Q #1  *How was Euribor impacted by the adoption of the Benchmark Regulation (BMR) and what are the relevant features of the reformed Euribor for investment managers?*

Euribor rates are used by investment funds across all kinds of asset classes and financial instruments, such as swaps, swaptions, other nonlinear derivatives, bonds, loans and asset backed securities. Euribor is also used as a benchmark for performance fee calculation and as a discounting curve for certain products.

For over 20 years now, Euribor has been a trusted and reliable reference for the euro money market and, back in 2016, it was declared a critical benchmark by the European Commission. With BMR-compliance as an objective, The European Money Markets Institute has successfully taken on actions as early as 2015 to ensure Euribor's continued sustainability, reliability, and integrity. We have in this regard considerably strengthened the benchmark by putting in place a rock-solid Governance Framework consisting of effective control and oversight arrangements for the administrator, for the contributors, and for the calculation agent. We also maintain an independent Oversight Committee of market experts which supervises the application of this Governance Framework.

In parallel, we have broadly consulted the market to devise and develop a fit-for-purpose ‘hybrid’ methodology for Euribor, which - since November 2019 - is no longer based on quotes but rather grounded in transactions in the unsecured euro money market. The contributions to the determination of Euribor by the 18 Panel Banks – which are fully representative of the underlying market – follow a three-level hierarchical approach.

Level 1 consists of contributions based solely on eligible transactions in the unsecured euro money market satisfying several criteria, including a minimal notional amount of 10 million euros. Level 2 consists of contributions based on transactions across the broader money market maturity spectrum or previous days’ contributions using a formulaic approach. Level 3 consists of contributions for which each Panel Bank uses specific input data and modelling
techniques that are tailor-made to their own funding models. These contributions must be duly documented, validated, and always applied in a consistent manner, following The European Money Markets Institute’s guidelines.

Q #2 Is EURIBOR continuity ensured for the long term?

In July 2019, The European Money Markets Institute was granted authorisation by its supervisor - the Belgian Financial Services and Markets Authority - for the administration of the benchmark under BMR. For market participants, the authorisation is the assurance that the hybrid methodology measures the underlying market in a fully BMR-compliant way, and that Euribor can sustainably continue to be used in their financial contracts and instruments.

The hybrid methodology for Euribor has been in place for over one and a half years now, and the benchmark has been able to navigate the turbulent waters of 2020. Even in adverse circumstances, it has coped adequately, and its hybrid methodology has proven appropriate, robust, and efficient. During this agitated period, Euribor has remained representative of its underlying market, tracking market movements, including at times temporarily reduced market liquidity. Level 3 contributions also proved very useful in that context.

This good performance of Euribor leaves no room for complacency however, and we conducted the review exercise of Euribor’s methodology in 2020. The review identified a few possible beneficial recalibrations. Four relevant adjustments have been implemented since April of this year; they improve the benchmark’s robustness, make it more resistant to undue influence, induce a decrease of the relative share of Level 3 submissions, and enhance its responsiveness to market events. We will perform a similar review every year as we aim at providing the most reliable methodology to adjust to any structural market development, ensuring hereby Euribor’s sustainability.

Q #3 Should €STR-based term rates be used as EURIBOR fallback rates?

As benchmark administrator, it is not our role to advise market participants as to which benchmarks or rates are the most suitable for them. What we can say, however, is that the European regulator considers that Euribor users and their clients should be able to know in advance what would happen to their contracts in the unlikely scenario of temporary or permanent discontinuation of the benchmark. Hence the obligation under BMR for supervised entities like asset managers to introduce fallback language and, in some cases, fallback rates in Euribor-linked contracts. Given the criticality of Euribor, the ultimate goal of the regulator is to ensure the continuity of such contracts in the case that Euribor rates are not available.

At the European Money Markets Institute, we regard this regulatory requirement as a positive development which makes the case for Euribor even stronger. That is why we consider it our duty, as the administrator of Euribor, to also provide users with fallback rates. We are currently developing an €STR-based term structure as a fallback to Euribor for all existing maturities. For this venture, we have decided to team up with Ice Benchmark Administration (IBA).
will be the Calculation Agent and The European Money Markets Institute the Administrator, bearing end-to-end responsibility for this benchmark. Subject to the quick adoption of €STR by market participants, we are confident that we will be able to produce a beta version of this forward-looking fallback around the fall of this year, and the final rates towards the beginning of 2022.

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