



European Money Markets Institute

Euribor Intraday Re-fixing Policy

| Version | Approval date | Approval Body | Reference |
|-----------|-------------------|------------------|-------------|
| Version 1 | 17 September 2015 | General Assembly | D0356B-2015 |

Table of Contents

| | |
|--|---|
| 1. Introduction | 3 |
| 2. Objective | 3 |
| 3. Operational Implications..... | 4 |
| 4. General Principles | 4 |
| 4.1 Intraday Re-fix Cut-Off Time..... | 5 |
| 4.2 Threshold for materiality of errors..... | 5 |
| 4.3 Appropriate period for notifying changes in thresholds..... | 5 |
| 4.4 Disclosure of errors smaller than the materiality threshold..... | 5 |
| 5. Conclusion | 6 |

1. Introduction

The European Money Markets Institute (EMMI) Euribor Steering Committee adopted this Euribor Intraday Re-fixing Policy (hereinafter “Policy”) on **14 September 2015**. It was endorsed by the EMMI General Assembly on **17 September 2015**. This Policy is applicable to the administration and operation of the Euribor benchmark.

As a critical benchmark, Euribor is of systemic importance for financial stability. The notional volume of outstanding financial contracts indexed to Euribor is estimated to be greater than €180 trillion¹. Euribor is used notably as an index for Over-The-Counter (OTC) and exchange-traded derivative contracts, corporate loans, retail mortgages, floating rate bonds and securitized debt products. In particular, approximately 28% of the retail mortgages in the Euro Area (\$1.4 trillion) are indexed to Euribor².

While EMMI recognizes the robust control framework and procedures put in place by panel banks and by the calculation agent, which conducts a set of daily pre-calculation checks to validate the quality, accuracy, and reasonableness of submitted rates and to avoid errors during the contribution process, EMMI acknowledges that errors may occur. Given the importance of the Euribor benchmark in the financial system, EMMI believes that any potential error could have a significant impact on financial contracts. In this context, a transparent approach in handling errors is crucial.

2. Objective

On 4 June 2015, seeking to obtain stakeholders’ views, EMMI launched a consultation on the convenience of setting up intraday refixing for Euribor rates in the event of an error being found.

The consultation paper sought to gather stakeholders’ feedback on:

- the appropriateness for re-publishing a rate in the event that an error is found;
- appropriate timeframe for benchmark submitters or calculation agent to inform EMMI should an error be found;
- materiality threshold of the error;
- appropriate notice period for the review of thresholds;
- appropriateness of publishing errors should they be discovered after the proposed cut-off time for the relevant day or should they be smaller than the materiality threshold.

As part of the consultation, EMMI proposed a cut-off time for reporting any errors, as well as a materiality threshold.

¹ Financial Stability Report on Reforming Major Interest Rate Benchmarks:
http://www.financialstabilityboard.org/wp-content/uploads/r_140722.pdf?page_moved=1

² Market Participants Group on Reforming Interest Rate Benchmarks:
http://www.financialstabilityboard.org/wp-content/uploads/r_140722b.pdf

The consultation on Euribor intraday re-fixing was designed in accordance with the EMMI Benchmarks' Consultation Policy³ adopted on 4 November 2014, which establishes that EMMI shall consult stakeholders publicly on proposed material changes to the Euribor benchmark.

3. Operational Implications

While EMMI is in favour of an enhanced transparency and therefore supports the publication of errors, EMMI is aware that correcting an error on the same day after the publication of the Euribor rate, or "intraday re-fixing", could increase operational risks as well as have implications for a number of parties.

As per the feedback received from the consultation, the following operational implications, among others, may arise from the implementation of an intraday re-fixing policy:

- The hedging of contracts referencing Euribor might be affected by re-fixing the rate
- Correcting an error after the rate has been published could increase the volatility of the market
- Risk of confusion or misinterpretation of the valid rate by market participants
- Significant costs in terms of time and operational risks could derive from manually correcting contracts

4. General Principles

Following the outcome of the consultation, many factors shall be considered in the designing, planning, and setting up intraday re-fixing for Euribor rates in the event of an error being found.

- Promoting and ensuring the integrity of the Euribor fixing
- Ensuring consistency of the publication of the rate among all vendors
- Acknowledging and assessing the operational impacts for end-users
- Safeguarding contractual integrity
- Publishing transparent and clear guidelines to give stakeholders more insight in the reliability of the fixing procedure.
- Aligning with existing or forthcoming international standards or regulations
- Periodically reviewing the terms established in this policy in accordance with the market conditions, and ensuring that any changes are implemented minimising any potential disruption for market participants

³ EMMI Benchmarks' Consultation Policy :
http://www.emmi-benchmarks.eu/assets/files/D0365C-2014-EMMI%20Consultation%20Policy%20procedures_4%20Nov14.pdf

To this end, the following conditions are to be applied:

- A threshold for materiality of errors
- A cut-off time for reporting any errors to EMMI
- An appropriate notice period for any changes to the proposed thresholds

4.1 Intraday Re-fix Cut-Off Time

Stakeholders were asked to determine whether a cut-off time for reporting an error should be established.

While the majority of the respondents agreed on the need to establish a cut-off time, there are different views as to when should the cut-off time take place.

As per the feedback received and subsequent discussions within EMMI governing bodies, 2pm CET is established as the cut-off time to report any errors to EMMI for an intraday re-fixing to be considered.

4.2 Threshold for materiality of errors

The consultation asked stakeholders to determine whether a materiality threshold for intraday re-fixing should be established. In light of the current market conditions, the majority of the respondents agreed that 2 basis points of the published Euribor would be an appropriate threshold.

As per the feedback received and subsequent discussions within EMMI governing bodies, 2 basis points is established as the threshold for materiality of errors.

Overall, it must be highlighted that the threshold should indeed be reviewed periodically to ensure that it reflects markets' volatility and general conditions.

4.3 Appropriate period for notifying changes in thresholds

Some participants expressed that a notice period is not necessary since changes in the thresholds should not affect submission processes. Notwithstanding, for the sake of minimising any potential market disruption, EMMI will review the established thresholds periodically to ensure that they reflect the market conditions appropriately and give a notice period of 3 months unless a shorter timeframe is required by a matter of urgency or established by any regulation.

4.4 Disclosure of errors smaller than the materiality threshold

The majority of the respondents agreed that a disclosure of any errors (even those below the established threshold) would be positive for the sake of transparency of the Euribor contribution and calculation process. However, it must be noted that several participants shared their concerns on the disclosure of these errors. To this end, EMMI acknowledges that a robust communication strategy is key to avoid legal issues and lack of confidence among market participants.

To minimise any potential disruptions, EMMI will disclose any errors smaller than the materiality threshold on a quarterly basis.

5. Conclusion

EMMI confirms that should a re-fixing be implemented, it will be a re-fixing of the Euribor rate fixed at 11:00 am CET.

In this event, EMMI will:

- Publish promptly and, at the latest, shortly after 2 PM CET, an announcement on its website stating that a re-fixing will take place and for which tenor(s)

<http://www.emmi-benchmarks.eu/euribor-org/euribor-rates.html>

- Communicate promptly and, at the latest, shortly after 2 PM CET, to all authorized data vendors
- The publication of the re-fixed rate shall occur no later than 3 PM CET