre-Live Verification Program.

The EMMI General Assembly, upon recommendation from the EMMI Board of Directors and the Euribor Steering Committee, will be responsible for taking the decision of switching over to a transaction-based methodology for Euribor on the basis of the below-mentioned criteria, consultation with the relevant competent authorities and appropriate stakeholder consultation.<sup>2</sup>

In addition to the EMMI governing bodies, EMMI has established working groups, including the Euribor+ Task Force, which has specific responsibilities related to the transition from the current Euribor determination methodology to the transaction-based methodology.

### **Euribor+ Task Force**

The Euribor+ Task Force, composed of representatives of EMMI, as well as banking and benchmark user professionals and third-party experts, is responsible for addressing issues related to the technical and methodological design of the transaction-based benchmark. The ECB provides technical expertise to the Task Force.

In the context of the Pre-Live Verification Program, the Euribor+ Task Force will be responsible for providing input to key aspects of the Pre-Live Verification Program including the methodology, criteria for go/no-go, and communication and strategy. The Euribor+ Task Force will also be consulted on certain elements of the data analyses undertaken by the EMMI Secretariat in the context of the Pre-Live Verification Program.

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<sup>2</sup> Membership of the General Assembly, competences, and voting rights are fully described in EMMI's statutes, available at <http://www.emmi-benchmarks.eu/assets/files/D2717M-2013-EMMI%20revised%20articles%20of%20Association%20Dec2014-website.pdf>

These governance bodies and working groups are supported by the EMMI Secretariat.

### **EMMI Secretariat**

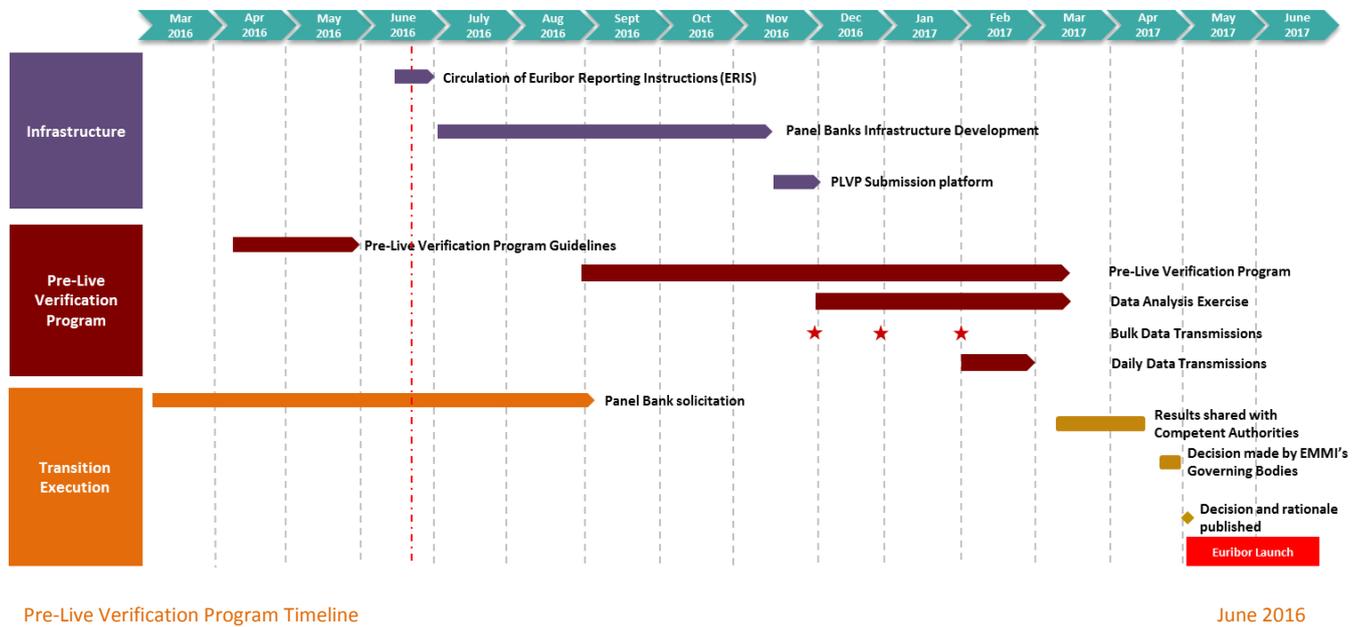
The EMMI Secretariat supports the activities of the Steering Committee and the Euribor+ Task Force, and broadly performs other project management activities to ensure that the Euribor+ Project is kept on track. With regard to the Pre-Live Verification Program, the EMMI Secretariat is responsible for managing the strategy and methodology development, collection of data, data storage, and data analysis. In addition, the EMMI Secretariat serves as the day-to-day liaison between EMMI's governing bodies and participating banks on all matters relating to the Pre-Live Verification Program, including data transmission, confidentiality arrangements, and general questions about the data analysis exercise. The EMMI Secretariat will also be primarily responsible for the data analysis and the preparation of results of the Pre-Live Verification Program.

## **4 TIMELINE OF THE PRE-LIVE VERIFICATION PROGRAM**

The Pre-Live Verification Program can be regarded as the last phase of the Euribor+ Project prior to the decision making process and the transition to the transaction-based methodology, and can be broken down into the following components:

- i. **Pre-Live Verification Program Guidelines – June 2016.** The Guidelines intend to provide a description of the Pre-Live Verification Program and establish the Program's Governance, detailing what are the different entities involved in the Program and what are their roles and responsibilities in the oversight of the different elements.
- ii. **Euribor Reporting Instructions (ERIS) – June 2016.** The Euribor Reporting Instructions are only applicable to banks participating in the Pre-Live Verification Program and will provide more detailed information on the operational aspects and reporting format. Participating banks will be asked to follow the ERIS to ensure a smooth progress of the Data Analysis Exercise.
- iii. **Reporting Period – September 2016 through February 2017.** Participating banks will be asked to submit their transactions during a six-month period. Reporting will take place in three bulk data transmissions, followed by a one-month daily transmission period. More details are provided in Section 5(b) below.
- iv. **Data Analysis Exercise – December 2016 through March 2017.** The Data Analysis Exercise (the "Exercise") is the core component of the Program. At the time of conclusion of the Exercise, EMMI will be able to provide the market with a design of the transaction-based methodology parametrized to the current market reality and conditions. In view of the output of the data analyses that will be performed during the Pre-Live Verification Exercise, EMMI will be able to assess the feasibility of a *seamless transition* to the transaction-based methodology.

Significant infrastructure development work will have to be performed on the participating banks' side – as well as on EMMI's side – to allow for a **timely, accurate, and reliable daily contribution** toward the Euribor determination. As such, the Pre-Live Verification Exercise will serve to test the submission and data collection infrastructure, as well as the calculation infrastructure.



The following five steps will follow upon conclusion of the Program:

- v. **Consultation with competent authorities and stakeholders – April 2017.** As a first step, EMMI will share the results of the Pre-Live Verification Exercise with its supervisor and other relevant public authorities. EMMI will seek feedback from Panel Banks and associations representing the stakeholder community to understand what spread would be considered acceptable within tolerance levels. To ensure that the market conditions do not change significantly since the end of the Pre-Live Verification Exercise and to meet the timeline and deliver a transaction-based Euribor by Q2 2017, EMMI will most likely consult panel banks and stakeholders by organizing workshops. Issues regarding to the methodology will be presented to the Euribor+ Task Force.
- vi. **Decision by EMMI’s Governing Bodies – April/June 2017.** On the basis of the outcome of the Data Analysis Exercise, after consultation with the relevant supervisory authorities, panel banks, and stakeholders, the EMMI General Assembly will take the final decision to go/no-go to a transaction-based Euribor via a *seamless transition* path. Throughout the decision-making process, EMMI will implement and abide by confidentiality arrangements established between the participating banks and EMMI (as discussed in Section 8).
- vii. **Notification of decision and rationale to the supervisory authorities – April/June 2017.** The decision of the General Assembly will be notified to the supervisory authorities.
- viii. **Communication of decision and rationale – April/June 2017.** The decision of the General Assembly will be communicated to the market.
- ix. **Transaction-based Euribor launch – May/June 2017.** Contingent to the timely development of the contribution and calculation infrastructure, the positive outcome of the impact assessment carried out during the Pre-Live Verification Exercise, and approval by the General Assembly, EMMI foresees a



transition from a quote-based to a transaction-based methodology for Euribor during H1 2017. EMMI will be able to provide a more concrete switch-over date by February 2017.

## 5 PARTICIPATING BANKS

As part of the Pre-Live Verification Program, participating banks will be requested to:

- » Collect and filter relevant transaction-level data in accordance with the Euribor Reporting Instructions – ERIS;
- » Submit data to EMMI using submission methods outlined by EMMI;
- » Implement and maintain the necessary infrastructure to submit data to EMMI in an accurate and timely manner;
- » Ensure the quality, integrity, and accuracy of its Pre-Live Verification Program data submission(s);
- » Cooperate with EMMI in the event data submissions require revision or clarification.

All participating banks' activities undertaken with respect to the Pre-Live Verification Program will be subject to confidentiality measures described below in Section 8.

### *(a) Data Reporting Guidelines*

Participating banks reporting of transaction data should be conducted for all EU and EFTA branches and subsidiaries associated with the respective participating bank. The precise entities within a given participating bank for which transactions should be reported will be decided on a case-by-case basis between EMMI and the participating bank. The general principle is to achieve EU/EFTA-wide coverage of a participating bank's activities, but there may be instances where some EU/EFTA activities may be excluded. Intragroup transactions should always be excluded from the scope of reporting.

Participating banks may choose to provide a single consolidated daily transmission or separate transmissions for individual participating bank's branches and subsidiaries ("Reporting Entities"). The participating bank's preferred reporting method (i.e. consolidated or multiple entities) and, if using the multiple entities method, the list of Reporting Entities must be established in advance. EMMI will use this information to determine the participating bank's "Reporting Entity or Entities" for purposes of managing and monitoring the participating bank's expected submissions.

For each Reporting Entity within an individual participating bank, participating banks must provide a daily data submission. Those participating banks which will be transmitting Money Market Statistical Reporting ("MMSR")<sup>3</sup> data to the ECB during the Pre-Live Verification Program reporting period may submit to EMMI their "Daily Unsecured Money Market Segment" data files to meet the Pre-Live Verification Program reporting requirements. Participating banks may choose to anonymize the transactions included in the data file, as long as all other required data fields remain intact. No other filtering of the MMSR data file is needed prior to

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<sup>3</sup> <https://www.ecb.europa.eu/stats/money/mmss/html/index.en.html>

provision to EMMI – EMMI will disregard ineligible transaction records and data fields not relevant to Euribor processing.

During the Pre-Live Verification Program reporting period, participating banks should provide, *at a minimum*<sup>4</sup>, the rates, volumes, and other requested data fields for all transactions that meet the criteria I-III described below – the Euribor Reporting Instructions (ERIS) will further describe the specific data fields required, that will largely align with those requested by the ECB in its MMSR instructions. The frequency of transmissions is detailed in Section 5(b).

All reporting requirements should be considered according to the Euro money market convention. These refer to the TARGET<sup>5</sup> rate calendar, ACT/360 day count conventions, and modified following business day with month-end adjustment convention.

For the purposes of the Pre-Live Verification Program, there is no filtering requirement on transaction tenors or maturity windows, as all unsecured transactions will be used by EMMI as part of the data analysis effort.

#### **I. Transaction Denomination and Timing**

Participating bank's own Euro-denominated borrowing transactions executed on a given day during TARGET opening hours.

#### **II. Transaction Type and Counterparty**

Transactions which are conducted in the wholesale, unsecured short-term money markets, including:

- » Unsecured cash deposits attracted from the following counterparties, irrespective of their geographic location:
  - › Deposit-Taking Corporations, except those of the Central Bank subsector;
  - › Money market funds (MMFs);
  - › Non-MMF investment funds;
  - › Other Financial Institutions;
  - › Official Sector Institutions;
  - › Non-financial corporations that are not categorized as small business customers in the Basel III LCR regulations (only unsecured wholesale funding providing by customers that qualify as non-financial corporates according to the ECB's MMSR reporting instructions should be considered);
  - › Insurance Corporations; and

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<sup>4</sup> The extensive data analysis undertaken as part of the Pre-Live Verification Program will allow EMMI to assess conditions of the market underpinning the Euribor benchmark. In parallel to the Euribor reform, EMMI is undertaking a comprehensive review of the Eonia benchmark. To support the EMMI Secretariat in this effort, a dedicated Eonia Task Force has been established. Members of the Eonia Task Force recommended an in-depth analysis of the overnight lending euro market intended to provide a quantitative foundation on which to propose modifications and refinements to the current Eonia methodology. To this end, EMMI asks banks participating in the Pre-Live Verification Program to also include, as part of their data submission during the Pre-Live Verification period, all their anonymized euro-denominated overnight lending transactions.

<sup>5</sup> TARGET stands for Trans-European Automated Real-time Gross settlement Express Transfer System. The Eurosystem maintains TARGET2, which is the second generation of TARGET and is a real-time gross settlement system. Throughout this document, references to "TARGET" should be read with respect to the Eurosystem's TARGET2 system.

› Pension Funds.

These counterparties largely align with the counterparty sector categorized outlined in the ECB’s MMSR reporting instructions. These reporting instructions use the definitions of institutional sectors defined by the revised European System of Accounts (ESA 2010) developed by the European Union’s Eurostat group.<sup>6</sup> The table below maps the transaction counterparties participating banks should filter for in their data collection activities to the respective ESA 2010 designation and MMSR data field input. Furthermore, the ESA 2010 provides additional guidance and examples for each of the institutional sectors and sub-sectors referenced in the table below.

It should be noted that for purposes of the Pre-Live Verification Program, participating banks are also requested to include transactions executed with official sector institutions categorized in the “Rest of the World (S.2)” counterparty sector. Whenever the counterpart of the contributor lies outside the EU, the best possible approximation of the sector classification can be applied.

Euribor Eligible Transaction Counterparty Classification	ESA 2010 Designation	MMSR Code List Name	MMSR “COUNTERPARTY SECTOR” Data Field Input
<b>Deposit-Taking Corporations except the Central Bank</b>	S.122	CL_COUNTERPARTY_SECTOR	S.122
<b>Other Financial Institutions</b>	S.123	CL_COUNTERPARTY_SECTOR	S.123
	S.124	CL_COUNTERPARTY_SECTOR	S.124
	S.125	CL_COUNTERPARTY_SECTOR	S.125
<b>Official Sector Institutions</b>	S.121	CL_COUNTERPARTY_SECTOR	S.121
	S.13	CL_COUNTERPARTY_SECTOR	S.13
	S.2	N/A	N/A
<b>Non-financial Corporations</b>	S.11	CL_COUNTERPARTY_SECTOR	S.11
<b>Insurance Corporations</b>	S.128	CL_COUNTERPARTY_SECTOR	S.128
<b>Pension Funds</b>	S.129	CL_COUNTERPARTY_SECTOR	S.129

- » Short-term securities (i.e. CPs, ECPs, CDs, ECDs, and others) irrespective of the type and location of the counterparty.

Over the Pre-Live Verification reporting period transactions involving floating rate instruments **should be included**. The reporting will be made using the MMSR format for these transactions, providing, in particular the index to which these instruments are linked, as well as the relevant spread, if any. The reporting of these transactions will enable EMMI to conduct data analysis during the Pre-Live Verification period for their possible incorporation into the benchmark calculation.

*Deposits or securities with embedded options **should not be included**.*

### III. Transaction Settlement Dates

Transactions with the following standard value date window for each TARGET day is T, T+1, T+2.

<sup>6</sup> <http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF>

During the Pre-Live Verification reporting period, participating banks that are Euribor Panel Banks are also expected to provide separately their daily submissions to the determination of the Euribor benchmark rate, under the existing determination methodology and submission mechanism. Such submissions should be made in alignment with the Euribor Code of Conduct and Code of Obligation of Panel Banks published in October 2015.

**(b) Data Transmission**

For the first 3 months of the Pre-Live Verification Program reporting period, i.e. between September 1, 2016 and November 30, 2016, participating banks will provide EMMI with a single bulk data submission at the end of the third month (November 30, 2016). This bulk data submission should include the relevant data, covering the previous 3 months’ TARGET days. As described above, participating banks which are part of the ECB’s MMSR program may submit their “Daily Unsecured Money Market Segment” data files for the 3 month period.

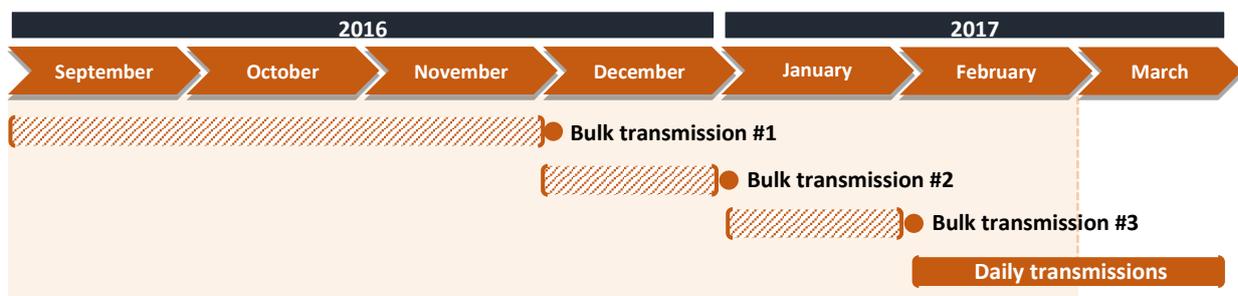
Between December 1, 2016 and January 31, 2016, participating banks will provide bulk submissions at the end of each month (December 31, 2016 and January 31, 2016, respectively). These bulk submissions should include the relevant data, covering data from the previous month’s TARGET days.

Submissions for each bulk period will be due within 10 TARGET days following the period end-date:

	Reporting period	Due by
<b>Bulk submission #1</b>	1 September – 30 November 2016	14 December 2016
<b>Bulk submission #2</b>	1 December – 31 December 2016	13 January 2017
<b>Bulk submission #3</b>	1 January – 31 January 2017	14 February 2017

Bulk submissions will be done through a secure file transfer protocol established by EMMI. The specifications for the file transfer protocol will be socialized with participating banks prior to the beginning of the Pre-Live Verification Program.

Beginning on February 1, 2016, participating banks should transmit their data submission to EMMI on a *daily* basis using the submission infrastructure designed to support submission activities following transition to the transaction-based methodology for calculating Euribor. Daily transmissions must occur between 18:00 CET and 10:00 CET of the following TARGET day.



Data transmissions during the Pre-Live Verification Program

EMMI will be working with participating banks to ensure that the submission infrastructure is implemented and operational by mid-November 2016.

### **(c) Data Quality and Amendments**

Participating banks are responsible for ensuring that their data submissions to EMMI are accurate, comprehensive, and compliant with the reporting guidelines specified by EMMI. As such, participating banks must ensure that the appropriate controls are implemented to mitigate the risk of data errors or transmission issues.

During the daily data transmission period (from February 2017 onwards) amendments to data submissions will be allowed in the event the amendment is made prior to the 10:00 CET cutoff. Amendments to daily data submissions after the 10:00 CET cutoff must be discussed directly with the EMMI Secretariat and will be decided on a case-by-case basis.

The reporting of amendments to individual contributions contained in the bulk data submissions will be further detailed in the Euribor Reporting Instructions – ERIS.

Errors arising from the compilation or transmission of bulk data submissions shall be coordinated between EMMI and participating banks on a case-by-case basis.

## **6 DATA ANALYSIS EXERCISE**

The Data Analysis Exercise (December 2016 – March 2017) is a core component of the Pre-Live Verification Program and it will allow EMMI to parametrize the finalized design of the transaction-based methodology to the current market reality and conditions. This exercise will moreover be a key input to EMMI's assessment of the feasibility of a *seamless transition* to the transaction-based methodology.

### **6.1 INDICATORS FOR GO/NO-GO DECISION**

EMMI will establish comparative indicators between Euribor calculated under the current and new methodology in order to provide an objective input to a decision on whether to proceed with the new methodology. These indicators include:

#### ***Spread***

The level of the transaction-based rate with respect to the current quote-based Euribor index is the first indicator EMMI will look at during the analysis of the data during the Data Analysis Exercise. The impact of the new methodology on the rate shall be assessed in the context of the prevailing interest rate environment.

#### ***Volatility***

The second indicator that EMMI will study as part of the data analysis exercise is the volatility of the rate obtained following the transaction-based methodology envisaged by EMMI and published in the October 2015 Consultative Paper.

### **Daily non-zero volumes**

For the transaction-based methodology developed by EMMI to yield a robust and reliable benchmark, a stable daily non-zero transactional volume must be reported by a representative number of banks in the panel. EMMI will study the distribution of reported volume and the frequency of reliance on gap-filled data.

Following the recommendation of the Euribor+ Task Force, EMMI does not consider it prudent to set hard quantitative thresholds for the above metrics due to the possible disruptive effects of a marginal departure, higher or lower, from such a threshold. Rather, EMMI will observe the guidance that was provided in the October 2015 Consultative Paper, namely that an updated evaluation of the quantitative impacts will be made as part of the Pre-Live Verification Program and such impacts will be assessed for comparability to the impact levels observed in the 2012/13 data exercises.

Other issues such as data sufficiency, level of Panel Bank participation, and qualitative criteria including operational readiness, will all need to be taken into account and weighed appropriately in EMMI's decision. Further indicators may be used as the Program evolves.

EMMI will consult with relevant public authorities on the criteria and threshold ranges that are used to guide the go/no-go decision. The EMMI General Assembly, as the primary body responsible for approving strategic and high critical issues of the administration of the Euribor benchmark, is ultimately responsible for (i) making a decision on whether to execute a *seamless transition* to the transaction-based Euribor methodology, (ii) opting for an alternative transition path which could require prolonging the current Euribor methodology to enable market preparedness, or, (iii) if deemed appropriate, delaying the transition until the design methodology can be revised to suit the current market conditions. In making a final decision, the EMMI General Assembly may employ appropriate discretion in evaluating the various criteria and will take into consideration the views of relevant market stakeholders and competent authorities.

## **6.2 KEY DESIGN ELEMENTS: PARAMETRIZATION OF CONTINGENCY TRIGGERS**

The need for fallback arrangements as part of the transaction-based methodology is inherent to the nature of any transaction-based benchmark. In case of data insufficiency, and in order to guarantee the publication of Euribor under exceptional circumstances, EMMI has designed a tiered contingency approach that ensures the benchmark's distribution without disruption to the market.

As part of the Data Analysis Exercise, EMMI will establish thresholds for minimum daily volume and minimum number of contributors below which the Tier 1 methodology envisaged by EMMI (see page 18 of the October 2015 Consultative Paper) shall be triggered.

## **6.3 REASSESSMENT/REPARAMETRIZATION OF DESIGN CHOICES**

**Gap-filled days:** The core calculation methodology of the transaction-based Euribor is designed to ensure daily data sufficiency while still relying on real transactions. The methodology uses, in case a Panel Bank has no transaction to report on a given day, the most recent volume-weighted average rate within a given number of

days (usually referred to as *gap-filling technique*). The initial parametrization of the number of days the methodology looks back in search of the most recent volume-weighted average rate, based on 2012/13 data, was set at 4 TARGET2 days, for the 1 week, 1 month, 3 month, and 6 month tenors, and at 6 TARGET 2 days for the 12 month tenor. EMMI will carefully reassess the gap-filling parameters under the current market conditions and the subsequent decision will be published in due course.

**Inclusion/exclusion of non-financial corporates:** The effect of the inclusion/exclusion of non-financial corporates as eligible counterparties on the rate and volatility levels of the transaction-based benchmark, under current market conditions, will be analyzed. An assessment of this effect and the subsequent decision will be published in due course.

**Reassessment of tenors:** The Position Paper indicates that after the implementation of the transaction-based methodology, the Euribor benchmark will be calculated for the following five tenors: 1 week, 1 month, 3 months, 6 months, and 12 months. During the Program, EMMI will perform a data sufficiency analysis to all current Euribor tenors (and, in particular, the 2 month tenor) to assess any possible shift in liquidity that justifies any change in EMMI's original intention.

**Inclusion of floating-rate instruments:** The blueprint of the transaction-based methodology published in the Position Paper did not envisage transactions conducted at a floating-rate as eligible toward the calculation of the benchmark. While these instruments will not be included in the initial launch of the transaction-based methodology, EMMI will collect data on such instruments as part of the Pre-Live Verification Program in order to evaluate whether such transactions are a sufficiently important source of volume.

## 7 CONFIDENTIALITY

EMMI is committed to protecting confidential information and commercially sensitive data, and therefore, all data collected and analyzed by EMMI throughout the Pre-Live Verification Program will be subject to EMMI's strictest confidentiality standards and protocols. Each EMMI employee is governed by and held accountable for compliance with the EMMI Confidentiality Policy, which establishes controls and protocols for the management and security of commercially sensitive information.

In addition, EMMI will enter into individual Non-Disclosure Agreements ("NDAs") with all participating banks prior to the commencement of the Pre-Live Verification Program. The NDAs will govern all transmittal of data between participating banks and EMMI as well as the management of submitted data and any disclosure of analysis results. In particular, the NDAs will specify, at minimum, that:

- » EMMI will not use any submitted data in any manner beyond what has been agreed upon with the participating bank in the NDA without the prior written consent of the participating bank;
- » EMMI will ensure that each of the EMMI employees permitted to access the submitted data are bound by confidentiality requirements and other constraints designed to mitigate conflicts of interest or improper use of such information;
- » EMMI will be allowed to share reports and/or analysis of the submitted data following appropriate anonymization protocols, such that it is not possible to reverse engineer the submitted data; and

- » EMMI will be permitted to disclose submitted data if it is required to do so by law or any competent regulatory authority (in which case EMMI shall give participating banks prompt advance written notice of such disclosure).

Prior to the Pre-Live Verification Program, the EMMI Secretariat will assess potential conflicts of interest within the membership of key governance bodies and working groups, including the Euribor+ Task Force, the Euribor Steering Committee, and EMMI Board of Directors and General Assembly. Any members who may be privy to reports or analysis resulting from the Pre-Live Verification Program and whose participation in such governing bodies raises potential conflicts of interest may be bound to additional confidentiality restrictions.

## **8 PUBLICATION OF RESULTS**

Following analysis of the submitted data and assessment of the analysis results against the go/no-go criteria, EMMI will draft a Pre-Live Verification Report summarizing its conclusion and supporting findings.

The Pre-Live Verification Report will be reviewed by the EMMI Board of Directors and General Assembly. Upon approval of these bodies, the Report will be shared with relevant official sector institutions and competent authorities. Based on the feedback of the governance bodies and competent authorities, EMMI will publish a version of the Report for public review.

Due to the market-sensitive nature of the verification data and the decision on whether or not to proceed with the transition, the timing of results publication will be carefully coordinated so that no parties gain undue market advantage. In particular, banks participating in the Program and banks in the Panel of any of the EMMI benchmarks will be treated as any other stakeholder and will not have privileged access to the results of the Analysis nor the Report.