



European Money Markets Institute

Euribor Reform and benchmark governance

5 February 2015

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- The European Money Markets Institute (EMMI), formerly Euribor-EBF, is an international non-for-profit association under Belgian law founded in 1999 with the launch of the Euro and based in Brussels.
- EMMI provides the following two indexes:
 - 1) **Euribor**, the money market reference rate for the euro
 - 2) **Eonia**, the effective overnight reference rate for the euro
- 3 major interest rates Libor, Euribor and Tibor are widely used as benchmarks for a large volume of financial products and contracts.
- Notional volumes of outstanding financial contracts:
 - Libor: Greater than \$220 trillion
 - Euribor: Greater than \$180 trillion.
 - Tibor : \$5 trillion
- Main type of contracts indexed to Euribor include: Over-The-Counter (OTC) and exchange traded derivatives; corporate loans; retail mortgages; floating rate bonds and securitized products.
- Euribor as a critical benchmark is of systemic importance for financial stability. Therefore, uncertainty regarding the integrity of these reference rates represents a potentially serious systemic vulnerability and risk.

- **Wheatley Review:** Published on October 2012. 10 point plan for the reform of LIBOR
- **EBA /ESMA Recommendations:** Joint set of recommendations to EMMI, as the Administrator of the Euribor benchmark to improve the governance and transparency of the rate-setting process. Published on 11 January 2013.
- **EBA/ESMA Principles for Benchmark setting processes in the EU:** Published in June 2013. Include a general framework for benchmark setting, principles for benchmark administrators, submitters, calculation agent, publishers, users, and the principles for the continuity of benchmarks. EBA and ESMA plan to review the application of principles 18-months after publication.
- **International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks:** Published in July 2013. Such Principles set international standards for administrators through a framework of recommended practices for robust reference rates. The 19 principles address the following areas:
 - Governance (principles 1 to 5);
 - Quality of the Benchmark – Design (principles 6 to 10);
 - Quality of the Methodology – Controls (principles 11 to 15);
 - Accountability (principles 16 to 19)
- **EU Regulation on Indices used as Benchmarks in Financial Instruments and Financial Contracts:** The European Commission published a Proposal for a Regulation on Benchmarks in 18 September 2013. Currently the EC Proposal is being discussed at the European Parliament and at the European Council .

Responsibilities of the Administrators:

- **Governance requirements:** clear organizational roles and management of conflicts of interest
- **Establish an effective oversight function** to review the benchmark's definition and methodology
- **Control framework:** establish measures to ensure that the contributors comply with the Code of Conduct and to monitor input data including pre-publication and post-publication controls
- **Record keeping policy:** keep record for at least 5 years of all input data

EMMI's Key Position Points on Benchmark Regulation

- EMMI welcomes the possibility for the competent authority of the administrator's country to impose mandatory contribution to a critical benchmark. Nevertheless, the complexity of the proposed supervisory mechanism could be counterproductive in case of critical/urgent situation
 - national authority of the administrator's country
 - colleges of supervisors for critical benchmarks
 - ESMA's binding mediation
- A compromise solution could be that a single European Supervisor (e.g. ESMA) is appointed for benchmarks administered in the eurozone.
- EMMI is concerned about legal issues arising from the transition from a critical benchmark such a Euribor to a new transactions-based index.
 - Given the complexity and variety of contracts based on Euribor under different national legislations, EMMI calls for a European Legislative Act or guidelines issued by European public authorities to ensure consumer protection, preserve the functioning and integrity of financial markets and avoid severe market disruptions.

Tentative Timeline for the EU Regulation:

- Hearing Reform of Global Benchmarks Regulation: 11 November 2014
 - Exchange of views: 1 or 2 Dec 2014
 - Deadline of draft report: Max. 4 December 2014
 - Consideration of Draft Report: 8 January 2015
 - Deadline for amendments: 20 January 2015
 - Consideration of amendments: 23-24 February 2015
 - Vote in ECON: 5 March 2015
- While EMMI believes that the Regulation should be operational as soon as possible, it is not expected to be enforced before the end of 2015.

- On 22 July 2014, the FSB published its report on Reforming Major Interest Rate Benchmarks, which sets out concrete proposals, plans and timelines for the reform of the existing benchmarks and for additional work on the development of alternative benchmarks.
- They also published the IOSCO Report on the Review of Euribor, Libor and Tibor, as well as the Market Participants Group's (MPG) Report on Interest Rates benchmarks, which mentions Euribor+, a benchmark supported by real transactions, as a potential alternative.

Key findings of IOSCO Review:

- Significant progress has been made in implementing the governance-related Principles and the transparency and accountability Principles, **further progress is needed** on **Principles** regarding **benchmark design, data sufficiency and transparency of benchmark determinations**.

-To meet Principle 7 on **Data Sufficiency**, administrators may be required to consider **methodological changes** or further **clarification** of the **market** the **benchmark** is intended to **represent**.

Conclusions of the FSB Report:

The FSB reiterated adoption of the IOSCO Principles and, additionally, recommended that reference rates adhere to the following relevant criteria:

- Minimising the opportunities for market manipulation;
- Anchoring in observable transactions wherever feasible;
- Robustness in the face of market dislocation and confidence that benchmark rates remain resilient in times of stress.

- EMMI's reform program is well underway and has accomplished much progress in the last several quarters
- The reform efforts, which began in 2012, have substantially improved the governance and controls of Euribor and move Euribor towards conformance with regulatory guidelines published by ESMA-EBA (2013) and IOSCO (2013)
- EMMI is pursuing a strategic implementation plan to ensure EMMI remains at the forefront of benchmark administration and in conformance with emerging regulatory guidance and proposed EU legislation.

3. EMMI's Benchmark Reform Program

Strategic Approach

- The strategic plan is aligned along four major themes. The structure below is intended to follow closely the areas of regulatory focus.

Implementation Program	Project Category
1. Governance and Organization	A. Governance
2. Benchmark Operations	A. Policies and Procedures
	B. Code of Obligation of Panel Banks
	C. Calculation Agent
	D. Audit
3. Benchmark Quality	A. Benchmark Quality & Market Analysis
	B. Back-testing & Surveillance
	C. Data Transparency
4. Development of Euribor+	A. Euribor +, (as well as a new transaction-based Repo Index in accordance with FSB recommendations)
	B. Transition Planning

1. Governance

A. Governance

- EMMI has completed the transition from the European Banking Federation subsidiary to a stand-alone entity.
- The Articles of Association and the Rules of Procedure have been adopted and implemented
- EMMI has reviewed the **composition of the Steering Committee** in order to reduce the number of members affiliated with panel banks and expand stakeholder representation
- EMMI **holds bi-monthly Euribor Steering Committee** meetings
- EMMI has established a new **Conflicts of Interest Oversight Committee** composed of three independent persons who are responsible for the identification and management of conflicts of interest at the administrator's level. They agreed on a conflicts of interest definition and mapping of potential conflicts of interest with remedial actions.

2. Benchmark Operations

A. Policies and Procedures

- Policies and procedures have been formally adopted by EMMI's governance bodies with respect to the following areas: Conflicts of Interest, Back-testing Follow-up, Complaints, and Whistleblowing among others.
- Whistleblowing and complaints procedures have been implemented and online forms available on the EMMI website, along with specific communications channels (mailboxes and telephone line) with restricted access by the Complaints & Whistleblowing Manager.
- A Consultation Policy to consult stakeholders on material changes to the benchmark has been implemented.
- Adoption of a **Record-keeping policy** and technical framework to comply with record-keeping requirements

B. Code of Obligations of Panel Banks

- EMMI launched a revised Code of Conduct on 1 October 2013 including clarifications on the Euribor definition, in particular regarding the "prime bank" and "interbank transactions" terminology.
- It also contains a **Code of Obligations for Panel Banks (COPB)** defining the specific obligations of Panel Banks with respect to the governance, methodologies, control environment and independent review related to quote submissions, and provides for **record-keeping policies, segregation of roles, accountability procedures, transparency rules** and **sanctions** for breaching the Code
- EMMI received self-certification attestations from all 25 Panel Banks confirming their compliance with the Code of Obligations of Panel Banks

2. Benchmark Operations

C. Calculation Agent

- Appointment of new Calculating Agent as of July 2014 to improve the transparency, monitoring and accuracy of the benchmarks.
- Significant work has been completed to ensure the GRSS calculation system incorporates relevant data controls to ensure benchmark data integrity
- GRSS conducted its internal audit. External review by the administrator, externalised to Promontory, was run at the end of November.

D. Audit

- An internal audit was completed in H1 2014 (April 2014)
- An external audit took place from 17 November to 30 November 2014

3. Benchmark Quality

A. Benchmark Quality & Market Analysis

- Benchmark quality is subject to continuous review in the light of evolving market conditions.
- Illiquid tenors have been eliminated
- The Euribor Steering Committee commissioned the establishment and operation of a Euribor Technical Advisory Group (TAG) to the Steering Committee. This group shall support the Steering Committee's and EMMI Secretariat's responsibilities related to the monitoring and maintenance of the quality of the Euribor benchmark and its calculation methodology.
- EMMI is currently developing a Quarterly Survey to collect underlying market information and assess the representativeness of Euribor as required by IOSCO's Principle 7 on Data Sufficiency.

B. Back-testing & Surveillance

- Development of pre- and post- calculation checks including a monthly back-testing programme for the Euribor benchmark.
- There is regular communication between the Secretariat and Panel Banks with respect to back-testing findings and reports to the Steering Committees
- EMMI is working to further develop the back-testing analysis (e.g. monitor whether the evolution of Euribor fixings is in line with that of other key market indicators).

C. Data Transparency

- EMMI is currently developing a Daily Data Collection amongst Panel Banks with the aim of publishing specific information on market size and Banks' use of expert judgment as required by IOSCO's Principle 9 on Transparency of benchmark determinations.

4. Development of Euribor+

A. Euribor+

- EMMI wishes to implement an index based on actual transactions, adapted to current euro money market conditions, and within the shortest timeframe feasible.
- EMMI, with the support of the ECB, launched the Euribor+ initiative as early as the beginning of 2013 to assess the feasibility and design options of a transaction-based unsecured money market benchmark through extensive analysis of euro money market transactions.
- The 3rd Stakeholders Workshop held in June 2014 was made up of mostly banking institutions. Most participants agreed that a transaction-based benchmark would reduce reputational risk, improve justifiability of the fixings and enhance compliance with current regulatory expectations.
- A workshop with end-users was held in October 2014. Their feedback was generally positive. The main concerns expressed were two-fold: The anticipated volatility of the index (especially for the 6 months and 12 months tenors) that arises naturally with a transactions-based methodology, and with the issues pertaining to transition planning.
- **A workshop with Euribor panel banks focusing on conveying the envisaged implementation approach and assessing its feasibility is scheduled for 10 February 2015.**
- EMMI will announce shortly further details of the envisaged index design and the transition path (cf. the transition path taxonomy of the FSB report) it intends to take.

4. Development of Euribor+

B. Transition Planning

- Legal advice is being currently sought through Allen&Overy, ISDA and the EFMLG (European Financial Market Lawyers Group).
- **EMMI calls for a legal act or European guidelines at level 2 (e.g. ESMA) with regard to transition management.**

3. EMMI's Benchmark Reform Program

Indicative Timeline

Envisaged Timeframe	Action
Q1 2015 – Q2 2015	<ul style="list-style-type: none"> • Further methodological feasibility studies with Panel Banks, • Further refinement of benchmark methodology • Implementation and transition planning
Q3 2015	<ul style="list-style-type: none"> • EMMI/Calculation Agent Infrastructure and Logistics Build-out
Q4 2015/Q1 2016	<ul style="list-style-type: none"> • Implementation on Panel Bank side
Q1 2016	<ul style="list-style-type: none"> • Transaction-based Euribor

- EMMI is continuously working to enhance its governance framework and to improve the quality, integrity and the transparency of Euribor.
- Moreover, EMMI strives to develop suitable benchmarks (ie: New Repo) adapted to the latest regulatory requirements context.
- EMMI will communicate on the transition path after gathering feedback from panel banks on the workshop to be held on 10 February 2015.