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CONSULTATION PAPER

ON A

HYBRID METHODOLOGY

FOR

EURIBOR

Summary of stakeholder feedback

28th June 2018

European Money Markets Institute
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*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 (56, Avenue des Arts, 1000 Brussels.*

As per EMMI's statutes, its purpose is twofold:

I. *The development and support of 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.*

II. *In ancillary, the association shall also serve to support other practical initiatives fostering the integration of the European financial market such as but not limited to the improvement of the liquidity, safety and transparency of the European short term debt market by means of a harmonized framework for short-term European paper 'STEP'.*

EMMI currently provides the following two indexes: Euribor®, the money market reference rate for the euro and Eonia®, the effective overnight reference rate for the euro.

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Executive Summary

On 26th March 2018, EMMI published its first Consultation Paper on a Hybrid methodology for Euribor to present its approach composed of a three-level waterfall, and to gather the market's views on certain features of the current publication process.

The consultation period closed on 15th May 2018, and EMMI received 36 responses from a range of institutions, including banks, trade associations, infrastructure providers, and others.

1. Clarification of Euribor underlying interest

The majority of the respondents (34 out of 36) agreed with EMMI's proposed clarification of Euribor's underlying interest as follows: *"Euribor is a measure of the rate at which wholesale funds in euro could be borrowed by credit institutions in the EU and EFTA countries in the unsecured money market*."

2. Discontinuation of publication of individual Panel Banks' submissions

The majority of the respondents (31 out of 34) supported the discontinuation of panel banks' individual contributions as these could reveal market-sensitive information which could jeopardize a banks' ability to raise funds in the marketplace, and ultimately deter financial institutions from participating in the daily determination of the index. Hence, as from 3 December 2018, individual panel banks' submissions towards the determination of the Euribor benchmark will not be published.

3. Euribor transparency and key indicators

The discontinuation of the publication of individual Panel Banks' submissions towards Euribor should not weaken the index's transparency. In this context, EMMI asked for feedback as to other informative indicators to be published in addition to the Euribor daily rates. As part of the testing period of the hybrid methodology which is currently being conducted, EMMI will assess, taking into account the feedback received in response to this question, what are the indicators (and respective frequency of publication) that will provide the best and most transparent insight into the benchmark determination.

4. Cessation of tenors

In the light of the broad support received, EMMI will pursue with the cessation of the 2 week, 2 month and 9 months Euribor tenors as from 3 December 2018. Feedback also confirms that reliance of financial products and contracts on these tenors is less significant.

5. Overnight Euribor tenor

Based on the feedback received, EMMI does not consider that there is sufficient appetite to start producing an overnight tenor for Euribor following the implementation of the hybrid methodology.

6. Discontinuation of 30/360 and Act/365 basis publication

EMMI found broad support in its proposal to simplify the publication process by only calculating and publishing Euribor on an Act/360 day count basis as of 3 December 2018.

EMMI is currently undertaking an in-depth testing of the proposed methodology under live conditions scheduled from May to August 2018. A second consultation providing further details on some of these parameters is scheduled for Q3 2018

Introduction

On 26th March 2018, the European Money Markets Institute published its Consultation Paper on a hybrid methodology for Euribor. The Consultation Paper described EMMI's ongoing efforts to reform the Euribor benchmark, setting out in more detail EMMI's proposed hybrid methodology for Euribor. By providing further insight on the methodology's development work, EMMI expected to get a reliable indication of the market's opinion and view on the proposed methodology.

The consultation period closed on 15th May 2018, and EMMI received 36 responses from a range of institutions, including banks, trade associations, infrastructure providers, and others. A list of respondents can be found in Annex 1.

This document summarizes the respondents' feedback to EMMI's questions. In the first section, we provide general trends of responses and opinions to the six closed-ended questions EMMI put forward in the Consultation Paper. In turn, in the second section, we provide an account of the questions and concerns transmitted to EMMI in the more general "Other comments" box at the end of the Consultation Paper. In both sections, if appropriate, EMMI provides its view on the issues raised, going further into detail on some of them. In the last section, we provide some details about next steps.

Feedback to the six questions in the Consultation Paper

1. Clarification of Euribor's Underlying Interest

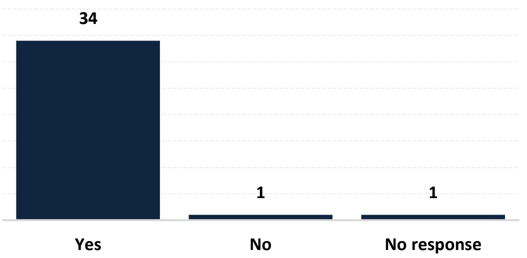
As explained in the Consultation Paper, in light of regulatory requirements and best practice, EMMI considered it helpful to differentiate, in the benchmark specification, between Euribor's Underlying Interest and a statement of its Determination Methodology. The Underlying Interest intends to represent the more fundamental element of the benchmark's specification, as **it defines the objective for establishing the benchmark**.

EMMI's proposal included a number of enhancements to the current Euribor specification. In particular, it sought to clarify Euribor's original intention to reflect bank's unsecured cost of funding, as well as to characterize the explicit reference to *interbank* deposits in the current Euribor definition just as one of the sources banks effectively rely on when attracting funding.

In the Consultation Paper, EMMI's clarification of Euribor's Underlying Interest was formulated as:

"the rate at which wholesale funds in euro could be obtained by credit institutions in the EU and EFTA countries in the unsecured money market."

On the clarification to Euribor's statement of Underlying Interest



Number of respondents (2018)

While almost all feedback received by EMMI was supportive of the proposal, a few respondents required further clarification on the meaning of the term 'wholesale.' Respondents indicated the term is open to interpretation, and there is not a market-wide unique definition or understanding of whether specific counterparties would qualify as 'wholesale.' EMMI understands these concerns, but believes the term broadly captures the meaning of what the index intends to measure. The precise definition of 'wholesale' for the purpose of the benchmark (reflected, for example, in the kind of counterparties that will be eligible toward the calculation of a bank's contribution) will be included in the updated Governance Framework for Euribor, and in particular, in its Benchmark Determination Methodology component.

Two respondents commented on EMMI's explicit reference to Regulation (EU) No. 575/2013 in the definition of credit institution for the purpose of the benchmark. EMMI believes that reference to a term defined in European law provides a common and better understanding of the economic reality the benchmark intends to represent, leaving aside possible misinterpretations. EMMI will therefore retain the definition of *credit institution* as in the Regulation above.

Other suggestions tackled aspects of Euribor that are a better fit for the statement of the benchmark methodology, as they elaborate on issues like counterparty types and transaction-data sources, among others.

On the basis of the support and feedback received, EMMI has decided the following as the **final version** of the clarification of Euribor's underlying interest:

> Euribor is a measure of the rate at which wholesale funds in euro could be borrowed by credit institutions[1] in the EU and EFTA countries in the unsecured money market.

[1] For the purpose of Euribor's underlying interest, 'credit institution' has the meaning as specified in Article 4(1)(1) of Regulation (EU) No. 575/2013, i.e. an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

2. Discontinuation of publication of individual Panel Banks' submissions

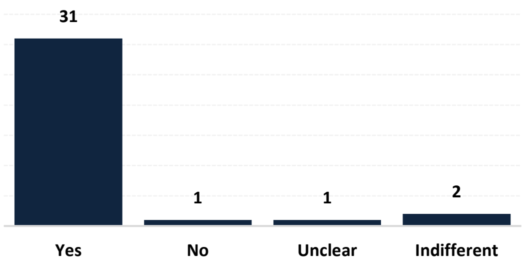
From 3rd December 2018 onwards, individual Panel Banks' submissions toward the determination of the Euribor benchmark will not be published.

As described in the Consultation Paper, under the new hybrid methodology, Panel Banks participating in the determination of the Euribor benchmark will be asked to rely on their own transactions, reflective of Euribor's underlying interest and as prescribed by the administrator, to determine their daily contribution. Panel Banks' individual submissions may hence reveal market-sensitive information, which could affect a bank's ability to raise funds if misinterpreted, and ultimately deter financial institutions from participating in the daily determination of the index. This would pose a threat to Euribor's stability, and ultimately to the stability of the financial system.

EMMI has received broad support for the discontinuation of individual panel banks' contributions. From the responses, EMMI concludes that six months is enough lead time for the market to prepare for the discontinuation of the publication of this information.

Furthermore, respondents strongly supported EMMI's consideration that the implementation of this measure would not undermine the index's transparency. The recommendations and requirements of the IOSCO Principles and the EU BMR, respectively, do not consider this information as a key transparency indicator.

On the discontinuation of the publication of individual Panel Banks' submissions



Number of respondents (2018)

Among the considerations in favor of this action, feedback indicated that the discontinuation of the publication of individual Panel Banks' submissions may encourage other banks to join the Euribor Panel. Respondents also encouraged EMMI to discontinue making available individual submissions within a shorter period of time, as there is effectively little to no use of individual contributions. EMMI welcomes this feedback, but considers that six months will allow, on the one hand, Panel Banks to review their internal controls and procedures (which may rely on these data) and, on the other hand, users and the market to understand, familiarize, and prepare for the change, if needed.

3. Euribor's transparency and key indicators

The discontinuation of the publication of individual Panel Banks' submissions towards Euribor should not weaken the index's transparency. In this respect, in the Consultation Paper, EMMI made clear its intention to publish, on a regular basis, aggregated anonymized indicators that would help users have a better understanding of the benchmark and the reality it intends to represent.

EMMI requested feedback from the public on the indicators—in addition to the daily Euribor rates—they considered would be most informative.

EMMI is currently embarked in the testing of the new hybrid methodology for Euribor. Once the testing period has concluded and the data has been analyzed, EMMI will assess, taking into account the feedback received in response to this question, what are the indicators (and respective frequency of publication) that will provide the best and most transparent insight into the benchmark determination. EMMI's proposal in this regard will be made public as part of the second Consultation Paper on a Hybrid Methodology for Euribor scheduled for the second half of 2018. Publication of these indicators will start by Q4 2019.

4. Cessation of tenors

From 3rd December 2018 onwards, the Euribor benchmark will be calculated and published for the following five tenors:

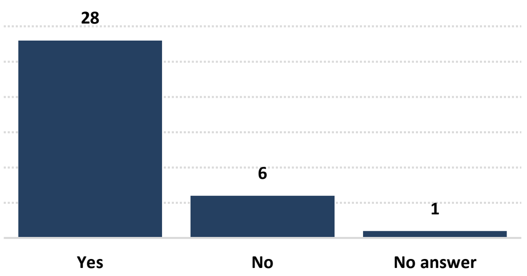
1 week **1 month** **3 months**
6 months **12 months**

As described in the Consultation Paper, Euribor is currently published for 8 maturities. In 2013, the number of maturities for which the benchmark was calculated and published was halved, following the recommendations of EBA/ESMA. The same European authorities, in their assessment of the implementation of their recommendations, indicated that EMMI "*should review, on a recurring basis, the use and underlying volumes of the* (Euribor) *tenors it offers, and consider further reduction in the number of tenors if appropriate.*"

The analyses carried out by EMMI during the Pre-Live Verification Program, which ran from September 2016 until the end of February 2017, confirmed the low levels of activity underpinning the determination of the 2 week, 2 months, and 9 months Euribor tenors.

EMMI has received broad support in its proposal to discontinue the publication of the 2 week, 2 months, and 9 months Euribor tenors. Feedback also confirms that reliance of financial products and contracts on these tenors is less significant.

On the cessation of tenors



Number of respondents (2018)

Respondents who considered that six months were not a long enough lead time for the market to prepare for the discontinuation of tenors, indicated their preference for EMMI to allow between nine and twelve months instead. Taking into consideration these comments, but also bearing in mind the cessation of tenors is being implemented in the context of the Euribor reform and the evolution to the hybrid methodology, EMMI has decided to shift the implementation date of the cessation of tenors from 1st October (as initially indicated in the Consultation) to 3rd December 2018. In this manner, EMMI wishes to provide sufficient time to allow for contractual arrangements, if necessary.[2]

[2] The International Swaps and Derivatives Association, Inc. (ISDA) reminded their members, in a communication on 6th June 2018, following EMMI's announcement, of the existence of the 2013 ISDA Discontinue Rates Maturities Protocol.

5. Overnight Euribor tenor

Based on the feedback received, EMMI does not consider there is sufficient appetite to start producing, following the implementation of the hybrid methodology, an overnight tenor for Euribor.

As mentioned in the Consultation Paper, as part of the Pre-Live Verification Program and the EONIA Review, EMMI analyzed transaction-level market data from participating banks over the period September 2016 – February 2017. As part of those analyses, EMMI observed that the size of the overnight (O/N) unsecured borrowing money market captured by participating banks would allow for the production of an overnight borrowing index.

In the Consultation Paper, EMMI asked stakeholders whether they would consider the publication of such a reference rate, in the form of an overnight tenor for Euribor, useful. Considering the context in which the development and publication of the rate would take place, i.e. with the new ECB's euro unsecured overnight interest rate under development,[3] EMMI suggested this tenor as a fallback rate to other overnight benchmarks.

Not a clear majority of respondents to the Consultation was fully supportive of EMMI's proposal.

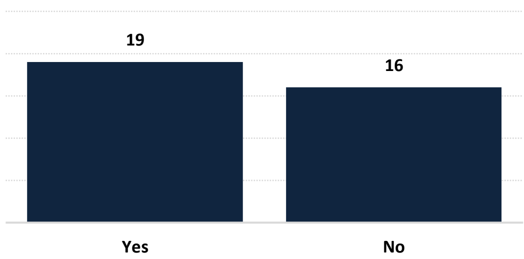
Those respondents supportive of EMMI's initiative agreed with the potential of an O/N Euribor tenor as the fallback to other rates—especially taking into consideration the EU BMR requirement in Art. 28.2. They highlighted as positive the hybrid nature of the tenor, in line with the new methodology, which would guarantee that even in circumstances when other overnight rates fully based on transactions could not be determined, O/N Euribor would still be calculated and published. In contrast, the non-exclusive reliance on transactions in O/N Euribor was perceived, by respondents less in favor of EMMI's proposal, as an additional burden for those banks participating in its daily determination.

Further feedback against the publication of this new tenor agreed that it could bifurcate the markets ability to transition from Eonia to the alternative risk-free rate identified by the Working Group on euro risk-free rates.[4] In this respect, other respondents encouraged EMMI to, instead of developing a new overnight rate, continue playing an important role in the Working Group, providing its expertise and experience.

In response to EMMI's intention to position an overnight Euribor tenor as a possible fallback to other overnight rates (e.g. the ECB's Ester), feedback against the development of the new tenor indicated that a more credible fallback to an unsecured rate would be an index based on the secured segment of the euro money market.

On the basis of this feedback, and also taking into consideration the opinion of the banks currently composing the Euribor Panel, EMMI has decided **not** to pursue, at this time, the development and publication of an O/N Euribor tenor under the new methodology. EMMI remains committed to its active participation in the Working Group on euro risk-free rates, as well as in its various substructures.

On the publication of an overnight Euribor tenor



Number of respondents (2018)

[3] More information on the ECB's plans to start producing a new euro unsecured overnight interest rate can be found on the ECB webpage.

[4] More details about the Working Group on euro risk-free rates can be found on the ECB website.

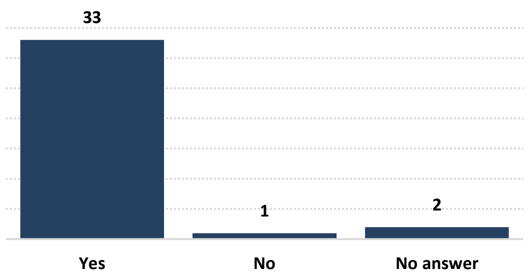
6. Discontinuation of 30/360 and Act/365 basis publication

From 3rd December 2018 onwards, EMMI will only calculate and publish Euribor on an Act/360 day count basis.

In the Consultation Paper, EMMI mentioned that, under the new methodology, Euribor will continue to be published daily on every TARGET[5] day, at or shortly after 11AM CET. As today, the benchmark will follow euro money market conventions, such as the TARGET2 calendar, an Act/360 day count convention, and modified following business day with month-end adjustment convention.

In order to simplify the publication process, EMMI suggested to discontinue the calculation and publication of Euribor under the Act/365 and 30/360 day count conventions, which, in turn, users can easily obtain from the official Act/360 publication via a simple calculation, in case of need.

On the discontinuation of publication of 30/360 and Act/365 day count convention



Number of respondents (2018)

EMMI's proposal was supported by the vast majority of respondents. Three respondents indicated that the discontinuation of the Act/365 day count convention publication would require changes in their current processes, but would not expect major issues. Two respondents did not provide any answer.

[5] TARGET is the 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 euro system's TARGET2 system.

Discussion of other comments received

EMMI gave the opportunity to respondents to express their ideas about any of the topics included in the Consultation Paper for which EMMI may have not posed an explicit question, as well as for any aspect of the Euribor Reform that, in the respondents' view, was not sufficiently clear. EMMI welcomes all feedback received. In this section EMMI has reflected the main trends, rather than going into individual respondents' concerns.

Many of the questions raised by respondents concerned aspects of the methodology which are currently being tested, such as the appropriateness of the Spread Adjustment Factor in Level 2.1, or the Market Adjustment Factor in Level 2.3. The inclusion or exclusion of non-financial corporates as eligible counterparties toward the determination of the benchmark was also addressed by some of the feedback, as well as, for example, the inclusion of floating rate transactions linked to EONIA as eligible for the purpose of Level 1 contributions. Topics like the definition of volume thresholds to determine transaction eligibility, as well as thresholds on the number of eligible transactions to determine that a bank has enough grounds to submit a Level 1 contribution were also brought up by respondents. As part of the second Consultation on a Hybrid Methodology for Euribor, EMMI will provide further insight on the choices and decisions made, on the basis of the analyses and studies performed during the testing phase.

Feedback was also received regarding the implementation of a refixing policy for Euribor under the new methodology. It may be worth reminding that an intraday refixing policy is in force for the benchmark under the current methodology, and details can be found on the EMMI website. With regards to the implementation of a revised version of the policy under the new methodology, EMMI is currently in the process of redefining and detailing all procedures pertaining to the new determination framework. In that respect, in particular, EMMI is planning to evaluate the need to adapt the intraday Euribor refixing policy.

Next steps

Date	What
May-July 18	Testing phase of hybrid methodology for Euribor
June 18	Publication of summary of stakeholder feedback
August 18	Assessment of hybrid methodology for Euribor
H2 2018	Second Consultation on a Hybrid Methodology for Euribor

As mentioned in the communication published by EMMI at the beginning of May 2018, EMMI intends to proceed with the implementation of the new methodology for Euribor by Q4 2019, at the latest, on time for the application for authorization under the EU BMR (cf. EU BMR, Art 51.)

List of respondents

The European Money Markets Institute (EMMI) thanks all consultation respondents for their feedback on EMMI's proposal for a hybrid methodology for Euribor. Eighteen (18) out of the thirty-six (36) organizations that responded to the consultation requested anonymity in their responses. In accordance with EMMI's Consultation Policy[6], their names are not included in the list below.

Organization	Sector
DZ Bank	Credit Institution (Panel Bank)
Intesa Sanpaolo	Credit Institution (Panel Bank)
Société Générale	Credit Institution (Panel Bank)
UniCredit	Credit Institution (Panel Bank)
Morgan Stanley	Credit Institution
Raiffeisen Bank International AG	Credit Institution
AMUNDI	Trade Association
Asociación Española de Bancos	Trade Association
ASSIOM FOREX	Trade Association
European Fund and Asset Management Association	Trade Association
European Savings and Retail Banking Group	Trade Association
Fédération Bancaire Française	Trade Association
Finance Finland (FFI)	Trade Association
German Funds Association (BVI)	Trade Association
International Swaps and Derivatives Association (ISDA)	Trade Association
Loan Market Association	Trade Association
Unione Difesa Consumatori (UDiCon)	Trade Association
Arfima Financial Solutions	Consultancy Firm

[6] EMMI's Consultation Policy and Procedures, 28 November 2014, http://www.emmi-benchmarks.eu/assets/files/D0365C-2014-EMMI%20Consultation%20Policy-procedures.pdf