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Reference rates and monetary policy implementation framework

Bank of Finland & SUERF Conference on Monetary Policy Implementation

Helsinki 11 June 2025

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1. Importance of reference rates
 2. Overview of Euribor
 3. Monetary policy and reference rates
 4. What about euro secured reference rates?



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Importance of reference rates

The Importance of Reference Rates



Use cases of Reference Rates:

- Reference for cash-flow payments in financial instruments (coupons, floating legs, etc.)
- Pricing and valuation of financial products
- Risk management and hedging strategies
- Performance benchmarking;
- Treasury, cash management, internal transfer pricing, collateral management.
- Contract and legal reference
- Market monitoring



Principles of Reference Rates:

- Neutral and transparent source;
- Strong governance and oversight;
- Free from conflicts of interest;
- Based on robust methodologies;
- Reliable and representative;
- Trust and large adoption.



Instruments:

- Derivatives: IRS, FRA, futures, options, cross-currency swaps
- Bonds: Floating Rate Notes (issued by Governments, Corporates, MFIs, etc.)
- Money Market: Term deposits, CDs, CPs; Repos; OIS
- Loans
- Mortgages





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Overview of Euribor

Euribor methodology evolution

Quote-Based

Declarative

• Interbank market

• **1999**

①

②

③

Hybrid
methodology –
transactions
anchored –
centralised

• Wholesale market

• **2024**

Hybrid methodology –
transactions &
individual panel bank
model based (Level 3)

• Wholesale market

• **2019**

Benefits of Transaction-based benchmark:

- Greater resilience;
- Reduced risk of manipulation;
- Integrity
- Stronger market credibility.

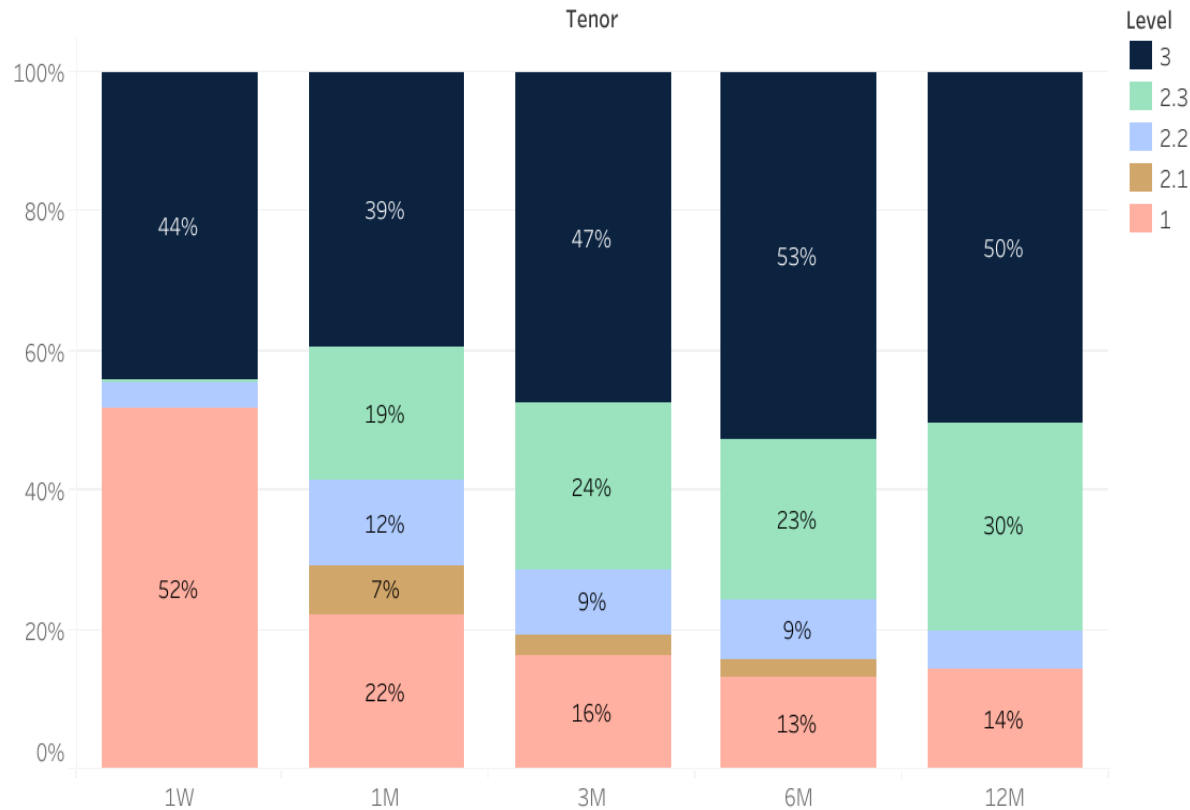
*“The rate at which **wholesale funds in euro** could be obtained by **credit institutions** in current and **former EU and EFTA countries** in the **unsecured money market**”*

Euribor focus – waterfall methodology

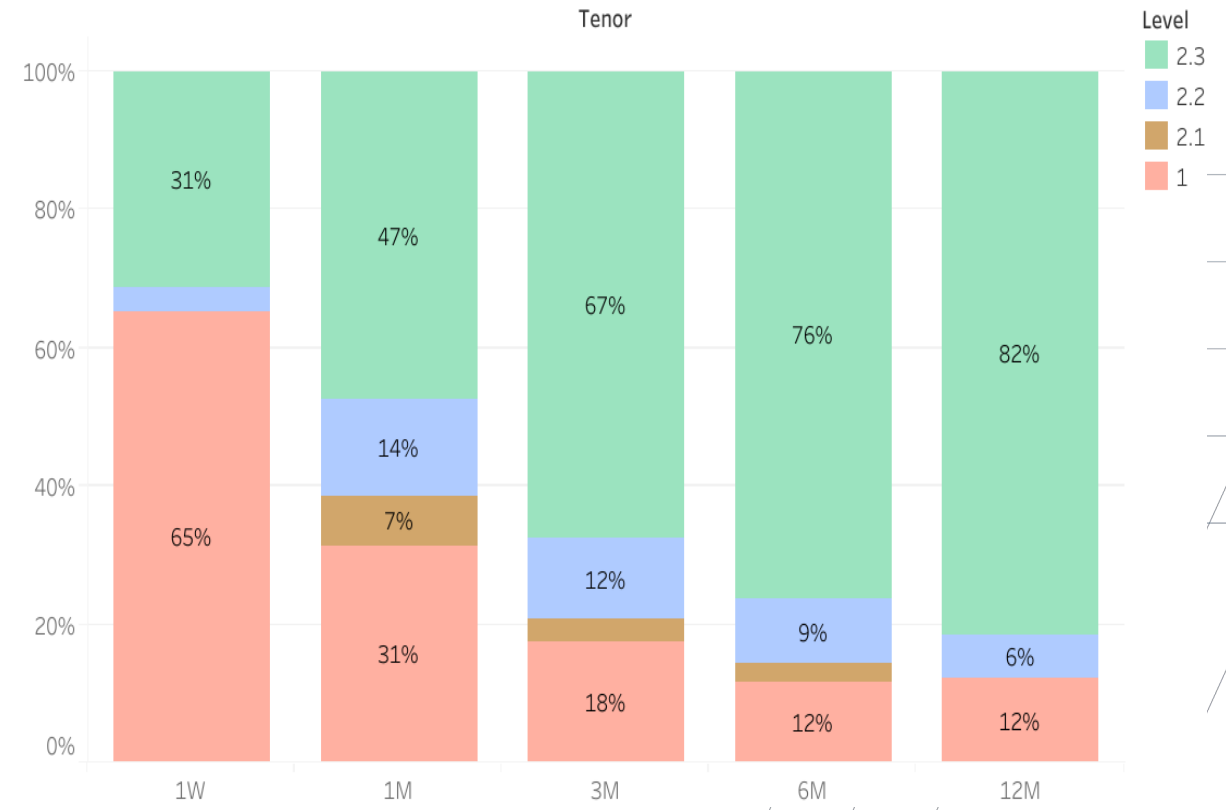
Level 1	Based on wholesale unsecured money market transactions denominated in Euro .		
Level 2	Transactions from prior TARGET days , using a formulaic calculation techniques provided by EMMI	Level 2.1	Adjusted linear interpolation from adjacent Tenors.
		Level 2.2	Transactions at non-Defined Tenors.
		Level. 2.3	Eligible transactions from prior dates.



Euribor focus – Levels

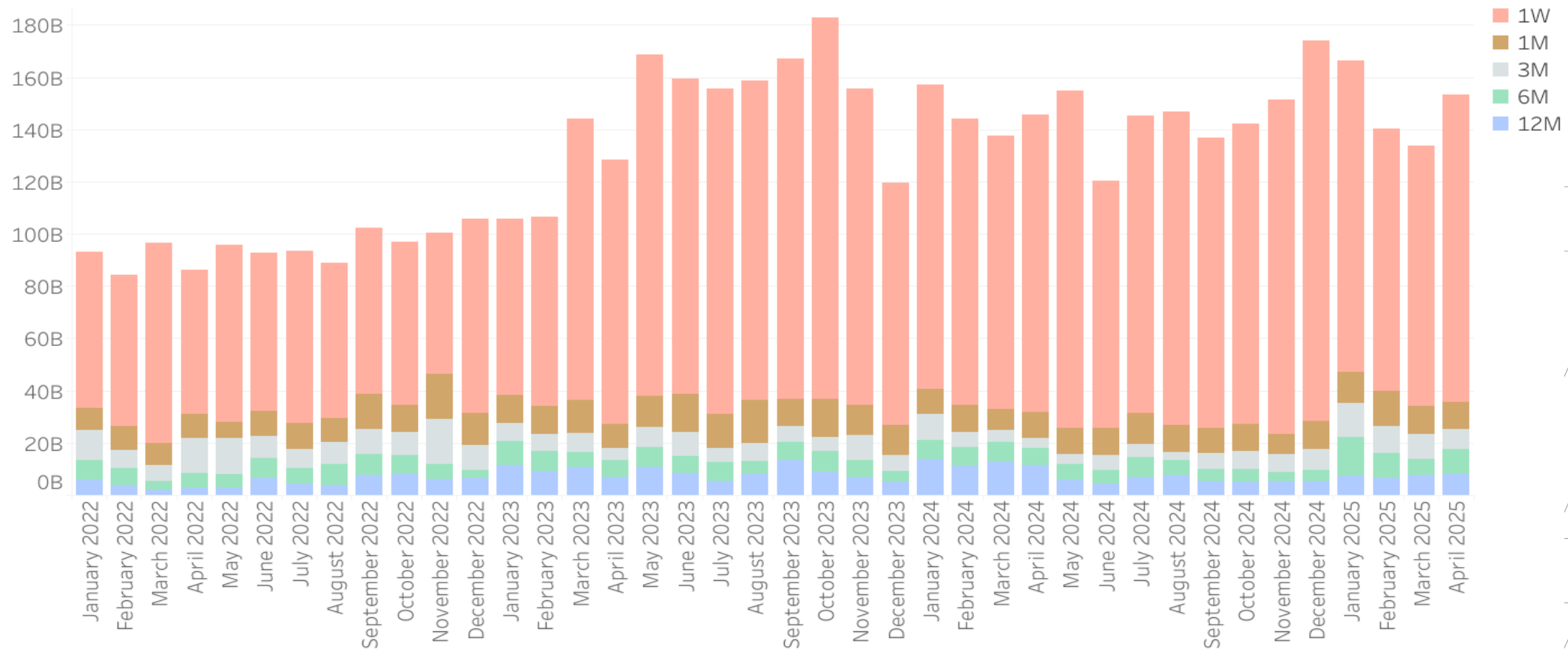


From January 2022 to May 2024 – *Previous methodology*
Source: EMMI's calculations



From October 2024 to April 2025 – *Enhanced methodology*
Source: EMMI's calculations

Euribor focus – Volumes

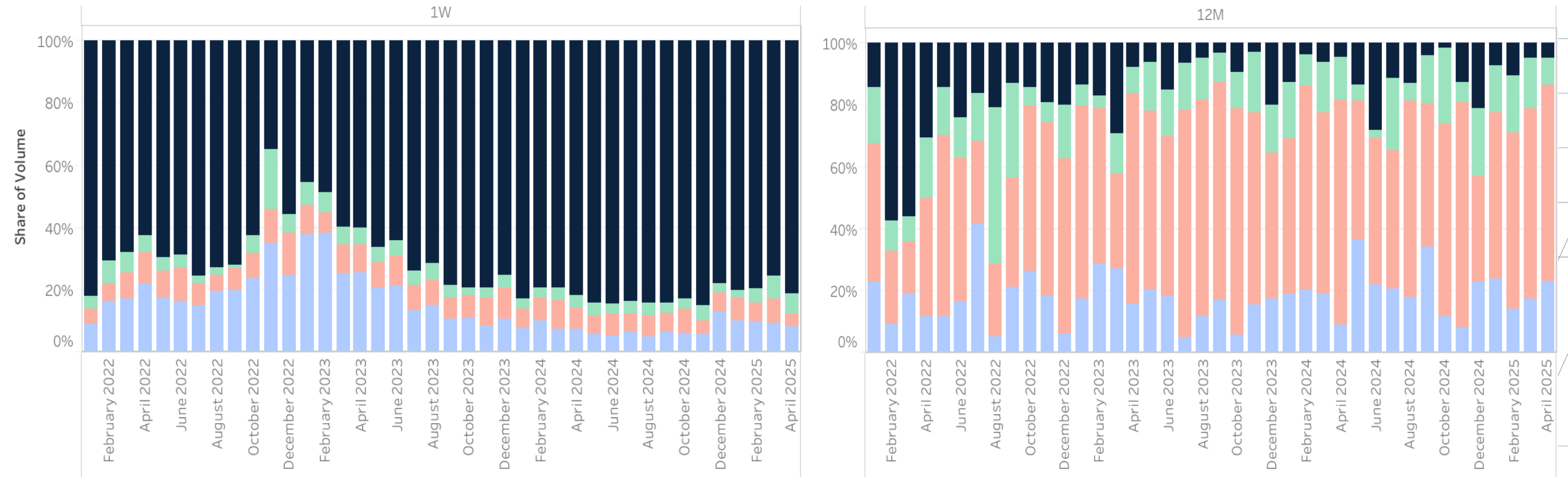


Source: EMMI's calculations

Euribor focus – Counterparties

Sector

- Official Sector Institutions
- Insurance Corporations and Pension Funds
- Other Financial Intermediaries
- Deposit-Taking Corporations except the Central Bank

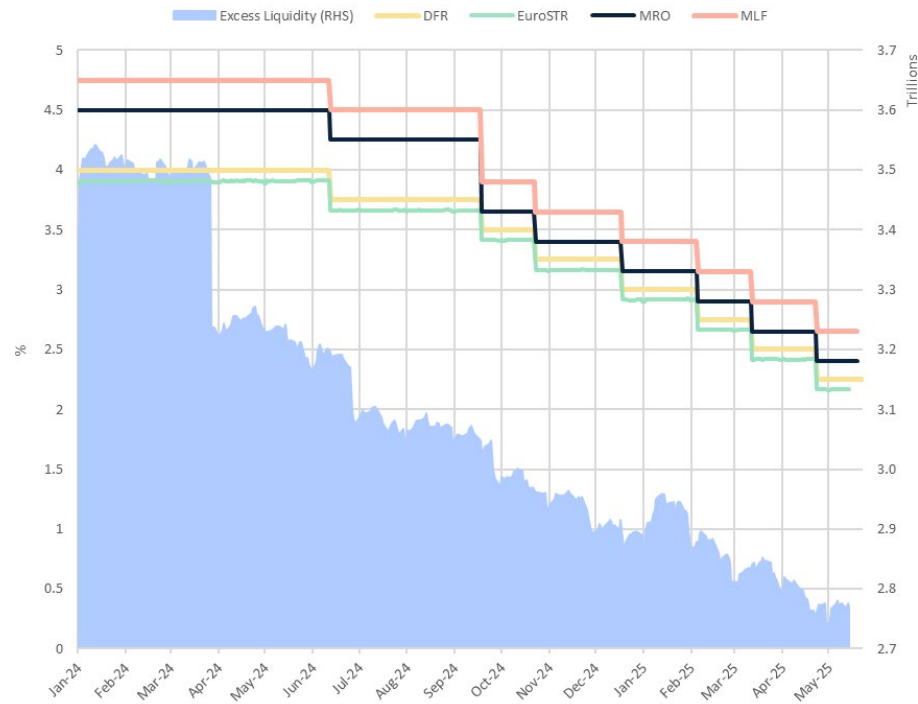




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Monetary policy and reference rates

Eurosystem Framework – Effects on Money Markets



Source: Bloomberg

Implementation Context:

- ECB's new operational framework introduced in September 2024.
- Current excess liquidity: ~€2.8 trillion.



Source: MMSR, EMMI's calculations

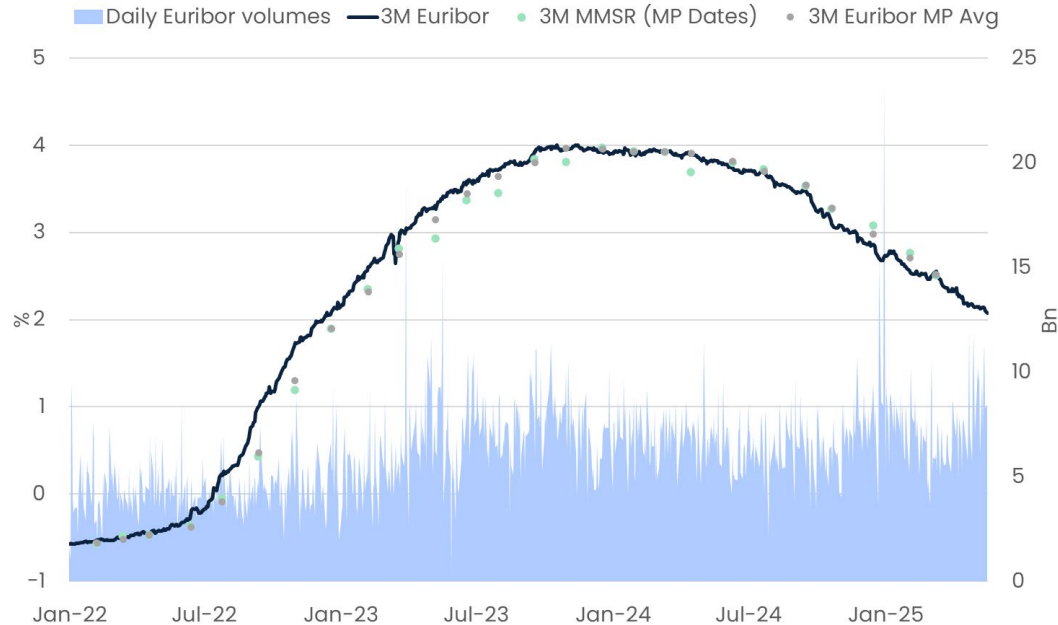
Market Reaction:

- Mild impact on money markets' activity.
- Euribor panel banks report sufficient liquidity buffers.

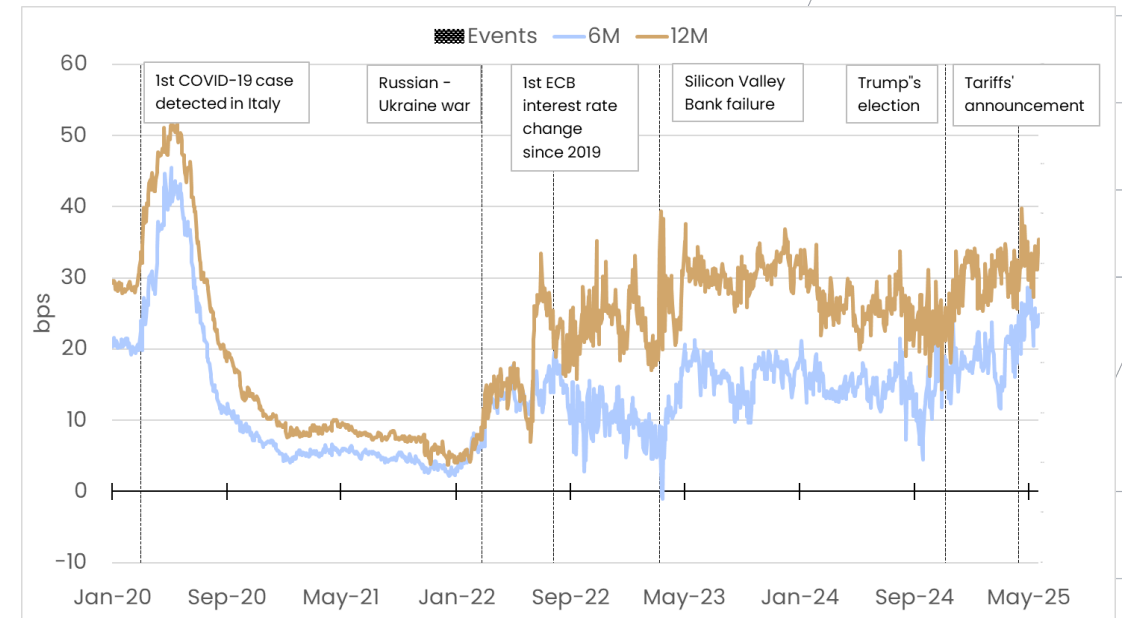
Representativeness of Reference Rates

A benchmark should accurately represent market conditions across all market environments.

- ❖ Euribor has proven to be representative through all market conditions;
- ❖ Euribor tracked ECB rate expectations reliably;
- ❖ Euribor volume evolved in tandem with money market activity;
- ❖ Euribor remained responsive despite, at times, poor market liquidity conditions, and/or huge excess central bank liquidity

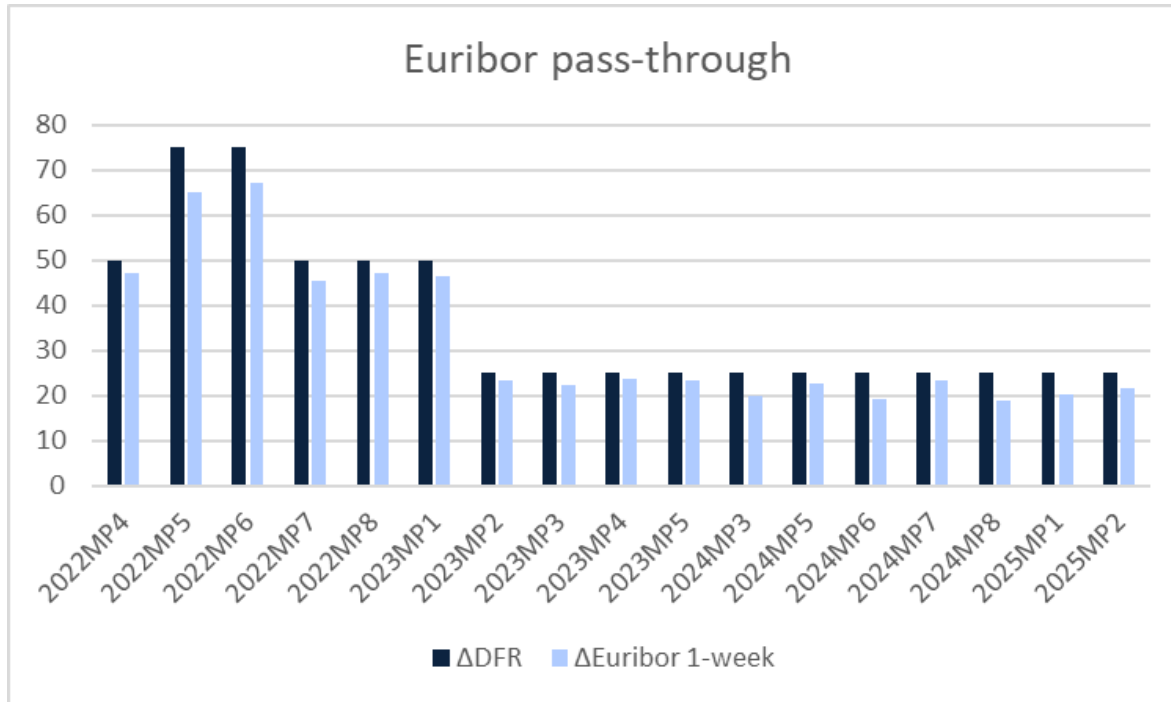


Source: MMSR, EMMI's calculations



Source: Bloomberg, EMMI's calculations

Monetary Policy Transmission



Source: Bloomberg, EMMI's calculations

Reference Rates as Policy Channels:

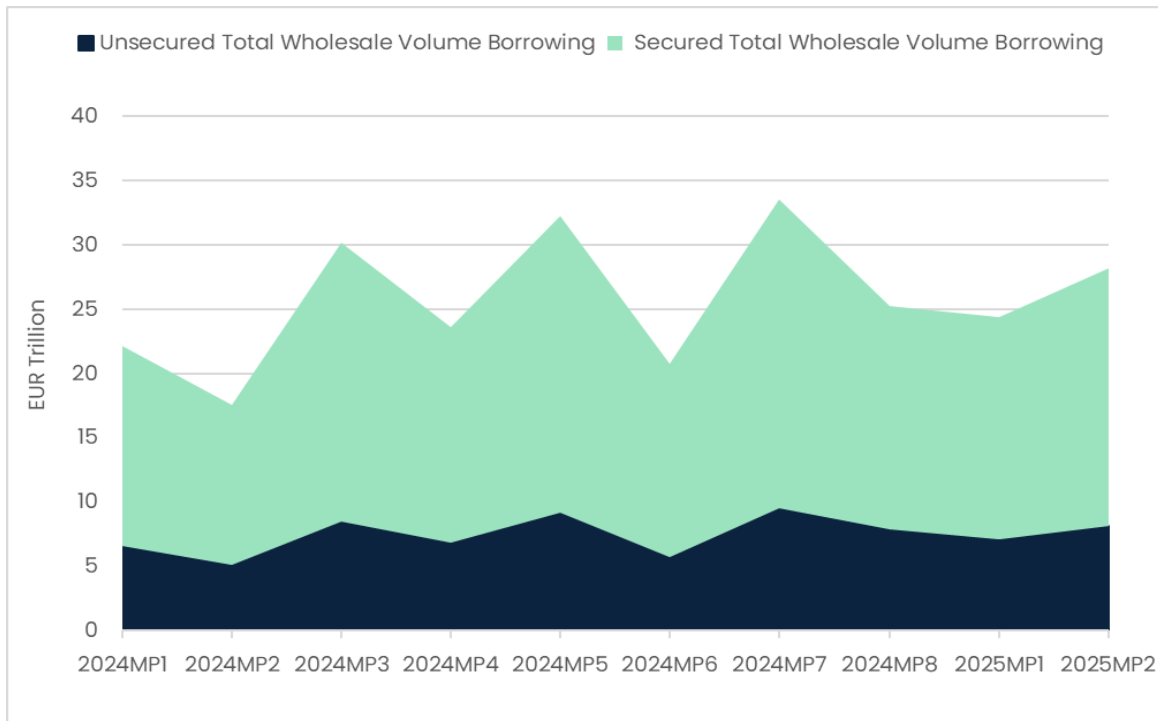
- The EURIBOR transmission is efficient, especially in short-term rates.



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What about
euro secured
reference
rates?

Growing importance of the secured market



Source: MMSR, EMMI's calculations

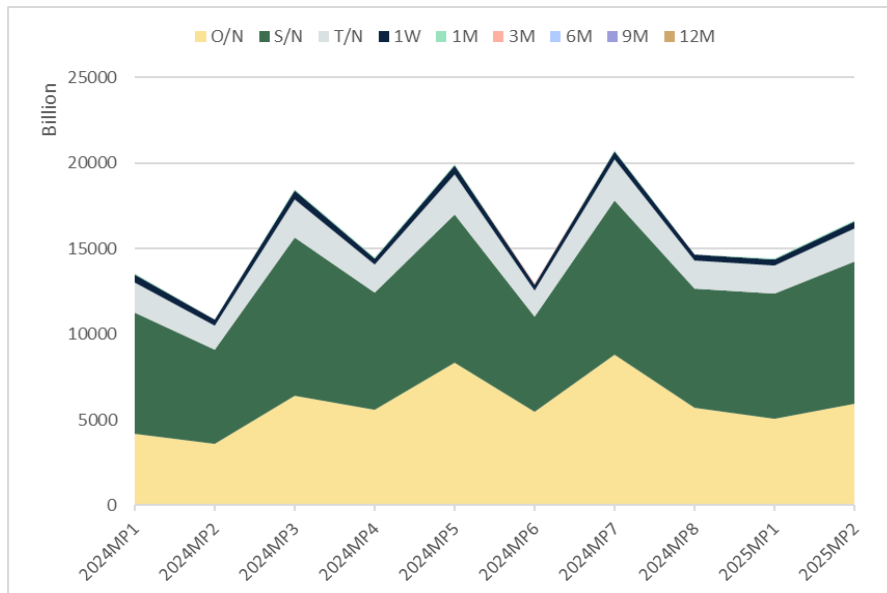
Secured market as:

1. Largest money markets segment;
2. Ensures smooth market functioning;
 - Liquidity re-distribution and sourcing collateral.
3. Indicator to assess monetary policy transmission.

Growing importance of the secured market

Why Not Yet a Secured Reference Rate?

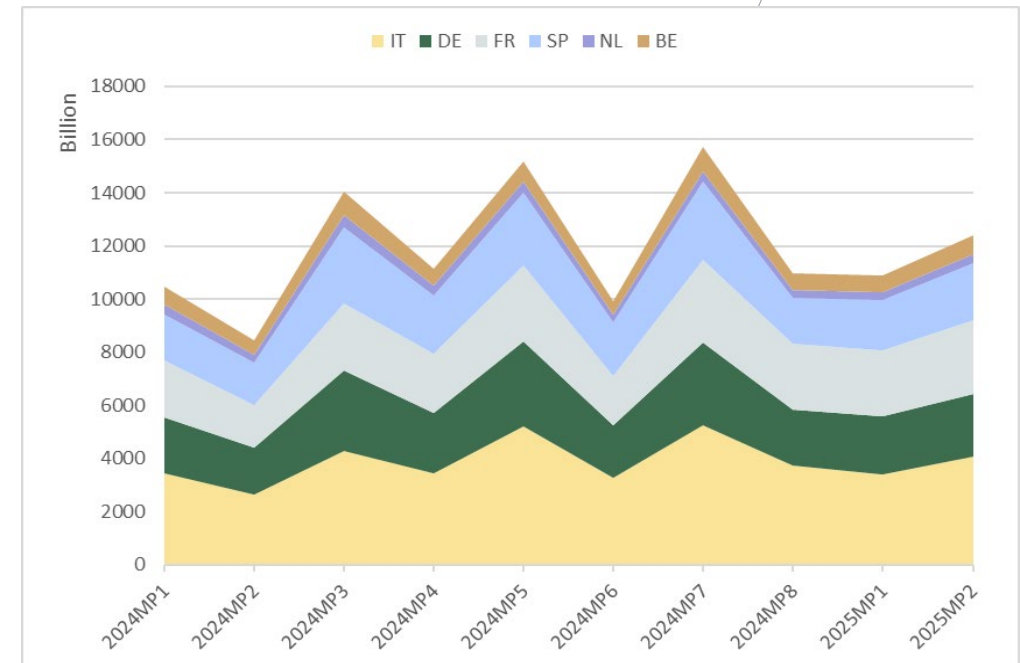
- Fragmentation:
 - Collateral types; importance of few jurisdiction
 - Market practices: OTC for non-banks; CCPs for banks
 - Trading platforms
- Data access
- Activity concentrated at the short-end.



Source: MMSR

Outlook:

- Prospect of EU bond issuance may support a unified secured benchmark.
- There is a market demand however conditions need to aligned



Source: MMSR



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Thank you!
Questions?