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## Frequently Asked Questions: EURIBOR reform

This Frequently Asked Questions (“FAQ”) document, which may be updated from time to time, contains information regarding the EURIBOR benchmark reforms.

### 1. What is EURIBOR?

The Euro Interbank Offered Rate (EURIBOR) is a daily reference rate published by the European Money Markets Institute (EMMI).

### 2. What is happening to the EURIBOR benchmark methodology?

EMMI is reforming the EURIBOR benchmark by moving to a ‘hybrid’ methodology and reformulating the EURIBOR specification. The hybrid EURIBOR methodology is currently being gradually implemented (see Question 10 for further information).

In Q18 of the [EMMI - EURIBOR questions and answers](#), EMMI describes the hybrid methodology (described further in Q6 below) as 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. EURIBOR's “Underlying Interest” is:

“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.” (<https://www.emmi-benchmarks.eu/euribor-org/about-euribor.html>)”.

In Q18 of the [EMMI - EURIBOR questions and answers](#), EMMI states that EURIBOR reform “does not change EURIBOR’s Underlying Interest, which has always been seeking to measure banks’ costs of borrowing in unsecured money markets”. Consequently, EMMI states that “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 EU Benchmarks Regulation (“EU BMR”).

### 3. Why is EMMI reforming EURIBOR?

EURIBOR is being reformed for two main reasons (please see Question 11 of the [EMMI - EURIBOR questions and answers](#)):

- 1) because the EU BMR and the guidelines of international organisations on the administration of benchmarks require that benchmarks are to be 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.

Benchmarks that do not meet the requirements set out in the EU BMR cannot be used by certain EU supervised entities after the expiry of the EU BMR's transitional period (which, although originally scheduled to expire on 31st December 2019, is now expected to expire on 31<sup>st</sup> December 2021, provided that the political agreement which has been reached for an extension to this deadline in respect of critical benchmarks (such as EURIBOR) and third country benchmarks is passed into law accordingly ([EC press release](#))).

#### **4. Has EMMI been granted authorization for the administration of EURIBOR?**

Yes, on 2nd July 2019, EMMI was granted authorisation by the Belgian Financial Services and Markets Authority (FSMA) (the national competent authority responsible for the authorisation and supervision of EMMI as the administrator of EURIBOR) under Article 34 of the EU BMR for the administration of EURIBOR ([EMMI press release](#)).

#### **5. How was EURIBOR calculated prior to the transition to the hybrid methodology?**

Under the pre-reform quote-based methodology, panel banks were required to contribute daily quotations (prior to 10:45 a.m. CET on each TARGET day) of the rate, rounded to two decimal places, that each panel bank believed one prime bank was quoting to another prime bank for interbank term deposits within the euro zone on the date of publication (P). EURIBOR under the pre-hybrid methodology was quoted for spot value (P+2) and on an Actual/360 basis; at or after 11:00 a.m. CET, the calculation agent processed the calculation and EMMI then published EURIBOR (please see section C.2 of the former [Euribor Code of Conduct](#)). In this FAQs, this pre-reform quote-based methodology is referred to as the 'old methodology'.

#### **6. What is the hybrid methodology?**

Since May 2017, EMMI has been working on the development of a hybrid determination methodology for EURIBOR. The hybrid methodology was developed by EMMI with the support of a dedicated task force, in which the FSMA participated as an observer.

Under the hybrid methodology (please see the [Benchmark Determination Methodology for EURIBOR](#)), panel banks submit their contribution data on every TARGET day. The hybrid methodology 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 these three levels:

- Level 1: Contribution based solely on Eligible Transactions in the Underlying Interest at the Defined Tenor from the prior TARGET day, using a formulaic approach provided by EMMI;
- Level 2: Contribution 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 (please see Question 9 below for further details on Level 2); and
- Level 3: Contribution 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. (Level 3 contribution should reflect the average rate of borrowing by the panel bank over the TARGET day preceding the day of publication).

The above approach is applied progressively. Thus, a panel bank's contribution is determined using the Level 1 methodology when the conditions for such an approach are met. If such conditions are not met, it should be assessed whether the conditions for a Level 2 contribution are satisfied, and, if so, the panel bank's contribution will be based on Level 2. Finally, if neither a Level 1 nor a Level 2 contribution can be made, the panel bank makes a Level 3 contribution. In each case, the panel bank's contribution shall consist of a contribution rate and the corresponding contribution level.

EMMI has adopted a **Governance Framework** to establish the requirements and principles related to the provision of the EURIBOR benchmark.

## 7. What are Eligible Transactions?

“Eligible Transactions” are transactions that are eligible for a Level 1 contribution. Amongst other things, only transactions executed on TARGET day T are eligible for a Level 1 contribution on TARGET day T+1 and only transactions with standard value date (settlement date) of T, T+1, and T+2 are eligible. (Please see section 4, pages 7-9 of the **Benchmark Determination Methodology for EURIBOR** for the full criteria).

## 8. What are EURIBOR's Defined Tenors?

EURIBOR is calculated and published for five “Defined Tenors”: 1 week, 1 month, 3 months, 6 months and 12 months.

## 9. How are Level 2 contributions determined?

EMMI permits three Level 2 contribution techniques. These techniques should be employed progressively and in the order specified below:

- Level 2.1: Adjusted linear interpolation from the adjacent Defined Tenors (adjusted by a Spread Adjustment Factor (SAF) that seeks to correct for the curvature of the money market yield curve);
- Level 2.2: Transactions at non-Defined Tenors; and
- Level 2.3: Eligible Transactions from prior dates (adjusted by a Market Adjustment Factor (MAF) that seeks to correct for the overall movement in interest rates between the date of the contribution and the current date).

Thus, where a panel bank's contribution can be calculated using the Level 2.1 method, that contribution constitutes the panel bank's contribution for the day (assuming a Level 1 submission cannot be made). Similarly, a Level 2.2 contribution takes precedence over a Level 2.3 contribution. (Please see sections 7-9, pages 10-12 of the **Benchmark Determination Methodology for EURIBOR**).

## 10. What date will the reforms be implemented?

Section 7.1 of the **minutes** from the meeting of the working group on euro risk-free rates held on 27th February 2019 confirms that panel banks will transition progressively to the hybrid methodology. EMMI has advised that the transition is already underway and the **EMMI press release** on the authorization granted by the FSMA under Article 34 of the EU BMR for the administration of EURIBOR indicates that EMMI expects to complete the implementation of the hybrid methodology before the end of 2019. Question 25 of the **EMMI - EURIBOR questions and answers** further supports this timeframe. In this FAQ, the period from the start of this progressive transition to the end of successful implementation of the hybrid methodology is referred to as the ‘transition period’.

## **11. How is EURIBOR being determined during the transition period?**

ISDA understands from EMMI that during the transition period (as defined in Question 10 above), EMMI is determining EURIBOR using data submitted by: (i) some panel banks under the old methodology, and (ii) some panel banks under the hybrid methodology. This may lead to the rate reflecting data from different days than would have been the case if EURIBOR had been determined using solely the old methodology or using solely the hybrid methodology.

## **12. What will the publication time of EURIBOR be under the hybrid methodology?**

EURIBOR will continue to be published daily on every TARGET day, at or shortly after 11:00 a.m. CET for each of the Defined Tenors. The rates will be made available to all subscribers and authorised data vendors.

## **13. Will EURIBOR change its official name, its label within FpML or be published in a different way?**

EURIBOR will continue to be called the Euro Interbank Offered Rate (EURIBOR), there will be no change to its label in FpML and it will continue to be available through its current sources using the same pages.

## **14. What should users of EURIBOR do in light of the reforms?**

Users of EURIBOR are encouraged to consider the change in methodology (including during the transition period) in the context of their particular requirements and to speak to their counterparties where appropriate.

## **15. Which Floating Rate Options in the 2006 ISDA Definitions reference EURIBOR?**

The Floating Rate Options that reference EURIBOR (set out below) are defined in section 7.1(f) of the 2006 ISDA Definitions.<sup>1</sup>

EUR-EURIBOR-Reuters  
EUR-EURIBOR-Reference Banks  
EUR-ISDA-EURIBOR Swap Rate-11:00  
EUR-ISDA-EURIBOR Swap Rate-12:00  
EUR-Annual Swap Rate-Reference Banks  
EUR USD-Basis Swaps-11:00-ICAP  
EUR EURIBOR-Basis Swap-3m vs 6m- -11:00-ICAP  
EUR EURIBOR- Basis Swap-1m vs 3m-Euribor-11:00-ICAP  
EUR EURIBOR-Annual Bond Swap vs 1m-11:00-ICAP  
EUR Basis Swap-EONIA vs 3m EURIBOR Swap Rates-A/360-10:00-ICAP  
EUR - 6M EURIBOR SWAP - CME vs LCH - ICAP  
EUR - 6M EURIBOR SWAP - CME vs LCH - ICAP - Bloomberg  
EUR - 6M EURIBOR SWAP - EUREX vs LCH - ICAP  
EUR - 6M EURIBOR SWAP - EUREX vs LCH - ICAP - Bloomberg  
EUR - 3M EURIBOR SWAP - CME vs LCH - ICAP

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<sup>1</sup> “EUR-EURIBOR-Act/365” and “EUR-EURIBOR-Act/365-Bloomberg” ceased being published on 31 March 2019: [https://www.emmi-benchmarks.eu/assets/files/D0457-2018%20ACT\\_365%20and%2030\\_360%20day%20count%20conventions\\_final.pdf](https://www.emmi-benchmarks.eu/assets/files/D0457-2018%20ACT_365%20and%2030_360%20day%20count%20conventions_final.pdf)

EUR - 3M EURIBOR SWAP - CME vs LCH - ICAP - Bloomberg  
EUR - 3M EURIBOR SWAP - EUREX vs LCH - ICAP  
EUR - 3M EURIBOR SWAP - EUREX vs LCH - ICAP - Bloomberg

**16. Will any changes be made by ISDA to the Floating Rate Options that reference EURIBOR as a result of the change in methodology or publication schedule?**

ISDA discussed with its members whether the change in methodology required changes to its Floating Rate Options referencing EURIBOR and no changes are anticipated to be made.

Amendments to Floating Rate Options which reference EURIBOR to incorporate fallbacks in the event of an index cessation event are subject to a separate workstream. More information on this workstream can be found on the ISDA website (<https://www.isda.org/category/legal/benchmarks/>).

**17. Are the clearing houses making any changes in response to the EURIBOR reform?**

It is not anticipated that the clearing houses will make any changes in response to the EURIBOR reform.

**18. Where can I find more information on the changes?**

EMMI website

EMMI contact details: [info@emmi-benchmarks.eu](mailto:info@emmi-benchmarks.eu)

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