



Euribor

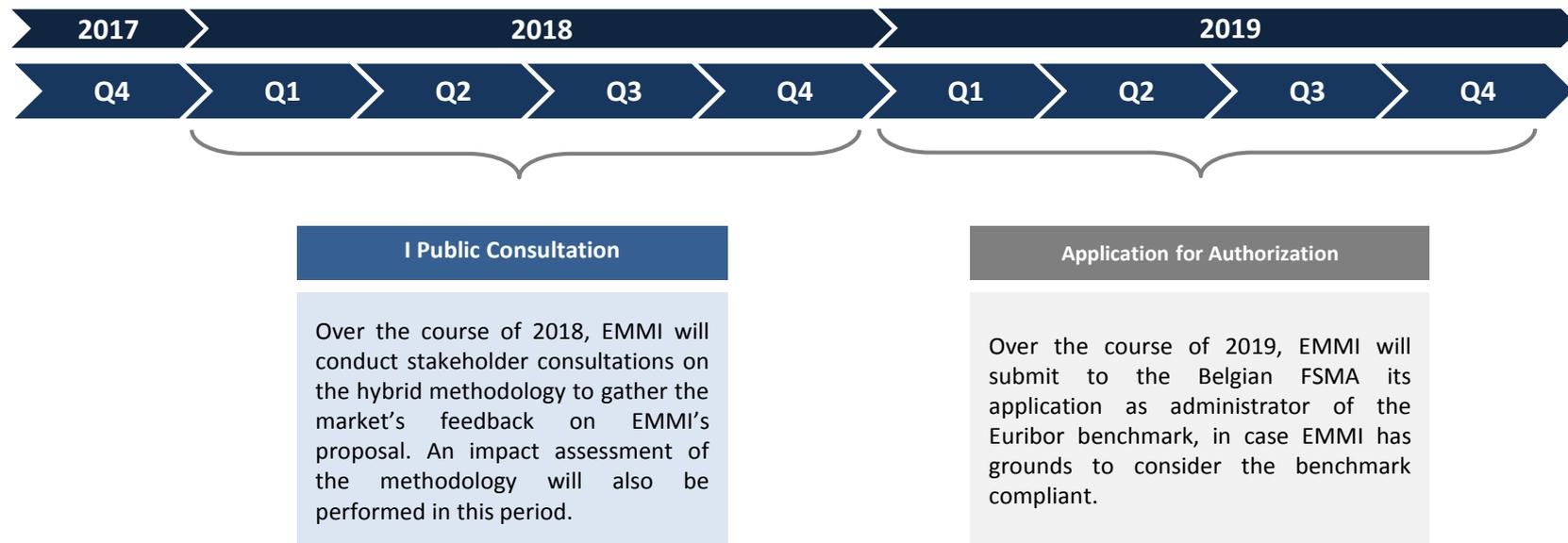
Working group on euro risk free rates

26 February 2018

Frankfurt am Main

- ➔ In the light of concerns expressed by regulators and public opinion after the benchmark manipulation scandals, EMMI initiated its **Euribor Reform**. EMMI's ultimate goal consisted in evolving the current quote-based determination calculation to a fully transaction-based methodology, in order to provide the market with a more transparent, robust, and representative index.
- ➔ In spite of all attempts, **the 2016/17 pre-live verification program revealed that EMMI's original plan was not feasible**, since the daily determination of the index would be based, for most tenors, on a limited number of transactions executed by a very limited number of contributors.
- ➔ The **current quote-based methodology for Euribor is not BMR-compliant**.
- ➔ The EU BMR allows for other data inputs to be considered for the determination of a benchmark: *"If transaction data is not sufficient or is not appropriate to represent accurately and reliably the market or economic reality that the benchmark is intended to measure, input data which is not transaction data may be used, including estimated prices, quotes and committed quotes, or other values."*

- ➔ In the light of this provision, EMMI decided to pursue the development of a *hybrid methodology*, which is supported by transactions whenever these are available, but relies on other techniques or data sources according to input criteria established by EMMI.
- ➔ The hybrid methodology was developed by EMMI over the summer 2017 with the support of a dedicated Task Force, where the Belgian Financial Services and Markets Authority (FSMA), EMMI's supervisor, participated as an observer.



- ➔ Following implementation of the new methodology, EMMI will apply for authorization.
- ➔ The Belgian FSMA will evaluate the characteristics of Euribor, calculated using the hybrid methodology, against the requirements imposed by the EU BMR. The characteristics of the hybrid methodology will be taken into consideration by the FSMA when analyzing the authorization file.
- ➔ Should the outcome of this assessment be negative, the FSMA may permit the provision and use of Euribor in existing contracts under the conditions set out in Article 51(4) of the EU BMR.



Euro OverNight Index Average—EONIA

Working group on euro risk free rates

26 February 2018

Frankfurt am Main

Overview

- A** EONIA: the basics
- B EONIA Review
- C Future perspectives

What is the Underlying Interest of EONIA?

EONIA represents *the rate at which banks of sound financial standing in the European Union (EU) and European Free Trade Association (EFTA) countries lend funds in the overnight, interbank money market in euro.*

How is EONIA calculated?

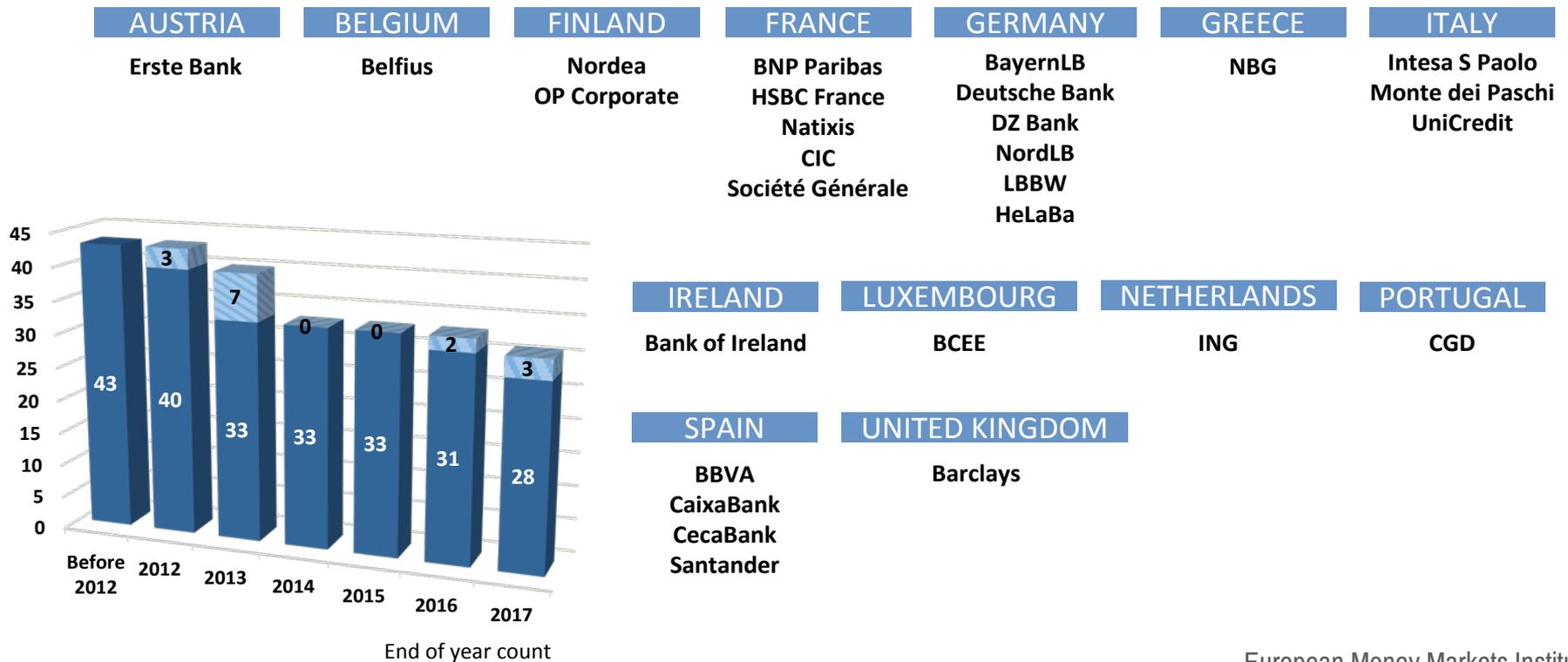
EONIA is calculated on the basis of daily contributions from a panel of banks, whose members are credit institutions in the EU and EFTA countries. The index is computed as the volume-weighted average of all panel banks' submissions.

How do panel banks derive their contributions?

EONIA is a **fully transaction-based benchmark**: panel banks' submissions are calculated from their (EONIA eligible) daily overnight interbank lending transactions.

Which banks contribute to the daily determination of the index?

The panel of contributors to EONIA is currently composed of 28 European banks from 13 different countries. The number of banks participating in the daily determination process, however, has declined since the end of 2011.



EONIA declaration as a critical benchmark

In June 2017, the European Commission published its Implementing Regulation (EU) 2017/1147, by which EONIA was designated as critical and included in the corresponding list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011.

The EU BMR considers a benchmark to be critical if it is “used directly or indirectly within a combination of benchmarks as a reference for financial instruments or financial contracts or for measuring the performance of investment funds, having a total value of at least EUR 500 billion on the basis of all the ranges of maturities or tenors of the benchmark, where applicable.”

The following table summarizes the information on the use of the EONIA index contained in the declaration of EONIA as critical benchmark:

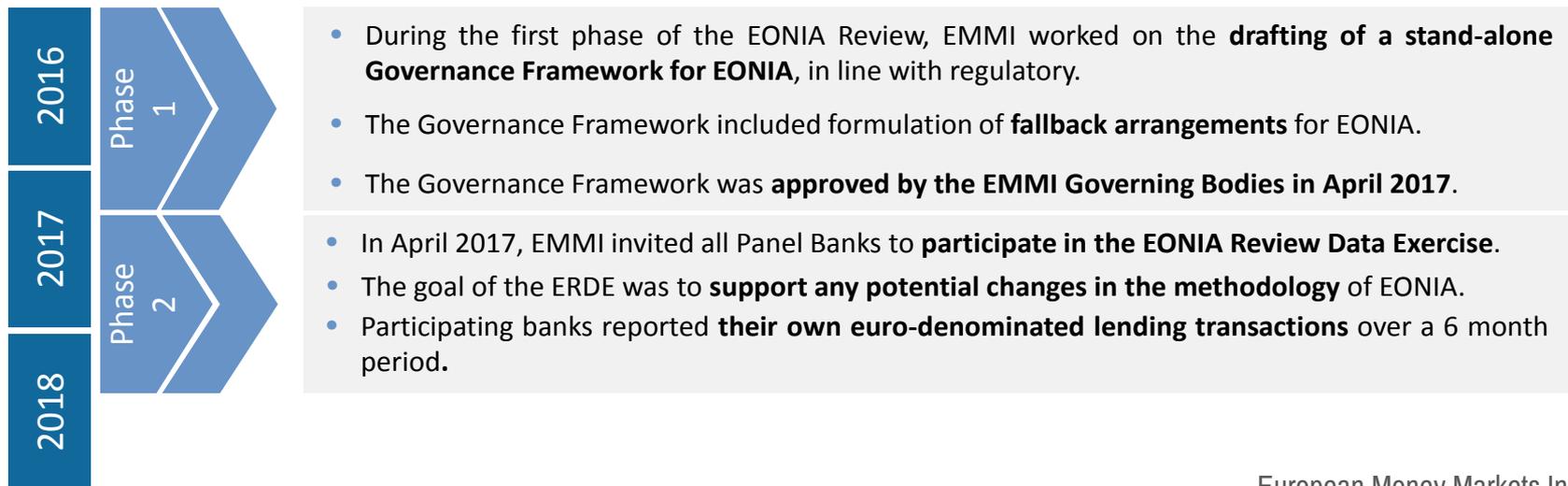
Use	Outstanding amount
Money market instruments in the unsecured market	EUR 450 billion
Money market instruments in the secured market	EUR 400 billion
	Notional amount
Euro overnight index swap market (EONIA swap market)	EUR 5.2 trillion

These figures are based on calculation by the ECB derived from the daily reports of the 52 largest European banks under the MMSR regulation.

Overview

- A EONIA: the basics
- B EONIA Review**
- C Future perspectives

- ➔ At the end of 2015, EMMI started the EONIA Review, a program which sought:
 - to **enhance the governance and control framework over the EONIA benchmark**, and align them with the requirements of the EU Benchmarks Regulation; and
 - to enhance EONIA's methodology, by identifying and remediating EONIA's weaknesses.
- ➔ The EU BMR requests benchmark administrators to ensure that benchmarks' determination methodologies are **robust, reliable, and resilient** to guarantee the benchmark can be calculated in the widest set of circumstances, **without compromising its integrity**.



Overview

- A EONIA: the basics
- B EONIA Review
- C Future perspectives**

- ➔ EMMI's analysis of transaction-level data during the EONIA Review Data Exercise confirmed the index's concentration. The inclusion of currently non-eligible financial instruments does not have a significant impact on the representativeness or robustness of the EONIA benchmark.

The index's concentration may increase the influence of single contributors on the benchmark.

- ➔ The low levels of activity in the unsecured interbank lending market, and the limited number of active participants, is also reported in the ECB's First Consultation Paper. **To this end, enlarging the number of banks in the Panel would not solve EONIA's limitations.**
- ➔ With its current definition, **EONIA cannot achieve compliance with the EU BMR.**
- ➔ EMMI consulted interested parties to assess whether support would be given to a continuation of the second phase of the EONIA Review, in an attempt to reach compliance for the benchmark (what would mean a redefinition of EONIA's Underlying Interest).
- ➔ The consulted parties considered that the **ECB was better positioned to create a more robust (overnight) reference index**, whose underlying data would not be sourced from a benchmark-specific panel, but from MMSR requirements.

- ➔ Throughout this process, EMMI highlighted what it considered as a tight timeline, considering that **the challenge was not only the *production* of a new overnight rate** (so-called RFR), but the **potential transition of contracts (in particular, the euro overnight swap market) to a new rate.**

EONIA: the basics A**EONIA declaration as a critical benchmark**

In June 2017, the European Commission published its Implementing Regulation (EU) 2017/1147, by which EONIA was designated as critical and included in the corresponding list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011.

The EU BMR considers a benchmark to be critical if it is “used directly or indirectly within a combination of benchmarks as a reference for financial instruments or financial contracts or for measuring the performance of investment funds, having a total value of at least EUR 500 billion on the basis of all the ranges of maturities or tenors of the benchmark, where applicable.”

The following table summarizes the information on the use of the EONIA index contained in the declaration of EONIA as critical benchmark:

Use	Outstanding amount
Money market instruments in the unsecured market	EUR 450 billion
Money market instruments in the secured market	EUR 400 billion
Notional amount	
Euro overnight index swap market (EONIA swap market)	EUR 5.2 trillion

These figures are based on calculation by the ECB derived from the daily reports of the 11 largest European banks under the MMSR regulation.

European Money Markets Institute

CONFIDENTIAL

5

1 Jan 2018

Article 51(1) of the EU BMR establishes that *“an index provider providing a benchmark on 30 June 2016 shall apply for authorization or registration in accordance with Article 34 by 1 January 2020.”*

1 Jan 2020

The EU BMR allows the use of EONIA as a reference rate in contracts until 31st December 2019. After 1st January 2020, the provision and use of EONIA in existing contracts may be permitted by the FSMA, under the conditions set out in Article 51(4) of the EU BMR.

EMMI remains committed to producing a benchmark during the two-year long interim period contemplated in the law, and well past that horizon, if permitted, and for as long as a representative sample of banks continue to contribute their EONIA eligible daily activity.