International
Capital
Market
Association

European Money Markets Institute (EMMI)
Avenue des Arts 56
1000 Brussells
Belgium

(Submitted by email to info@emmi-benchmarks.eu)

29 January 2016

Dear Sirs,

**EMMI Consultative Position Paper on the evolution of Euribor**[1]

The International Capital Market Association (ICMA) is responding to the above.

Representing a broad range of capital market interests including banks, asset managers, exchanges, central banks, law firms and other professional advisers, ICMA's market conventions and standards have been the pillars of the international debt market for almost 50 years. See: www.icmagroup.org.

ICMA is responding in relation to its primary market constituency that lead-manages syndicated, vanilla debt securities issues throughout Europe on behalf of corporate borrowers. This constituency deliberates principally through ICMA's Primary Market Practices Committee[2], which gathers the heads and senior members of the syndicate desks of 48 ICMA member banks, and ICMA's Legal and Documentation Committee[3], which gathers the heads and senior members of the legal transaction management teams of 21 ICMA member banks, in each case active in lead-managing syndicated debt securities issues in Europe.

We set out some general remarks and short responses to EMMI's questions in the Annex to this letter.

Yours faithfully,

C. Bellamy

**Charlotte Bellamy**
Director - Primary Markets
Charlotte.Bellamy@icmagroup.org
+44 20 7213 0340

[1] Available here.

[2] More information is available here.

[3] More information is available here.

**ANNEX**

**GENERAL REMARKS**

1. ICMA welcomes the opportunity to engage with EMMI in relation to the evolution of Euribor.

2. Improving benchmark robustness is a positive goal and in this respect, it is understandable that the proposed process focuses on executed transactions rather than on offered rates as a more objective process that is less vulnerable to manipulation. However, in improving the robustness of a benchmark, it is important to ensure that there are no negative side effects for outstanding contracts that reference that benchmark, including bonds.

3. ICMA has previously communicated this to ICE Benchmark Administrator and others in the light of proposals for changes to LIBOR, most recently in ICMA's response to the ICE Benchmark Administration Limited Second Position Paper on the Evolution of ICE LIBOR, which includes hyperlinks to ICMA's other responses.

4. As such, EMMI's focus on the issue of a "Seamless Transition" in the evolution of Euribor and the intention to continue to publish Euribor in the same manner that it is currently published is welcome. It is also welcome that EMMI considers as a requirement for a "Seamless Transition" that definition, level and volatility of Euribor under the current and future methodologies are similar.

5. EMMI's statement that there is no intention to change the "Underlying Interest" for Euribor is also positive. However, it is worth considering whether the proposals to clarify the Underlying Interest could result in uncertainty in practice as to whether there has been a fundamental change to the nature of Euribor. This might be the case because the proposals, if taken forward, would result in Euribor no longer being an inter-bank offered rate (and more particularly a rate offered by prime banks to each other).

6. It is very important to eliminate or reduce the risk for confusion in the evolution of Euribor, which could lead to market disruption and potentially litigation. More specifically, the changes to Euribor should be made in such a way as to ensure that:

   a. the fallback provisions under standard bond terms and conditions would not be triggered due to 'evolved Euribor' being too commercially dissimilar from current Euribor to be considered the rate that the parties intended to use; and

   b. the current form of the first standard fallback provision in bond contracts (typically to obtain offered quotes for Euribor from reference banks) does not become too commercially dissimilar from 'evolved Euribor' to be used, were it to be triggered in the circumstances for which it is intended i.e. where the 'evolved Euribor' rate is not available (leaving aside the practical reality of whether quotes could be obtained from reference banks).

7. It is therefore desirable to evolve Euribor in such a way as to maintain a rate that is commercially as close as possible to the current rate.

8. Short responses to EMMI's specific questions are set out below.

**RESPONSES TO EMMI'S SPECIFIC QUESTIONS**

1) Continued publication of potentially discontinued tenors, based on an interpolation approach

For the reasons mentioned in Section 3.2, EMMI is planning to discontinue the 2-week, 2-month, and 9-month tenors. EMMI has been asked to consider the possibility of publishing interpolated rates for these three tenors.

Do you think that EMMI should publish rates for the 2-week, 2-month, and 9-month tenors, based on an interpolation method?

Please provide your rationale. Please, give examples and details about the products that will benefit from the publication of these interpolated rates.

9. ICMA understands that there is some usage of the 2-week, 2-month and 9-month tenors for regular interest periods on bonds. In addition, the 2-week or 2-month rates may be used in relation to the first or last interest period on bonds (which can be shorter than the regular interest period for the bond). It would therefore be very helpful if interpolated rates were to be published.

2) Inclusion or exclusion of non-financial corporates in borrowing sources

There are variations in national funding practices across the EU, with non-financial corporations (see page 19, ESA 2010 classification: S11) being a more significant source of wholesale bank funding in some jurisdictions relative to others. Because of this importance, EMMI has chosen to include non-financial corporates as an eligible counterparty in the current methodology and analysis presented in this paper.

Do you agree with EMMI's decision on the inclusion of these transactions in the calculation of Panel Banks' submissions? If not, on what basis would you seek to exclude non-financial corporates as eligible borrowing sources for Panel Banks in the determination of the benchmark? Please provide your rationale.

10. As mentioned above, it is important to ensure the risk for uncertainty as to whether there has been a fundamental change to the nature of Euribor is minimised. It is therefore necessary to consider the possible impact of the various proposed changes to Euribor in combination, rather than individually. Nevertheless, the inclusion of non-financial corporate transactions in the calculation of Euribor could be seen as a significant change in the fundamental nature of Euribor.

3) Publication Time

It is planned to maintain the existing 11 AM CET publication time for Euribor to preserve continuity with the current arrangements.

Question: Would you prefer that a different publication time, potentially earlier in the day, be established? Please provide your rationale.

11. The terms and conditions of bonds linked to Euribor typically state that the interest rate will be set by reference to Euribor as published on a certain screen page as of 11.00am Brussels time on a certain day. As such the proposal to maintain the existing 11 AM CET publication time for Euribor is welcome.

4) Determination methodology

Question: Are there any aspects of the transaction-based determination methodology for which you would like clarification by EMMI? If yes, please elaborate.

12. See the general remarks above.

5) Product Modifications

Question: For institutions developing products referencing Euribor or users of such products, what modifications, if any, do you anticipate will be required to those products as a result of the introduction of the new transaction-based determination methodology? For example, would you expect the need for modifications to accommodate the anticipated higher volatility of the rate?

13. ICMA's area of focus is the vanilla bond market. We would not expect significant changes to need to be made to the fundamental nature of vanilla bonds in light of the proposals, but some changes to the precise drafting of their terms and conditions may need to be made, depending on the final plans for the evolution of Euribor.

6) Transition

Question: EMMI as the administrator of the Euribor benchmark will continue to pursue a Seamless Transition with the highest degree of transparency and due diligence. Do you see or anticipate any other area not included in this paper that should be addressed by EMMI? Should you have any recommendations, please provide your feedback.

14. See the general remarks above.

7) Timeline

Question: EMMI recommends that Euribor stakeholders prepare for the change in the determination methodology on 4 July 2016. Is this sufficient time to prepare? What would prevent you from meeting this timeline?

15. The suggested timeframe sounds workable as long as EMMI takes all possible steps towards achieving an effective "Seamless Transition". See the general remarks above.

8) Communication

Question: What further information or outreach could EMMI undertake to assist you in planning for the launch of the new determination methodology in July 2016?

16. EMMI's proposed approach in relation to communication is welcome. We look forward to engaging further with EMMI on the evolution of Euribor.