

EURIBOR questions and answers

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BACKGROUND

1. What is EURIBOR?

The Euro Interbank Offered Rate (EURIBOR) is a daily reference rate, published by the European Money Markets Institute (EMMI), representative of the rate at which credit institutions in the EU can borrow wholesale funds in euro.

2. What is a benchmark specification?

A benchmark specification consists of two components, namely:

- a) The **Underlying Interest**, which defines the economic variable that a benchmark seeks to measure; and
- b) The **Determination Methodology**, which is applied to make a practical measurement of the Underlying Interest.

3. What is the Underlying Interest of a benchmark?

The **Underlying Interest** defines the market or economic reality that the index seeks to measure. It represents the more fundamental element of a benchmark's specification, as it defines the objective for establishing the benchmark, and is intended to be an enduring statement of the economic concept of what the benchmark seeks to represent.

EURIBOR represents *"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."*

4. What is the unsecured money market?

The unsecured money market consists of lending or borrowing cash-only transactions (i.e. not collateralised) that bear a fixed or floating interest rate which are redeemable and have maturity up to one year.

5. What are the IOSCO Principles for Financial Benchmarks?

The [IOSCO Principles](#) were published in 2013, with the objective of establishing an overarching framework of Principles for Benchmarks used in financial markets. There are 19 different Principles which are organised in four different areas: Governance, Quality of the Benchmark, Quality of the Methodology and Accountability.

6. What is the EU Benchmarks Regulation (EU BMR)?

The EU Benchmarks Regulation introduces a regime for benchmark administrators, contributors and users, in order to ensure accuracy and reliability of indices used as benchmarks in financial instruments and contracts, or to measure the performance of investment funds in the EU.

It was published in June 2016 and most rules have started to apply as of 1 January 2018, with transitional provisions until 1 January 2020.

7. What is the authorisation of a benchmark administrator under the EU Benchmarks Regulation (EU BMR)?

A benchmark administrator is the entity that has control over the provision of a benchmark and, in particular, administers the arrangements for its determination, collecting and analysing the data used to define the index. The administrator is also responsible for the calculation and publication of the benchmark.

The authorisation of an administrator under the EU BMR is the evaluation, by the administrator's National Competent Authority, of the administrator's compliance with the requirements set out by the EU BMR. These requirements include governance, control and accountability frameworks, but also tackle issues related to the benchmark(s) provided by the administrator, such as the benchmark's methodology and input data.

8. Who is the National Competent Authority responsible for EMMI and EURIBOR's authorisation and supervision?

The Belgian Financial Services and Markets Authority (FSMA) is responsible for EMMI and EURIBOR's authorisation and supervision.

9. When is EMMI filing for authorisation to its National Competent Authority?

EMMI will file for authorisation to the Belgian Financial Services and Markets Authority (FSMA) by Q2 2019. Subsequently, EMMI will start transitioning Panel Banks from the current EURIBOR methodology to the hybrid methodology, with a view of finishing the process before the end of 2019.

10. Why is 1 January 2020 so relevant for financial benchmarks, like EURIBOR?

The EU Benchmark Regulation (EU BMR) has set the deadline of 1 January 2020 for benchmark administrators to apply for authorisation. After the 1 January 2020 deadline, only EU BMR compliant benchmarks provided by an authorised or registered administrator may be used in new financial instruments or financial contracts.

EURIBOR REFORM

11. Why did EMMI undertake a EURIBOR Reform?

In order to be compliant with the EU BMR, EMMI needs to adapt the current quote-based methodology to a methodology that is anchored in transactions to the extent possible, as adopted in the EURIBOR hybrid methodology.

EMMI is reforming the EURIBOR benchmark for two main reasons: 1) because the Benchmark Regulation and the guidelines of international organisations on the administration of benchmarks require that benchmarks are based on arm's length transactions to the extent possible; and 2) to adapt the methodology to the evolving circumstances in the market that EURIBOR seeks to measure.

12. What are EURIBOR's Defined Tenors?

EURIBOR is calculated and published for the following five tenors: 1 week, 1 month, 3 months, 6 months, and 12 months.

At the end of 2016, EMMI ran an in-depth analysis of transaction data underpinning the determination of the EURIBOR benchmark. The study confirmed, among others, the low levels of activity in the underlying market which the 2 weeks, 2 months and 9 months EURIBOR tenors intend to represent. EMMI consulted on the discontinuation of these three tenors in March 2018, and received feedback that the reliance on contracts and instruments pricing these tenors is also less significant. As a consequence, as of 3 December 2018, the number of official EURIBOR tenors was reduced from eight (8) to five (5).

HYBRID METHODOLOGY

13. What is the hybrid methodology for EURIBOR?

The hybrid methodology for EURIBOR is anchored in transactions to the extent possible and follows a hierarchical approach consisting of three levels. Each day, each individual Panel Bank's contribution, for each Defined Tenor, will be determined on the basis of one of the three levels.

14. What is the Level 1 of the hybrid methodology for EURIBOR?

Level 1 contributions are based solely on eligible transactions in the Underlying Interest at the Defined Tenor.

15. What is the Level 2 of the hybrid methodology for EURIBOR?

Level 2 contributions are based on transactions in the Underlying Interest across the money market maturity spectrum and from recent TARGET days, using a defined range of formulaic calculation techniques provided by EMMI.

16. What is the Level 3 of the hybrid methodology for EURIBOR?

Level 3 contributions are based on transactions in the Underlying Interest and/or other data from a range of markets closely related to the unsecured euro money market, using a combination of modelling techniques and/or the Panel Bank's judgment.

17. Who is responsible of the determination of contributions under Level 3?

Given the heterogeneity observed in the composition of the EURIBOR Panel (aimed at capturing the diversity, including the geographical diversity, of the euro money market), each individual Panel Bank will be responsible for determining their individual Level 3 contribution.

EMMI provides guidance as to what kind of input data can be used by Panel Banks to derive their Level 3 contributions. This can be found in the following components of the EURIBOR Governance Framework documentation:

- a) The EURIBOR Benchmark Determination Methodology (BDM), which sets out the determination methodology for the calculation of EURIBOR.
- b) The EURIBOR Code of Obligations of Panel Banks (COPB), which sets out the requirements for Panel Banks in acting as contributors of input data for the determination of EURIBOR, in particular, general obligations, validation processes of contributions, control environment, etc.

18. Is EURIBOR calculated under the hybrid methodology still EURIBOR?

The hybrid methodology is a robust evolution of the current quote-based methodology. EMMI has reformulated the EURIBOR specification, separating the Underlying Interest from the Benchmark Methodology, in order to clarify the former.

With the EURIBOR reform, EMMI does not change EURIBOR's Underlying Interest, which has always been seeking to measure banks' costs of borrowing in unsecured money markets. Subsequently, this reform is a clarification of the existing Underlying Interest of EURIBOR, combined with adapting a robust and BMR compliant methodology.

EMMI has assessed the legal grounds for the proposed reforms, analysing the compliance of the proposed reforms with the BMR, the document can be found [here](#).

19. Who contributes toward the determination of the EURIBOR benchmark?

The EURIBOR Panel is currently composed of 19 credit institutions across the European Union. The current list of banks contributing to EURIBOR can be found [here](#). Comment: in that way it is automatically updated.

20. Is the current EURIBOR Panel sufficient to ensure that EURIBOR is representative?

The Determination Methodology for EURIBOR relies on contributions from a panel of credit institutions that are active participants in the euro money markets. EMMI is confident that the panel is representative of the underlying interest EURIBOR seeks to measure.

21. Why does EMMI consult on changes to the EURIBOR benchmark methodology?

EMMI approaches the EURIBOR evolution as an inclusive process and thus, has consulted and reached out to public authorities and the broad stakeholder community.

22. What was the focus of the First Consultation on a Hybrid Methodology for EURIBOR?

The First Consultation was published in March 2018 and its main objective was the presentation of EMMI's proposed hybrid methodology for EURIBOR. The Consultation provided, in particular, further details on the determination of each of the three levels which compose the methodology waterfall. In addition, EMMI sought to gather the market's views on certain features of the publication process, as well as on other aspects, such as the cessation of certain tenors.

23. What was the Hybrid EURIBOR Testing Phase?

An in-depth testing of the proposed methodology under live conditions took place from May to August 2018. This phase included the involvement of Panel Banks, and gave EMMI the opportunity to assess the methodology in practice and calibrate certain parameters.

24. What was the focus of the Second Consultation on a Hybrid Methodology for EURIBOR?

In the context of the implementation of the hybrid methodology, EMMI has consulted with a broad range of stakeholders (institutions, including banks, trade associations, infrastructure providers, consultancy firms) who provided feedback on the market's opinion:

- on the aggregated anonymized indicators that EMMI should publish, following the implementation of the hybrid methodology. This should provide transparency to the determination process of EURIBOR;
- on the eligibility criteria for contributors' transactions to be considered as input in the first of the levels of the hybrid methodology;
- and on some of the parameters concerning the calibration of the second level in the hybrid methodology.

25. How and when will the hybrid methodology for EURIBOR be implemented?

EMMI will file for authorisation to the Belgian Financial Services and Markets Authority (FSMA) by Q2 2019. Subsequently, EMMI will start transitioning Panel Banks from the current EURIBOR methodology to the hybrid methodology, with a view of finishing the process before the end of 2019.

26. What is the difference between EURIBOR and ESTER?

The euro short-term rate (ESTER) will reflect the wholesale euro unsecured **overnight** borrowing costs of euro area banks and will complement existing benchmark rates produced by the private sector. EURIBOR is reflecting wholesale euro unsecured borrowing rates for term maturities: **1-week, 1-month, 3-months, 6-months and 12-months.**