

SUMMARY OF FEEDBACK RECEIVED ON CONSULTATION ON INTRADAY EURIBOR RE-FIXING

A. INTRODUCTION

Following regulatory recommendations, benchmark calculation methodologies should include procedures to deal with errors which may occur during the benchmark production process.

In this context, EMMI launched a consultation in June 2015 on the convenience of setting up intraday re-fixing for Euribor rates in the event any error is identified.

While EMMI is in favour of an enhanced transparency and therefore supports the publication of errors, it believes that a cut-off time for reporting an error and a threshold for materiality of errors should be fixed in order to minimize potential market disruptions. Therefore, EMMI proposed the following thresholds:

1) Intraday re-fix cut-off time:

EMMI suggested an intraday cut-off of 3 p.m. CET for reporting an error to EMMI for an intraday re-fix.

2) Threshold for Materiality of Errors

EMMI suggested that errors of less than 2 basis points on the published rate would not trigger an intraday re-fix.

EMMI strongly believes that benchmark quality must be subject to continuous review in light of evolving market conditions. Therefore, EMMI acknowledges that the suggested thresholds should be reviewed periodically to adapt to different rate environments.

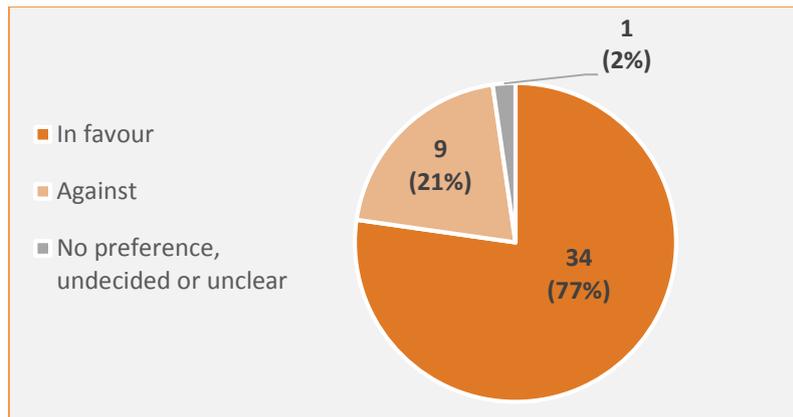
In this context, EMMI consulted the stakeholders on:

- 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.

B. FEEDBACK RECEIVED

Question 1. Do you support the introduction of intraday re-fixing for Euribor in the event that a published rate is incorrect or inaccurate?

Respondents to this question: 44



While 9 out of the 44 respondents were not in favour of the introduction of an intraday re-fixing for Euribor, 34 supported the introduction of a re-fixing under certain conditions.

A vast majority of respondents **favoured the introduction of a re-fixing policy for Euribor and underlined that this process would enhance the integrity and credibility of the benchmark and provide greater transparency to the rate-setting process.** In particular, given the importance of Euribor in the financial system, allowing the correction of an incorrect rate is important. Moreover, this proposal was supported as it is aligned with the IOSCO Principles for Financial Benchmarks that establish that benchmark methodologies should include procedures for dealing with error reports.

Notwithstanding, **addressing issues such as to ensure consistency among all vendors on the published Euribor rate is key.** Guidelines as to whether both, the original fixing and the corrected fixing should be published, must be set up. For the sake of clarity and to safeguard the integrity of contracts, it was suggested that in the event that a re-fixing is to be carried out, both fixings (the original rate and the corrected rate) should be published.

9 of the respondents shared their concerns on the application of re-fixing in the event of an incorrect rate. These stakeholders underlined that introducing a re-fixing to Euribor may trigger legal issues and operational risks.

Most of the respondents against the introduction of intraday re-fixing to the Euribor benchmark stressed that the current Euribor Code of Conduct, in particular the **Code of Obligations for Panel banks (COPB) already provides a robust control framework with sufficient control mechanisms for panel banks to identify any errors in their contributions.** On top of the application of the four-eye principle and other internal controls at panel bank level, the calculation agent runs a series of pre-calculation checks which should identify any anomaly in the banks' contributions. Moreover given the nature of the current Euribor methodology, which applies a trimming process (15% top and tails trimmed) any material error would most likely be excluded of the computation of the final fixing. Furthermore, correcting an error after it has been published may lead to uncertainty and potentially have an effect on the volatility of the market.

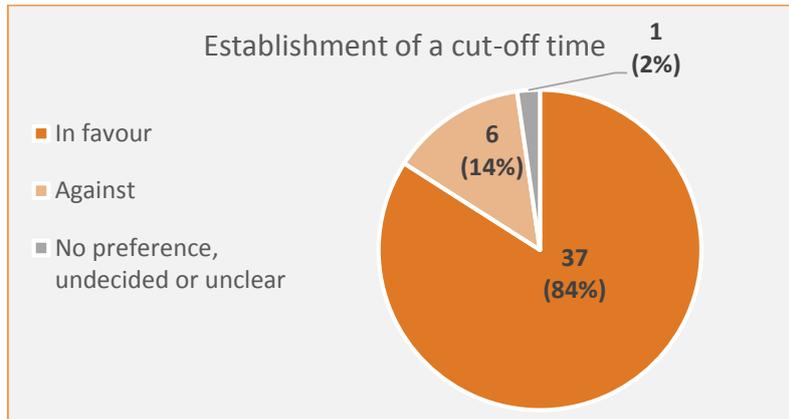
Generally, respondents against the implementation of an intraday re-fixing, supported the implementation of additional data checks and to strengthen even more if need be the control framework at panel bank, calculation agent and administrator levels. Alternatively, the publication time could be delayed to 12 pm CET or 1pm CET to allow more time to the calculation agent to identify any potential error.

Should an intraday re-fixing for Euribor rates be determined, the following factors shall be considered in the designing, planning, and setting up intraday re-fixing for Euribor rates in the event of an error being identified:

- 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

Question 2. Do you believe that a cut-off time for reporting an error should be established? If yes, does 3pm as proposed seem a feasible cut-off time?

Respondents to this question: 44



37 respondents (including 4 that do not favour the introduction of a re-fixing) considered that a cut-off time should be established. While the majority of the respondents agreed on the need to establish a cut-off time, not all participants shared the same view as to when should the cut-off time take place. **17 participants agreed that 3pm CET would be a feasible cut-off time.**

17 of the respondents suggested to have a cut-off time earlier, closer to the publication of the Euribor fixing. The latter considered that an earlier disclosure of errors, if any, would minimise the number of negotiations or deals referenced to an “incorrect” rate.

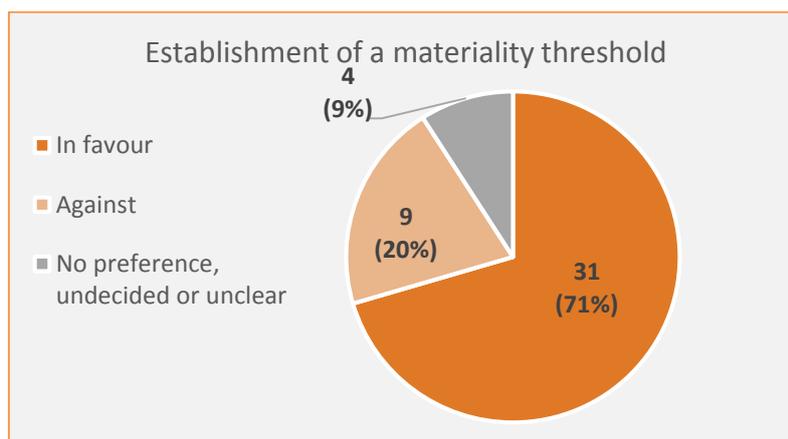
2 participants suggested to align any re-fixing rules with ISDA rules which provide that any corrections to the benchmark beyond one hour after publication time should not be taken into consideration.

6 respondents, 5 of them not supporting the introduction of a re-fixing, opposed to the introduction of a cut-off time. Among these, one expressed that the current timeframe for correcting any errors prior to the calculation (i.e. from 10:45 am CET to 11 am CET as per art. C.2.2 of the Code of Conduct) is sufficient for the panel banks to identify and amend any potential errors. On this latest point, EMMI wishes to clarify that a re-fixing can also be invoked in case of an error at the Calculation Agent level; not only at Panel Bank level.

Given the lack of consensus with regards to an appropriate cut-off time, EMMI's governing bodies tried to find a compromise among those agreeing with the proposed cut-off time of 3 p.m. CET and those requesting an earlier cut-off time. To this end, the Euribor intraday re-fixing policy establishes the cut-off time for reporting any errors at 2 p.m. CET.

Question 3. Do you believe that a materiality threshold for intraday re-fixing should be established? (This would imply not re-fixing errors below that threshold). If yes, would you consider 2 basis points to be an appropriate threshold? On the contrary, please suggest your preferred materiality threshold.

Respondents to this question: 44



31 participants agreed on the principle of establishing a threshold in terms of the **materiality of an error in order to minimise operational implications**. 18 respondents agreed on 2 basis points as an appropriate threshold given the current market conditions. However, these **thresholds should indeed be periodically reviewed to ensure that they reflect markets' volatility and the general market conditions**.

2 participants determined that a common threshold may not be relevant for all tenors. Accordingly, maturity buckets could be used to set up different thresholds.

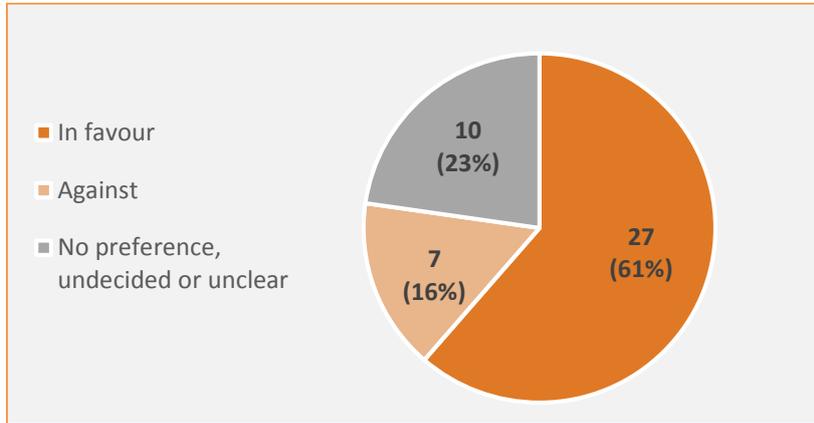
Alternatively, 2 respondents suggested to set up thresholds in terms of percentage relative to the rate, rather than in terms of basis points.

9 participants disagreed with the implementation of a materiality threshold. Most of them underlined that in order to preserve the integrity of the fixing, any variation from the correct rate should be re-fixed.

2 respondents expressed the difficulty of assessing a suitable threshold as this depends on level of rates and nature of the error. They suggested a different threshold should be set up for an error from a panel bank and for a technical issue on the Calculation Agent's side. To this end, EMMI wishes to clarify that materiality thresholds are to be applicable on the final Euribor rates and not on Panel Banks' individual contributions.

Question 4. What do you consider an appropriate notice period for changes in the threshold if needed?

Respondents to this question: 44



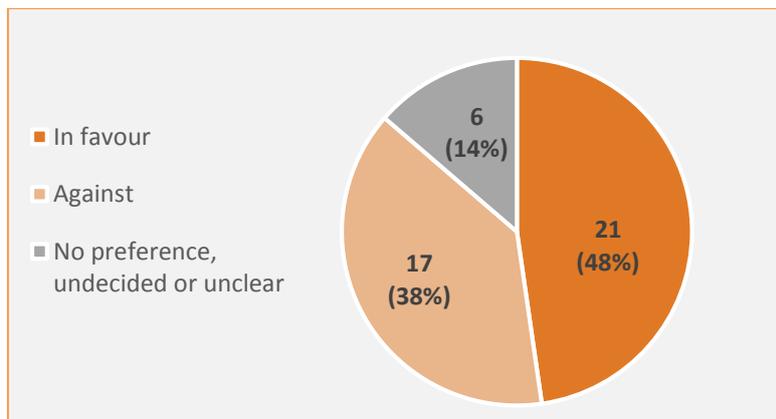
27 respondents agreed on **the need for an appropriate notice period for any changes in the threshold**. 3 among these suggested a 3-month period, 10 asked for a 1-month notice period, 2 suggested a 2-week notice and 6 confirmed that a 1-week notice period would be sufficient.

1 respondent added that a 1-month notice period would be sufficient in the event that the threshold was fixed in basis points, whereas no notice period would be needed if the threshold was defined in terms of percentage.

10 declined to comment and 7 considered that a notice period is not necessary as changing the threshold does not affect a banks’ submission process.

Question 5. Do you deem appropriate the disclosure of errors smaller than the materiality threshold and/or reported later than the cut-off time?

Respondents to this question:



21 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**. Furthermore, publicly disclosing any contribution or calculation error may enhance the credibility of the Euribor by providing stakeholders with a greater insight on the reliability of the fixing procedure.

On the contrary, 17 respondents shared their concerns with regards to the disclosure of non-material errors as these could trigger reputational issues or cause market disruption. For those respondents not favouring the disclosure of errors lower than the established materiality threshold, errors should be kept at the level of the Administrator. It was also argued that such errors should be acknowledged and treated internally between the Administrator, the competent supervisory authority and the contributing bank in order to take remedial actions to prevent similar errors in the future.

Some respondents also noted that, in the event of disclosure of these type of errors, **a robust communication is key to avoid legal issues and lack of confidence among market participants.**

Following the feedback received, **EMMI will publicly disclose errors below the materiality threshold on a quarterly basis and on anonymized manner in order to minimise any potential market disruptions while preserving the transparency of the benchmark setting process.**

C. CONCLUSION

EMMI is grateful for the constructive and crucial feedback received. On the basis of this feedback, EMMI's governing bodies have adopted the Euribor Intraday Re-fixing Policy. As per the policy, should an error beyond the proposed thresholds be identified, EMMI will carry out a **re-fixing of the Euribor rate fixed at 11:00 a.m. CET.**

The policy provides further details on the implementation of a re-fixing for Euribor with regards to the materiality thresholds, cut-off time for reporting errors and publication time for the re-fixed rate.

Appendix: List of respondents

List of Respondents to the EMMI Consultation on Euribor Intraday re-fixing

Organisation	Category
ACI The Financial Markets Association	Other stakeholder
Banca Monte dei Paschi di Siena	Euribor Panel Bank
Banco BPI	Other stakeholder
Banco Finantia S.A.	Other stakeholder
Banco Popular	Other stakeholder
Banco Popular Portugal	Other stakeholder
BANIF-Banco Internacional do Funchal SA	Other stakeholder
Bank of Ireland	Other stakeholder
Barclays	Euribor Panel Bank
Barclays Bank PLC Portugal	Other stakeholder
BBVA	Euribor Panel Bank
BCEE Luxembourg	Euribor Panel Bank
Belfius	Euribor Panel Bank
BHF Bank	Other stakeholder
BlackRock	Other stakeholder
Bloomberg	Other stakeholder
BNP Paribas	Euribor Panel Bank
Caixa Central de Crédito Agrícola Mútuo	Other stakeholder
Caixa Geral de Depositos	Euribor Panel Bank
Ceca Bank	Euribor Panel Bank
Class Editori	Other stakeholder
Commerzbank AG	Euribor Panel Bank
Credit Agricole	Euribor Panel Bank
Danske Bank	Euribor Panel Bank

Deutsche Bank	Euribor Panel Bank
Deutsche Pfandbriefbank AG	Other stakeholder
DZ Bank	Euribor Panel Bank
GRSS	Other stakeholder
HSBC	Euribor Panel Bank
IBnGR	Other stakeholder
ING Bank	Euribor Panel Bank
Intesa Sanpaolo	Euribor Panel Bank
JP Morgan	Euribor Panel Bank
KBC	Other stakeholder
Nasdaq	Other stakeholder
Nordea	Euribor Panel Bank
Novo Banco	Other stakeholder
OTP Banka Hrvatska	Other stakeholder
Pohjola	Euribor Panel Bank
Romanian Banking Association	Other stakeholder
Royal Bank of Scotland	Other stakeholder
Santander	Euribor Panel Bank
Unicredit	Euribor Panel Bank