

21 January 2016

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

Email: [info@emmi-benchmarks.eu](mailto:info@emmi-benchmarks.eu)

Dear Sirs,

## **EMMI CONSULTATIVE POSITION PAPER ON THE EVOLUTION OF EURIBOR**

The Loan Market Association ("LMA") welcomes the opportunity to provide the European Money Markets Institute ("EMMI") with feedback on the 30 October 2015 Consultative Position Paper on the Evolution of EURIBOR.

The LMA is the trade body for the European syndicated loan market. Its aim is to encourage liquidity in both the primary and secondary loan markets by promoting efficiency and transparency, as well as by developing standards of documentation and codes of market practice, which are widely used and adopted. Membership of the LMA currently stands at over 600 organisations across EMEA and consists of banks, non-bank investors, law firms, rating agencies and service providers.

We have not replied to each individual question in the Position Paper but have set out our principal thoughts below. Our member institutions are likely to have other thoughts on the proposals and we have encouraged them to submit their own feedback to EMMI.

The LMA welcomes the objective of transitioning towards a transaction-based design of the EURIBOR benchmark. It is also encouraging to see the focus on contractual continuity and the express recognition that similarity in the definition, level and volatility of the benchmark under the current and future methodologies is important for such continuity.

However, the LMA has some concerns in relation to the proposals contained in the Position Paper. Whilst there is a focus on a seamless transition, certain of the proposals could potentially create a risk to the contractual continuity of references to EURIBOR.

### **Contractual continuity**

EMMI's proposal to maintain the existing 11.00 a.m. CET publication time for EURIBOR to preserve continuity is welcomed. LMA facility documentation defines EURIBOR by reference to the rate which is determined "*as of 11.00 a.m. (Brussels time)*". Therefore moving to a different publication time would mean that documentation containing such

references would need to be amended. A change in the publication time would also result in significant practical and operational difficulties for the syndicated lending market.

Whilst maintaining the existing publication time should go some way to ensuring contractual continuity, certain other proposals could create a potential risk that references to EURIBOR in LMA documents might not operate to reference an enhanced EURIBOR.

LMA facility documentation defines EURIBOR as the "*euro interbank offered rate administered by [EMMI]...*". Whilst it is indeed helpful that the name of the rate is not changing, there is a potential risk that changes to the methodology could lead to a challenge to contractual continuity based on the enhanced EURIBOR no longer being an interbank offered rate. For example, the proposed expansion of eligible counterparties would mean that an enhanced EURIBOR would no longer be an interbank rate nor based on rates available to banks lending between themselves in the interbank market. In addition, the proposed description of EURIBOR highlights that the enhanced EURIBOR would no longer seek to be indicative of the rate at which banks could borrow funds by way of interbank deposits at 11.00 a.m. CET.

As above, LMA facility documentation defines EURIBOR by reference to the rate "*as of 11.00 a.m. (Brussels time)*". We note that the proposals provide that enhanced EURIBOR will be based on eligible transactions from the previous day. Although the proposal is for enhanced EURIBOR to be published at 11.00 a.m. CET, it may be difficult to say that the rate is "as of" 11.00 a.m. CET as it will reflect trade data from the previous day. There is a potential risk that this could lead to a challenge to contractual continuity.

If an enhanced EURIBOR fell outside the scope of the existing LMA definition, the interest rate would be determined by reference to a variety of fallback provisions, which are unlikely to be workable for the market on a large scale for a prolonged period.

### **Timing for implementation of reforms**

We note that implementation of the finalised reforms is currently scheduled for 4 July 2016 and welcome the clarity given in relation to the timing. It is also encouraging that changes will not be implemented before assessing the capacity of the market to adapt to the proposed changes.

We would be pleased to discuss any aspect of the above with you in more detail. If we can be of any further assistance, please do not hesitate to contact me by email at [clare.dawson@lma.eu.com](mailto:clare.dawson@lma.eu.com) or on 020 7006 6007. We would also be pleased to meet to further discuss the above at your convenience.

Yours faithfully,



**Clare Dawson**

**Chief Executive**