

**Second Consultation Paper
on a Hybrid Methodology
for Euribor
17 October 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 that 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 EMMI has been working to implement a new determination methodology for Euribor. In 2016, EMMI conducted a six-month long verification exercise to assess the liquidity of the market underpinning the Euribor benchmark. The conclusion of this analysis was that in the current environment, a transition from the current quote-based to a fully transaction-based methodology would not be feasible. As a result, since May 2017, EMMI’s efforts have been dedicated to 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. In March 2018, EMMI published its [First Consultation Paper on a Hybrid Methodology for Euribor](#), seeking the market’s views on EMMI’s proposed methodology for Euribor. The feedback received in response to the consultation questions was supportive of EMMI’s proposal, and encouraged EMMI to continue its path towards the finalization of the design of the methodology.

From May until the end of July 2018, EMMI, with the participation of the majority of Euribor panel banks, has tested the proposed hybrid methodology. This Second Consultation Paper presents a summary of EMMI’s findings during the Hybrid Euribor Testing Phase, and discusses EMMI’s proposals for the different methodological parameters which were yet to be specified.

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 “**Hybrid 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.

Deadline: EMMI would be thankful if all responses were submitted by Friday, 30th November 2018. A summary of stakeholder feedback will be made public early 2019.

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

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Do you require anonymity?¹	

Q1
Page 3

Do you agree with the set of anonymized indicators proposed by EMMI? Would you consider helpful to have any other indicator published on a regular basis?

Do you think that the frequency is adequate, and will allow you to fully understand the benchmark determination?

Could you provide an example of the use you will make of these indicators?

Please, provide rationales for your answers

We agree with the set of anonymized indicators proposed by EMMI. That said, we would consider helpful to have two additional indicators:

- the percentage of counterparties in Level 2.1;
- the geographical breakdown of the volumes expressed as percentage of the total volume for each country.

These would help asset managers to better assess how the shallowness of the benchmark on the different tenors and develop a thorough understanding of the mechanisms surrounding it.

In our opinion, publishing these indicators on a monthly-basis seems reasonable as it ensures an appropriate updating of the data while containing volatility provoked by the publication. Nonetheless, the one-month delay for the publication should be slightly reduced.

Besides, we think that in time of important stress in the short term € interest rates market, exceptional means of communication should be provided to guide users of Euribor.

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.

Asset managers use these indicators to monitor volumes, liquidity on each tenor, the type of participants and their localization in order to ensure the soundness and representativeness of Euribor.

Q2
 Page 5 Do you consider that the proposed maturity windows allow EMMI to capture a more representative sample of transactions in the underlying interest? Please, provide a rationale for your answer

We agree with EMMI proposal to have a broad definition for the 1 week tenor as this allows to integrate more transactions while remaining relevant. This strengthens the representativeness of the benchmark.

Q3
 Page 7 On the basis of the evidence provided by EMMI, do you agree that transactions with NFCs should be excluded from the set of eligible L1 transactions? Please, provide a rationale for your answer.

We agree that transactions with NFCs should be excluded from the set of eligible L1 transactions as the rates of these transactions are not always representative of the short-term € interest rates.
 Besides, we'd like to make it clear that transactions with money market funds are eligible transactions, as the list on top of page 6 of the consultation seems quite vague on this point.

Q4
 Page 7 On the basis of EMMI's analysis, do you agree with EMMI's proposal to include floating rate transactions referencing the unsecured euro overnight interest rate as eligible under Level 1? Please, provide a rationale for your answer.

We agree with this proposal for three reasons. First, EMMI demonstrates these fixed rates derived from floating rate transactions reflect the reality of the market. Second, they are consistent with fixed rate deposits. And the volume of floating rate transactions associated in particular with the 12 month tenor is significant.
 As regards to the methodology conversion of floating rate to fixed rate transactions using the OIS prices, we believe EMMI could develop further guidance to help promoting a common approach for the OIS quotes. In our view, this guidance could also help to smooth the transition from EONIA to ESTER.

Q5
 Page 8 On the basis of EMMI's analysis, do you agree with EMMI's proposal of a EUR 20 million minimum size threshold for a transaction to be considered eligible under Level 1? Please, provide a rationale for your answer.

We agree this proposal, as this helps to mitigate the fluctuations of prices due to small size transactions while continuing to collect significant amount of data.

Q6
 Page 8 Do you agree with EMMI's proposal of not introducing a threshold on the number of eligible transactions? Please, provide a rationale for your answer.

We agree with this proposal, Euribor needs to integrate as many eligible transactions under Level 1 as possible to be sound. Introducing such a threshold would increase the use of Level 3 submission.

Q7
Page 10

On the basis of the analysis performed by EMMI, do you agree with the proposal to determine the Spread Adjustment Factor from the previous 5 days' Euribor fixings? Please, provide a rationale for your answer.

We think the Spread Adjustment Factor is an appropriate tool as it takes into account the curvature of the yield contrary to a linear interpolation. However, we need more explanations and a comparison with other options to comment on the choice of the previous 5 days' Euribor fixings.

Q8
Page 10

Do you have any comments you would like to share with regards to Level 2.2 in the hybrid Euribor methodology?

In our opinion EMMI should perform further assessment on the cliff-edge effect that could appear at the end of each quarter or at the end of the year.

Q9
Page 11

On the basis of the analysis performed by EMMI, do you agree with the proposal for the lookback period for Level 2.3, as described in the table above? Please, provide a rationale for your answer.

For the lookback period for Level 2.3, we understand that EMMI is looking for a proper balance between the conflicting needs to produce data both relevant and fresh. As for question 7, we need more elements to comment on the option chosen by EMMI for the lookback period for Level 2.3.

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.

Generally speaking, we strongly support the initiative led by EMMI on reforming the methodology of Euribor so that it could be compliant to BMR. This initiative allows for a smooth transition as it seems to be widely supported on the market, the roadmap is clear and EMMI is working with the relevant stakeholders. Furthermore, we'd like to stress the importance of the transparency of the methodology for our members as asset managers need to assess the shallowness of a benchmark before creating products that reference it.