

Brussels, 24 October 2016

Subject: Euribor Seamless Transition

Dear Mr Hartenfels,

We would like to refer to the EFMLG letter dated 30 June 2016 with regards to the Legal Working Group and the Seamless Transition for Euribor. We fully appreciate the EFMLG's support in encouraging EMMI to pursue a Seamless Transition path if feasible.

During the past three years, EMMI has been striving to enhance the robustness and transparency of its benchmarks, in particular of the Euribor benchmark, given its critical use *inter alia* in a vast number of derivative contracts, retail mortgages and corporate loans.

Evolving to a transaction-based benchmark will ensure Euribor stays representative of the market conditions and result in a more robust and transparent benchmark, which is essential for the integrity of financial markets and in line with market, regulatory and consumer expectations. In progressing the Euribor+ Project, EMMI has aimed to pursue a Seamless Transition, as defined in the FSB report, based on the view that such a transition path would be in the interest of the broad majority of Euribor stakeholders. Such a transition mitigates the legal, operational, and reputational risks that would otherwise be incurred with the introduction of a new, distinct benchmark.

EMMI acknowledges that legal aspects of the transition remain a strong concern shared by a majority of the stakeholders that call for a public reassurance in the context of the transition to the new methodology in order to minimise the legal risks and resulting potential contract frustration. As such, in the light of the systemic importance of Euribor for financial stability, EMMI has repeatedly called for official endorsement from the relevant public authorities. Upon receipt of the EFMLG letter, on 20 July 2016, EMMI wrote to the Belgian FSMA, the European Commission, ECB, Single Supervisory Mechanism (SSM), EBA, ESMA, IOSCO and FSB to reiterate the call for official support from the relevant institutions and authorities at EU and national level along the lines recommended by the EFMLG ([enclosure 1](#)).

At this stage, EMMI has received responses from the European Commission, EBA, ESMA and the Belgian FSMA. While the responses from the European Commission ([enclosure 2](#)), EBA and ESMA ([enclosure 3](#)) refer to Euribor as a private initiative, the response from the Belgian FSMA is rather positive ([enclosure 4](#)). In their letter dated 1 September 2016, the Belgian FSMA supports EMMI's efforts "*to develop a methodology that is, amongst other things, more rigorous, continuous and capable of validation including, where appropriate, back-testing against available transaction data*".

Furthermore, they show their understanding for EMMI's call for support when conducting a Seamless Transition and commit to providing EMMI with guidance in determining the nature of the transition "*only after having analysed the results of the pre-live verification test that is assumed to take place between September 2016 until February 2017 and that will indicate the impact on rate and volatility calculated with recent unsecured money market transaction data*".



As you know, as a cornerstone of the Euribor+ project, EMMI is conducting as from 1 September 2016 a six-month Pre-Live Verification Exercise to evaluate under the current market conditions whether the levels of the rate and volatility between the current quote-based methodology and proposed transaction-based methodology are “sufficiently similar”. Therefore, this exercise which is expected to run from September 2016 to February 2017, will allow EMMI to assess the feasibility of evolving towards a transaction based methodology for Euribor following a Seamless Transition path.

Moreover, EMMI’s primary objective is to ensure the smoothest transition possible to all stakeholders. In this context, EMMI is aware that in addition to the Seamless Transition path, contingency transition paths may have to be assessed. Aware of the significance of Euribor and the nature of many of the concerns regarding its reform, EMMI created the Legal Working Group, in which the EFLMG participates, to address legal aspects that may arise from the transition to a transaction-based methodology.

As part of the recommendations of the Legal Working Group, in order to obtain further public and stakeholder endorsement EMMI should publish a Position Paper covering the legal issues currently being assessed. Consequently, EMMI is currently working with Allen&Overy on a draft Position Paper to be discussed with the Members of the Legal Working Group. We would therefore like to take this opportunity to inform you that EMMI will be convening a next Legal Working Group meeting in the coming month. An official invitation and agenda for the meeting will be provided in due course.

In the meantime, should you have any further questions, please do not hesitate to contact us.

Yours sincerely,

Guido RAVOET  
Secretary General

Enclosures:

- 1- 0043-2016\_Letter from EMMI to public authorities re Euribor seamless transition
- 2- 2016-1310\_D878\_EC reply to EMMI
- 3- 2016-1310\_D878\_EBA and ESMA reply to EMMI
- 4- 2016-1310\_FSMA reply to EMMI

[EC, ESMA, EBA, FSB, IOSCO, ECB, FSMA]

Brussels, 20 July 2016

Subject: Euribor Seamless Transition

Dear xx,

As an administrator of critical benchmarks (Euribor and Eonia), EMMI supports the objectives of the BMR that entered into force on 30 June 2016 to improve the governance and control over the benchmark process, thereby ensuring its reliability and protecting users and the broad financial market.

Over the past three years, EMMI has made significant progress towards enhancing the transparency, governance and control framework of the Euribor benchmark rate-setting process.

In this context, as you know, EMMI initiated the “Euribor+ Project” with the objective of developing and evaluating a transaction-based benchmark determination methodology for Euribor, guided by the Financial Stability Board’s recommendations in its report *Reforming Major Interest Rate Benchmarks*<sup>1</sup> in order to ensure reference rates command widespread private and official sector support. Evolving to a transaction-based benchmark will ensure Euribor stays representative of the market conditions and result in a more robust and transparent benchmark, which is essential for the integrity of financial markets and in line with market, regulatory and consumer expectations.

In progressing the Euribor+ Project, EMMI has aimed to pursue a Seamless Transition, as defined in the FSB report, based on the view that such a transition path would be in the interest of the broad majority of Euribor stakeholders. Such a transition mitigates the legal, operational, and reputational risks that would otherwise be incurred with the introduction of a new, distinct benchmark. In concrete terms, the benchmark will therefore continue to be termed “Euribor” and the benchmark rates will continue to be published on the data vendor pages as currently.

Nevertheless, as expressed previously, legal aspects of the transition remain a strong concern shared by a majority of the stakeholders that call for a public intervention in the context of the transition to the new methodology in order to minimise the legal risks and resulting potential contract frustration.

On 30 June 2016, EMMI received a letter from the European Financial Markets Lawyers Group (EFMLG), in the context of the Legal Working Group set up by EMMI, underlining that *“before the new methodology of the calculation of Euribor goes live, an official confirmation from the relevant institutions and authorities at EU and national level is needed to effect that (i) the changes in the definition and methodology of the Euribor are appropriate in order to comply with the new requirements of the Regulation on financial benchmarks, (ii) those changes constitute a mere evolution of the benchmark; and, therefore, (iii) the identity and the underlying interest of the Euribor has not been altered.”* The letter from the EFMLG is hereby attached for your information.

<sup>1</sup> [http://www.fsb.org/wp-content/uploads/r\\_140722.pdf](http://www.fsb.org/wp-content/uploads/r_140722.pdf), 22 July 2014.



Therefore, as the benchmark administrator for a critical benchmark of systemic importance for the financial stability, we reiterate our call for official support from the relevant institutions and authorities at EU and national level along the lines recommended by the EFMLG.

Prior to the planned switch-over to the new transaction-based determination methodology, EMMI will conduct a six-month long pre-live assessment, from September 2016 to February 2017, in order to estimate the impact on rate and volatility calculated with 2016/2017 data.

We remain at your disposal to further discuss this topic with you at your best convenience.

Thank you in advance for your consideration.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Guido Ravoet', written over a faint circular stamp.

Guido RAVOET  
Secretary General



## EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

Director General

RECU le

12 AOUT 2016

Brussels, 09. 08. 2016 - 4254629  
FISMA/C3/UE/jt/Ares(2016)4595014

Mr Guido Ravoet  
Secretary General  
European Money Markets Institute  
Avenue des Arts 56  
1000 Bruxelles

Dear Mr Ravoet,

Thank you very much for your letter of 20 July 2016 on the Euribor Seamless Transition, addressed to Vice-President Valdis Dombrovskis. The Vice-President has asked me to reply on his behalf.

In your letter, you argue that despite the significant progress made in the transition of Euribor to Euribor+, legal concerns would remain. In order to address these concerns, you take up the suggestion of the European Financial Markets Lawyers Group (EFMLG) which proposes that 'relevant institutions and authorities at EU and national level' should confirm that the transition is appropriate, evolutionary and does not alter the underlying interest of the Euribor.

The European Commission fully supports EMMI's efforts to turn Euribor into a transaction-based benchmark and acknowledges the problems this involves, in particular with regard to the establishment and continuation of a representative panel. In order to address this issue, the Commission has sent a letter to actual and potential panel banks in June of this year.

As already explained in our reply to the EFMLG's letter of September 2014, we consider that the Commission's role should not extend to defining the relationship between Euribor and its users. This is a private law relationship in a competitive market.

Furthermore, the Commission, not being a supervisor, is not best placed to assess whether the new definition and methodology are compliant with the Benchmarks Regulation, whether those changes constitute a mere evolution of the index and whether the identity and the underlying interest of the Euribor have or not been altered.

I am confident that EMMI will successfully conclude the final steps in the transition process, continuing its close cooperation with the ECB, the EBA and the Belgian FSMA.

Olivier GUERSENT

**European Money Markets Institute  
Mr Guido Ravoet  
56, Avenue des Arts  
1000 Bruxelles  
Belgium**

5 September 2016

ESMA/2016/1310  
EBA/2016/D/878

**Ref: Euribor Seamless Transition**

Dear Mr Ravoet

Thank you very much for your letter of 20 July 2016 on the Euribor Seamless Transition.

ESMA and EBA welcome the efforts made by EMMI in order to reach a transaction-based methodology in line with the recommendations made by the Financial Stability Board (FSB) and fully supports EMMI's plan to carry out a pre-live verification program, including a data analysis exercise, in the next months and to implement the transaction-based methodology during Q2 2017.

ESMA and EBA believe that the publicly known preliminary elements of the new methodology for the determination of the Euribor are broadly in line with the principles upon which the Benchmarks Regulation (Regulation (EU) 2016/1011) is based, and that they represent a necessary step towards an evolved Euribor compliant with the new requirements under the Regulation.

Nevertheless, in relation to the first recommendation by the European Financial Markets Lawyers Group (EFMLG), which you attached to your letter, the following should be noted. According to Article 34 of the Benchmarks Regulation, providers of benchmarks will have to apply for authorisation to the relevant competent authority. In the case of critical benchmarks, the competent authority of the administrator will have to consult the members of the respective college before taking a decision on the application for authorisation. It is during this process that the competent authority will decide whether or not the methodology of the benchmarks complies with the new requirements of the Regulation.

As the same holds for all benchmarks, including the Euribor, ESMA and EBA can at this point in time not confirm on their own that the changes in the definition and the methodology of the

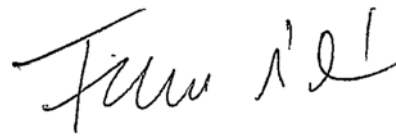
Euribor are appropriate in order to comply with the new requirements of the Benchmarks Regulation. Neither can ESMA and EBA confirm that the identity and the underlying interest of the Euribor has not been altered or that therefore the future changes will constitute a mere evolution of the index, as further suggested by the EFMLG.

ESMA and EBA remain confident that EMMI will successfully carry out a seamless transition to a new methodology of the Euribor in accordance with the new applicable obligations.

Yours sincerely



Verena Ross



Adam Farkas



FINANCIAL  
SERVICES  
AND  
MARKETS  
AUTHORITY

Supervision of market operators

**By registered mail**

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**EURIBOR Seamless Transition**

RECU le

05 SEP 2016

Dear Sir,

We refer to your letter of 20 July 2016 on the EURIBOR Seamless Transition addressed to the Financial Services and Markets Authority ("FSMA").

In that letter, you express your concerns regarding the legal risks and resulting potential contract frustration that may result from the transition to the EURIBOR+ methodology.

Therefore, along the lines recommended by the European Financial Markets Lawyers Group ("EFMLG"), you would like to receive from the relevant institutions and authorities at the European and national levels the official confirmation in advance that the proposed transition:

- Is appropriate in order to comply with the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and the Regulation (EU) No 596/2014 ("the Benchmarks Regulation").
- Constitutes a mere evolution of the benchmark and does not alter the underlying interest of the EURIBOR.

As already mentioned in our letter dated 23 June 2016, the FSMA is supportive of the plans to transition EURIBOR from a quote-based methodology to a methodology based on transactions.

At first glance, this transition appears to be consistent with the requirements of Article 11 of the Benchmark Regulation, which expresses a clear preference for using transaction data as the input data for the determination of a benchmark. Moreover, in accordance with Article 12 of the Benchmark Regulation, we support the efforts of EMMI to develop a methodology that is, amongst other things, more rigorous, continuous and capable of validation including, where appropriate, back-testing against available transaction data.

In accordance with Article 51 of the Benchmarks Regulation, EMMI shall apply for authorisation as benchmark administrator by 1 January 2020.



In the meantime, we note that EMMI will apply for authorisation with the FSMA to act as benchmark administrator within 30 working days from the entry into force of the draft Belgian Royal Decree on the legal status and supervision of administrators of interest rate benchmarks ("The Royal Decree"). In this context, the FSMA will analyse whether the current methodology used for EURIBOR meets the requirements of Article 16 of the Royal Decree, according to which the methodology shall be robust, reliable, rigorous and continuous. In addition, the FSMA will thoroughly monitor all further developments in the EURIBOR+ methodology as well as the new methodology itself, in order to assess whether EMMI is compliant with the authorisation requirements of the Royal Decree and with the Benchmarks Regulation.

As the Royal Decree constitutes an anticipation of the Benchmarks Regulation, the FSMA will determine, in the course of the analysis of the above-mentioned application, whether the transition to the EURIBOR+ methodology is appropriate to comply with the Benchmarks Regulation.

Regarding the nature of the transition, we fully understand that EMMI would like to obtain support from the authorities in determining whether the transition to EURIBOR+ can be qualified as seamless and we are ready to provide you with guidance in this context. However, as already stressed by the Financial Stability Board, a seamless transition is possible only on the condition that the IBOR+ is materially similar in definition, value and volatility<sup>1</sup>. Therefore, the FSMA will only be able to provide you with guidance in determining the nature of the transition after having analysed the results of the pre-live verification test that is assumed to take place from September 2016 until February 2017 and that will indicate the impact on rate and volatility calculated with recent unsecured money market transaction data.

Yours sincerely,

The Chairman,



Jean-Paul SERVAIS

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<sup>1</sup> Market Participants Group on Reforming Interest Rate Benchmarks, Final Report (published by the Financial Stability Board), March 2014, p. 42.