

Consultation Paper on a Hybrid Methodology for Euribor 26 March 2018

List of questions

Over the past years EMMI has worked to implement wide-ranging reforms related to its benchmark administration activities. These reforms were aimed at ensuring EMMI had established and operated a best-in-class governance, oversight, and control framework in alignment with the ESMA-EBA Principles and the IOSCO Principles, as well as with Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks, which entered into force on 30 June 2016. Despite all the progress made by EMMI in enhancing the transparency and governance of the Euribor benchmark, the current methodology remains based on collecting quotes from contributing banks and the use of expert judgment.

All the initiatives above coincide and settle on the principle that a benchmark should be “anchored in an active market having observable, bona-fide, arm’s-length transactions.” In July 2014, the Financial Stability Board (FSB) published its report *Reforming Major Interest Rate Benchmarks*. In line with the IOSCO Principles, the FSB report recommended to strengthen “IBORs and other potential reference rates based on unsecured funding costs by underpinning them to the greatest extent possible with transaction data.”

Since the end of 2013, and after performing two large data collection exercises, EMMI worked in the development of a new determination methodology for Euribor fully anchored in real transactions. In 2016, a few months prior its planned implementation, EMMI decided to conduct a six-month long verification exercise (the PLVP), in order to guarantee the viability of a calculation methodology developed in substantially different market conditions. The conclusion of the exercise was that in the current environment, a transition from the current quote-based to a fully transaction-based methodology via a seamless transition was not feasible.

Since May 2017, EMMI has been working on the development of a hybrid determination methodology for Euribor, where the calculation is supported by transactions from Panel Banks whenever available, and relies on other related market pricing sources when necessary. Where the aforementioned data is absent, the hybrid methodology relies on a Panel Bank’s appreciation of their cost of funds. The hybrid methodology was developed by EMMI with the support of a dedicated Task Force, in which the Belgian Financial Services and Markets Authority (FSMA) participated as an observer. The Task Force served EMMI to gather market participants’ initial feedback and guidance on the new methodology.

The consultation paper sets out in more detail and seeks respondents’ views on EMMI’s proposed hybrid methodology for Euribor. By providing further insight on the methodology’s development work, EMMI expects to get a reliable indication of the market’s opinion and view on the proposed methodology. The consultation tackles, moreover, other aspects of the publication process that concern the market, and for which EMMI will value feedback.

The questions on which EMMI would welcome feedback from market participants, interested parties and stakeholders are placed throughout the text in the relevant sections, and can also be found below. Feedback may be submitted by e-mail to hybrid2018@emmi-benchmarks.eu specifying “**Euribor Consultation**” on the subject line.

EMMI welcomes and encourages respondents to share any additional views or considerations that are not covered in the questions suggested by EMMI, in particular aspects of the Hybrid Methodology—Section 8 onwards.

Deadline: EMMI would be thankful if all **responses reached the EMMI Secretariat by Tuesday, 15th May 2018**. A summary of stakeholder feedback will be made public during the month of June 2018.

Together with their responses, EMMI kindly asks respondents to submit the following minimum information:

Full name of respondent:	Veli-Matti Mattila
Position:	Chief Economist
Organization and country:	Finance Finland
E-mail address	veli-matti.mattila@financefinland.fi
Contact telephone:	+358 20 793 4259
Do you require anonymity?¹	No

Q1
Page 4 **Do you consider that EMMI’s clarification of Euribor’s underlying interest provides enough transparency and allows stakeholders to understand its definition and decide on its use?**

We find the clarification relevant. However, we wonder whether there is a need to give a precise definition to the concept of “credit institution” (i.e. by referring directly to the Article 4(1)(1) of Regulation (EU) No. 575/2013) as new financial institutions (“shadow banks”) are entering the market.

Q2
Page 5 **Do you think that six months is enough lead time for the market to prepare for the discontinuation of the publication of individual Panel Bank submissions? Please, provide a rationale for your answer.**

In our view six months is sufficient time for preparing for the change.

Q3
Page 5 **Which anonymized indicators would you consider useful to publish along with the Euribor rate, and with what frequency? Please, explain the use you will give to this indicators. (Examples of these indicators could be: reliance on different levels of the new methodology, aggregated volume underpinning the benchmark’s determination, percentage of counterparty types in Level 1 submissions, etc.)**

We find it useful to have annual or semi-annual statistics about the use of different levels of the waterfall methodology together with data about average daily transaction volumes in different tenors.

In addition, if the publication of individual Panel Bank submissions is discontinued it would be useful to publish information about the dispersion of Panel Banks’ submissions in each tenor.

¹ Following the [EMMI Benchmarks Consultation Policy](#), EMMI shall address feedback received from stakeholders in a published summary of contributions, anonymized and aggregated when stakeholders have requested anonymity.

Q4
Page 5

Do you think that six months is enough lead time for the market to prepare for the discontinuation of the publication of the 2 week, 2 months, and 9 months Euribor tenors, on the basis of their lack of underlying activity and limited use? Please, provide a rationale for your answer.

These tenors are rarely used in the markets and thus six months should be a sufficient lead time for the discontinuation of the publication.

Q5
Page 6

Would you consider the publication of an overnight tenor for Euribor as useful? Please, provide a rationale for your answer.

Currently we do not see much need for an overnight Euribor due to the existence of the Eonia interest rate (and the forthcoming ECB overnight rate).

Q6
Page 6

In addition to the Actual/360 calculation mentioned above, EMMI currently calculates and distributes Euribor, to authorized vendors, on both an Actual/365 and a 30/360 basis. EMMI is considering the discontinuation of the calculation and distribution of Euribor on a 30/360 basis, across all tenors as of 1 October 2018.

Do you agree with EMMI's decision to discontinue the publication of the 30/360 basis calculation? If not, please provide a rationale. In particular, provide an explanation of the use you give to Euribor published under the 30/360 convention.

We agree with EMMI's decision to discontinue the publication of the 30/360 basis calculation.

Other comments

If you have any comments or remarks on any of the aspects regarding the proposed hybrid methodology for Euribor, please include them below.

-